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Economic Development in Africa

Intra-African trade: Unlocking private sector dynamism*

Overview

Executive summary

Intra-African trade presents opportunities for sustained growth and development in Africa. It has the potential to reduce vulnerability to global shocks, contribute to economic diversification, enhance export competitiveness and create employment. Governments in Africa have made several attempts to exploit this potential of regional trade for development, the most recent being the decision in January 2012 by African leaders at the Summit of the African Union to boost intra-African trade and fast-track the establishment of a continental free trade area. Against this background, the *Economic Development in Africa Report 2013*, subtitled *Intra-African Trade: Unlocking Private Sector Dynamism*, focuses on how to strengthen the private sector to boost intra-African trade. The report provides some facts on intra-African trade and highlights distinctive features of enterprise structure in Africa that have to be addressed to promote intra-African trade. It also examines the challenges for intra-African trade posed by non-implementation of regional trade agreements and provides new insights on how to enhance implementation of existing regional agreements.

The report argues that for African countries to reap expected gains from intra-African trade and regional integration, they will need to place the building of productive capacities and domestic entrepreneurship at the heart of the policy agenda for boosting intra-African trade. In this context, the report recommends that Governments in Africa should promote intra-African trade in the context of developmental regionalism. In

* This overview should be read in conjunction with the full report (UNCTAD/ALDC/AFRICA/2013).

particular, it stresses the need for a shift from a process and linear approach to integration, which focuses on elimination of trade barriers, to a more development-based approach to integration, which pays as much attention to the building of productive capacities and private sector development as to the elimination of trade barriers.

A. Introduction

1. Intra-African trade has enormous potential to create employment, catalyse investment and foster growth in Africa. Since gaining political independence in the 1960s, African Governments have made several efforts to exploit this potential of trade for development, the most recent being the renewed political commitment by African leaders at the Summit of the African Union in January 2012 to boosting intra-African trade and to fast tracking the establishment of a continental free trade area. By most accounts, African countries have not made significant progress in boosting regional trade. Over the period from 2007 to 2011, the average share of intra-African exports in total merchandise exports in Africa was 11 per cent compared with 50 per cent in developing Asia, 21 per cent in Latin America and the Caribbean and 70 per cent in Europe. Furthermore, available evidence indicates that the continent's actual level of trade is also below potential, given its level of development and factor endowments.

2. There are several reasons for the weak regional trade performance in Africa, one of which is that the approach to regional integration on the continent has so far focused more on the elimination of trade barriers and less on the development of the productive capacities necessary for trade. While the elimination of trade barriers is certainly important, it will not have the desired effect if it is not complemented with policy measures to boost supply capacities. The limited role of the private sector in regional integration initiatives and efforts has also contributed to the weak trade performance of the continent. Although trade agreements are signed by Governments, it is the private sector that understands the constraints facing enterprises and is in a position to take advantage of the opportunities created by regional trade initiatives. Admittedly, regional economic communities in Africa are increasingly making efforts to incorporate the private sector into their structures and action plans, for example through the establishment of business councils. Nevertheless, Governments are the only active driver of regional integration in Africa and the private sector remains a passive participant in the process. If Governments in Africa want to achieve their objective of boosting intra-African trade, they have to create more space for the private sector to play an active role in the integration process.

3. Against this background, the *Economic Development in Africa Report 2013*, subtitled *Intra-African Trade: Unlocking Private Sector Dynamism*, focuses on how to strengthen the private sector to boost intra-African trade. It argues that for African countries to reap developmental gains from intra-African trade and regional integration, they will need to place the building of productive capacities and domestic entrepreneurship at the heart of the policy agenda for boosting intraregional trade. Getting policies and the business environment right will not suffice. The report provides stylized facts on intra-African trade and investment and offers explanations for the relatively poor regional trade performance of Africa. It also examines the challenges for regional trade posed by non-implementation of regional trade agreements and provides new insights into how to enhance implementation of existing agreements. Furthermore, the report highlights distinctive features of the enterprise structure in Africa that have to be addressed to promote regional trade and also provides empirical evidence of the link between the characteristics of manufacturing firms on the one hand and productivity and exports on the other. Finally, it discusses how to boost intra-African trade in the context of developmental regionalism. It considers

developmental regionalism as a development-based integration agenda which aims to secure the traditional benefits of regional integration, ensuring that such benefits flow to all countries involved, and seeks to enhance the integration of those countries into world markets as a means to foster sustainable development. Some of the key questions addressed in the report are as follows:

- (a) What are the opportunities for cross-border trade in Africa and why are these opportunities not being fully exploited?
- (b) How can African countries enhance implementation of existing regional agreements to boost intra-African trade?
- (c) What factors limit the capacity of African enterprises to produce goods and services that are competitive in export markets?
- (d) How can African countries ensure that intra-African trade is driven primarily by national and regional entrepreneurs to maximize benefits for Africans?
- (e) How can the benefits of regional trade be widely spread and distributed across countries?
- (f) Are there external factors inhibiting intra-African trade and how can development partners contribute to unlocking the trade potential of Africa?

4. The main message of the report is that intra-African trade presents opportunities for sustained growth and development in Africa, but that seizing these opportunities requires private sector dynamism to be unlocked and a development-based approach to integration to be adopted. The report builds on previous work carried out by the United Nations Conference on Trade and Development, particularly in the *Economic Development in Africa Report 2009* on strengthening regional economic integration for the development of Africa and the 2011 report on fostering industrial development in Africa in the new global environment. The present report differs from existing literature on boosting intra-African trade in four significant respects. First, unlike previous studies, it lays emphasis on how to integrate the private sector into ongoing efforts to boost intra-African trade. In particular, it focuses on how to strengthen the private sector to promote intra-African trade. Second, it argues that the lack of productive capacity is a major obstacle to expanding intra-African trade and should be given as much attention by African policymakers as the elimination of trade barriers. Third, it provides novel and specific ideas on how to enhance implementation of existing regional trade agreements with a view to boosting intra-African trade. Finally, it stresses the need for an alternative approach to regional integration in Africa, called developmental regionalism, and outlines broad features of this new approach and how it could be applied in Africa. The new approach calls for a move away from a linear model of integration, which lays undue emphasis on processes, into a more pragmatic and results-oriented approach to integration.

The rationale for boosting intra-African trade

5. The renewed political commitment by African leaders to boosting intra-African trade can be ascribed to several factors. African countries have grown at a reasonable rate over the last decade but this growth has not created jobs and has been driven by volatile commodity prices. There is a recognition that economic diversification is needed to create jobs and sustain growth. The composition of regional trade in Africa tends to be skewed towards manufacturing and so regional trade is seen as having the potential to promote diversification, thereby increasing the prospects for growth and development on the continent. Related to this point is the fact that there has been an increase in income and in the size of the middle class in Africa over the past decade. These two trends indicate that

there is a potential and ready market for regional trade in goods and services. Boosting intra-African trade will enable this opportunity to be exploited.

6. Expanding regional trade is also regarded as providing an opportunity for African countries to address a major constraint to export competitiveness imposed by the small size of their national economies. In particular, it will enable African enterprises to enhance competitiveness through exploiting economies of scale associated with having a large market. In this context, it is a first step towards building capacity and competitiveness for exporting globally. Geography provides another rationale for boosting intra-African trade. Many African countries, for example those in Southern Africa, are quite far from big and growing consumer markets in Europe, North America and Asia. Enhanced regional trade will enable these countries to overcome the burden associated with exporting to distant markets.

7. The severe negative impact of the great recession of 2008–2009 on African economies exposed the vulnerability of Africa to global shocks. It led to a significant decline in export demand in its traditional markets, pointing to the need for diversification of its export markets. Regional trade is seen by African Governments as an important channel through which African countries can insulate themselves from external shocks. The current deadlock in the Doha Round of trade negotiations has also created an incentive for countries to pay more attention to bilateral and regional trade issues. Other regions are already acting along these lines. African leaders do not want Africa to be the exception.

B. Main findings

8. An understanding of the scale, trends and composition of intra-African trade is crucial for the effective design and implementation of policies to boost that trade. In this context, the report provides an overview of the scale, trends and composition of intra-African trade for the period from 1996 to 2011. It also uses the results of a series of surveys to provide comparative information on the performance of manufacturing firms in Africa and how that is affected by the enterprise structure of Africa. In doing so, it seeks to provide a better understanding of why some firms export while others do not. The main findings and recommendations are set out below:

(a) **The level of intra-African trade has increased both in nominal and real terms.** Over the period from 2000 to 2011, intra-African trade rose by a factor of 4.1 in nominal terms and in real terms by a factor of 1.7. In nominal terms, the level of intra-African trade was \$32 billion in 2000 and \$130 billion in 2011. However when measured in real terms (at constant 2000 prices) intra-African trade increased from \$32 billion in 2000 to \$54 billion in 2011. These facts suggest that although there has been an increase in both the volume and value of intra-African trade over the past decade, most of the increase was due to an increase in prices, which for primary commodities are externally determined.

(b) **There has been a significant decline in the share of intra-African trade in total African trade.** The increase in the level of intra-African trade over the past decade has been accompanied by a decrease in its share of total African trade. The share of intra-African trade in total trade rose from 19.3 per cent in 1995, reached a peak of 22.4 per cent in 1997 and fell to 11.3 per cent in 2011. This decline was due to the fact that African trade with the rest of the world grew much faster than intra-African trade. Over the period from 1996 to 2011, intra-African trade grew annually by 8.2 per cent while African trade with the rest of the world grew by 12 per cent. Interestingly, the share of intra-African trade in total trade is significantly higher for non-fuel exporters than for fuel exporters. Furthermore, when compared with other

regions of the world, the share of intra-African trade in total African trade is relatively low. For example, the average share of intra-African exports in total exports over the period 2007–2011 was about 11 per cent compared with 21 per cent for Latin America and the Caribbean, 50 per cent for developing Asia and 70 per cent for Europe. These figures, however, do not take into account the fact that recent surveys indicate that there is a large informal trade in Africa. In the Southern African Development Community (SADC), for example, it is estimated that informal trade accounts for between 30 and 40 per cent of intra-SADC trade. Adding informal trade to official trade figures would increase the share of intra-African trade in total trade to the levels observed in Latin America and the Caribbean, but it would still be far below the figures for Asia, Europe and North America.

(c) **African regional economic communities tend to undertake a significant part of their trade in the continent within their own regional trade bloc.** With the exception of the Economic Community of Central African States, a very high percentage of the African trade carried out by each regional economic community goes to its own region, indicating that the formation of these communities has a positive impact on trade within the bloc. In the period from 2007 to 2011, 78 per cent of SADC trade within Africa went to the SADC region. The figures for the Economic Community of West African States and the Community of Sahelo-Saharan States were approximately 66 per cent and 65 per cent respectively. It should be noted that although these shares are high, they are low relative to what they were over the period from 1996 to 2000. Among the eight regional economic communities recognized by the African Union, the only one that did not experience a decline in the share of its trade within Africa in the period under consideration is the Common Market for Eastern and Southern Africa.

(d) **There is significant country heterogeneity in the importance of intra-African trade among African countries.** Although the share of intra-African trade in total African trade is relatively low, it is very high in a number of countries. For instance over the period from 2007 to 2011, intra-African exports accounted for at least 40 per cent of total exports in 9 countries: Benin, Djibouti, Kenya, Mali, Rwanda, Senegal, Togo, Uganda and Zimbabwe. In terms of imports, 11 countries imported at least 40 per cent of their goods from Africa over the same period. These were Botswana, Burkina Faso, the Democratic Republic of the Congo, Lesotho, Malawi, Mali, Rwanda, Sierra Leone, Swaziland, Zambia and Zimbabwe. Regarding the share of intra-African trade in gross domestic product, only 5 countries (Botswana, Lesotho, Malawi, Swaziland and Zimbabwe) had shares above 30 per cent over the period from 2007 to 2011.

(e) **Unexploited opportunities for intra-African trade exist in many product categories, particularly food and agricultural products.** Africa has about 27 per cent of the world's arable land which could be exploited for expansion of agricultural production, yet many African countries import food and agricultural products from countries outside the continent. In the period from 2007 to 2011, 37 African countries were net food importers and 22 were net importers of agricultural raw materials, but only about 17 per cent of African world trade in food and live animals took place within the continent. Furthermore, Africa exported on average only 21 per cent of its food items within the continent. In general, out of the nine standard international trade classification categories, Africa realized at least 25 per cent of its world trade regionally in only one product category, namely chemicals and related products (standard international trade classification 5). These facts, coupled with rising incomes and a growing middle class, suggest that there are opportunities for regional trade in food and agricultural products that are not being exploited by African countries.

(f) **The share of manufacturing in intra-African trade is higher than its share in African trade with the rest of the world.** However, the importance of manufacturing in intra-African trade has declined over the past decade. Over the period from 2007 to 2011, the share of manufacturing in intra-African trade was about 43 per cent compared to about 14 per cent for the share of manufacturing in African trade with the rest of the world. However, the share of manufacturing in both intra-African trade and in trade with the rest of the world have been declining since 1996, reflecting the fact that African countries have experienced significant deindustrialization since the 1990s. It should be noted that compared with other regions of the world, the share of manufacturing in intra-African trade is relatively low. For example, in Asia it was 65 per cent for the period from 2007 to 2011 and in Latin America it was 56 per cent, compared with 43 per cent for Africa.

(g) **Intra-African investment has increased over the past decade, with the services sector accounting for 68 per cent of new deals relating to greenfield investment.** Available data indicate that intra-African investment is becoming important in several African countries. For example, between 2008 and 2010, Botswana, Malawi, Nigeria, Uganda and the United Republic of Tanzania received more than 20 per cent of their total inward stock of foreign direct investment from other African countries. Furthermore, it is estimated that intra-African foreign direct investment in new projects grew at an annual compound rate of 23 per cent between 2003 and 2011. A growing share of intra-African foreign direct investment goes to the services sector. Between 2003 and 2011, about 68 per cent of the 673 deals relating to intra-African greenfield investments went to services, compared with 28 per cent for manufacturing and 4 per cent for the primary sector. Within services, about 70 per cent of the deals were in finance. To the extent that manufacturing firms rely on business services, the growth of the service sector is likely to have a positive impact on the development of productive capacity and therefore the performance of manufacturing firms and intra-African trade.

(h) **African countries have large informal economies and the average size of African manufacturing firms is relatively small.** Recent studies suggest that in sub-Saharan Africa, the informal economy accounts for 38 per cent of gross domestic product compared with 18 per cent for East Asia and the Pacific, 27 per cent for the Middle East and North Africa, 25 per cent for South Asia, and 35 per cent for Latin America and the Caribbean. Informality inhibits enterprise development and makes it challenging to unlock African trade potential because informal enterprises are not registered and operate outside the established legal and policy framework, which means they have very limited access to government support, or the basic infrastructure and finance needed for firm growth. Surveys of manufacturing firms also suggest that the average size of both formal and informal manufacturing firms in sub-Saharan Africa is relatively small: 47 employees compared with 171 in Malaysia, 195 in Viet Nam, 393 in Thailand and 977 in China.

(i) **Firm size and the level of efficiency matter for exports and for boosting intra-African trade.** Surveys of manufacturing firms indicate that firm size and efficiency at the level of the firm are important for export participation by domestic firms. Firm size matters directly for exports because firms incur additional costs when they export to distant markets and so must operate at a certain minimum scale to be able to bear this cost and make exporting profitable. The small size of African manufacturing firms may in part explain the finding that they produce mostly for the domestic market. The proportion of output exported by firms in a recent survey was about 15 per cent. Another factor considered important for exporting is efficiency at the level of the firm. In other words, it has been found that more efficient firms are

more likely to export. The degree of competition in markets, investments in fixed capital, access to finance and firm characteristics such as size, organization and location are all factors driving the efficiency of firms. African countries need therefore to foster entrepreneurship and build their supply capacity.

(j) **African manufacturing firms have lower labour productivity than firms in other parts of the developing world.** Labour costs and labour productivity affect the level of competitiveness of a firm and its ability to export. It has been found that African manufacturing firms have lower labour productivity than firms on other continents. In Africa, labour productivity per worker is \$4,734 compared with \$6,631 for East Asia, \$8,890 for Latin America and the Caribbean and \$10,297 for Eastern Europe and Central Asia. However, when adjustments are made for differences in income, infrastructure, access to credit and other geographical differences, African firms perform better than those in other regions, indicating that lifting these obstacles to productivity growth and export competitiveness are crucial for improving manufacturing performance in Africa and boosting intra-African trade.

C. Messages and recommendations

9. The world is changing both in terms of economic structure, patterns of trade, global governance and the prevailing economic orthodoxy. It is therefore important that African countries also change their approach to regional trade and integration in order to adapt to this rapidly changing world. In this context, the report argues that a comprehensive but pragmatic approach to integration is needed to promote intra-African trade and regional integration on the continent. The main message of the report is that intra-African trade presents opportunities for sustained growth and development in Africa, but that seizing these opportunities requires private sector dynamism to be unlocked and a development-based approach to integration to be adopted. The report suggests that success in boosting intra-African trade will depend largely on the extent to which African countries are able to foster entrepreneurship and build supply capacity, establish a credible mechanism for dialogue between the State and business, build regional value chains, implement existing regional trade agreements, rethink their approach to regional integration and maintain peace and security.

Foster entrepreneurship and build supply capacity

10. Promoting entrepreneurship and building supply capacity are vital to enhancing the capacity of African enterprises to produce and export goods to both regional and global markets. The report argues that efforts to promote entrepreneurship and intra-African trade must address the challenges presented by five distinctive features of Africa's enterprise structure, namely high and rising levels of informality, the relatively small size of African firms, weak inter-firm linkages, low levels of competitiveness and the lack of innovation capability. In this context, it stresses the need for policy actions to stem rising informality in Africa through facilitating the transition of firms from the informal to the formal economy. This requires simplifying procedures for obtaining permits for business registration, government provision of information to all citizens on how to start a business and on the rights and responsibilities of entrepreneurs, simplifying the tax system to reduce the cost and complications of complying with laws and regulations and strengthening the capacity of government agencies to administer laws and regulations.

11. African Governments should also facilitate the upward mobility of enterprises and the growth of firms by providing better access to finance and business services, particularly

for small and medium-sized enterprises (SMEs). The establishment of credit bureaux and registries to reduce information asymmetry between lenders and borrowers is one feasible mechanism for enhancing access to finance for SMEs. Furthermore, developing the capacity of SMEs to meet the needs of large firms through training and the provision of business services and market information will promote inter-firm linkages and should be a priority for African Governments. Large firms (both domestic and foreign) can also contribute to the development of business linkages by providing SMEs with information on opportunities in their supply chain and also investing in education and training aimed at building the skills of the local community. African Governments should also address the constraints on intra-African trade imposed by the lack of transport, energy, communications and water infrastructure. The report argues that, given the scale and scope of African infrastructure needs, there is a need to strengthen domestic resource mobilization on the continent and also catalyse more private investment into infrastructure through public-private partnerships. It also recommends that regional development finance institutions should float infrastructure bonds to mobilize more funds for infrastructure development. Furthermore, it recommends that African Governments also address the issue of the lack of competitiveness of African enterprises, perhaps through granting subsidies to reduce the cost of factor inputs for exporting enterprises, providing better and cheaper access to finance and supporting the development and strengthening of skills among the workforce. African Governments also need to use economic incentives to support domestic firms in developing the innovation capabilities critical for export success.

Establish a credible mechanism for dialogue between the State and business

12. The establishment of a credible mechanism for effective relations between the State and business is also needed to unlock private sector potential, build productive capacity and enhance prospects for boosting intra-African trade. Although Governments have the responsibility for setting priorities, making rules, signing trade agreements and facilitating trade, it is the private sector that is in a position to take advantage of opportunities created in the trading system. In this regard, African Governments need to have regular consultations with the private sector for a better understanding of the constraints they face and how to address them. Such information is crucial in designing effective policies to promote entrepreneurship and boost intra-African trade. Purposeful and predictable leadership will also be needed to build trust between Governments and the private sector and create an environment that can enhance and sustain dialogue between both stakeholders. However, Governments must make sure that dialogue with the private sector is undertaken in a way that serves the interests of society as a whole. Checks and balances are also needed to ensure that close collaboration with the private sector does not exacerbate rent-seeking behaviour. Transparency in dealings with the private sector and also the inclusion of civil society in dialogues between firms and Governments is a good way to reduce the scope for rent-seeking and corruption.

Build regional value chains

13. The development of regional production networks or value chains is essential to improving competitiveness and quality standards and to broadening the manufacturing base of African economies. The report argues that since most African countries have a current comparative advantage in commodities, resource-based industrialization provides one channel for the development of regional value chains on the continent and African countries should seize the opportunity it presents. However, it stresses that regional value chains are successful and sustainable over time if they have a global presence. In this regard, African

countries should see the development of regional production networks as part of an overall strategy to improve international competitiveness and integrate the continent into the global economy. The report argues that African countries should promote the development of regional value chains by increasing investment in hard and soft infrastructures, facilitating continuous upgrading for domestic firms involved in value chains, providing business services and market information, building linkages across firms and investing in education and innovation. In each of these areas, national and regional industrial policies will play a crucial role.

Enhance implementation of existing regional trade agreements

14. The lack of implementation of regional trade agreements by African countries presents challenges for intra-African trade. The report encourages African Governments to enhance implementation of existing regional trade agreements, particularly those related to the removal of tariff and non-tariff barriers, to promote intra-African trade. More specifically, it argues that leadership by both the relatively large and resource-rich African countries is required to enhance implementation of existing regional trade agreements. It recommends that large and resource-rich African countries should consider contributing a small percentage of either their regional trade or resource revenue to build regional infrastructure and also finance an integration fund that will be used to build supply capacity in small African countries that may lose from regional integration in the short run.

15. Monitoring is also crucial to enhancing implementation of regional trade agreements. In this context, the report recommends the use of a monitoring tool, such as the internal market scorecard of the European Union which measures the extent to which members have transposed regional trade rules into national law by the agreed deadline, to put peer pressure on members who have not implemented regional trade agreements. Strengthening existing efforts to reduce overlapping membership of regional economic communities will also contribute to enhancing implementation of regional agreements through, for example, reducing compliance costs. In this respect, the report suggests that the tripartite free trade agreement between the Common Market for Eastern and Southern Africa, the East African Community and SADC provides a framework for dealing with overlapping membership of regional economic communities and could serve as a model for communities in West, Central and North Africa.

16. The report stresses the importance of being realistic in setting objectives and deadlines for enhancing implementation of regional trade commitments. It also suggests that the activities of Africa's development partners have an impact on the ability and willingness of members to implement regional trade agreements. For example, development partners tend to prefer dealing with national rather than regional authorities and this creates an incentive for African Governments to pursue national rather than regional priorities, thereby undermining efforts to promote regional integration. The report suggests that development partners should strike a better balance between their national interests and African regional priorities to strengthen regional integration on the continent. It also recommends that African Governments reduce their dependence on donor resources by strengthening efforts to mobilize domestic resources.

Rethink the approach to regional integration

17. The report argues that the promotion of intra-African trade should not be done in isolation. It must be part of an overall strategy to develop the private sector and strengthen regional integration in Africa. It calls for a move away from a linear and process-based approach to regional integration, which focuses mostly on the removal of trade barriers, to a

development-based approach, which pays as much attention to the building of productive capacity and private sector development as to the elimination of trade barriers. While the elimination of trade barriers is important, it will not lead to a significant expansion of intra-African trade if productive capacities are not developed. Furthermore, there is a need to ensure that the benefits of integration flow to all African countries. Using regional integration to enhance international competitiveness and integrate African countries into global markets is also important. Against this backdrop, the report stresses the need for African countries to promote intra-African trade within the context of developmental regionalism. This requires deliberate government measures to strengthen the domestic private sector and promote industrial restructuring and economic transformation. It also requires a strategic approach to trade policy, coordination of investment into priority areas and strengthening of the institutions and capabilities of African Governments for implementing economic policies. The report identifies industrial policy, development corridors, special economic zones and regional value chains as important tools and vehicles for promoting intra-African trade within the context of developmental regionalism.

Maintain peace and security

18. Peace and security are necessary conditions for private sector development and expanding trade in Africa. They have important implications for investment and entrepreneurship. They also have serious consequences for country risk premiums on borrowing and hence access to finance for intra-African trade. Domestic and foreign entrepreneurs are unlikely to make the investments required to boost production and trade in an environment devoid of peace and security. Eliminating trade barriers and lifting supply constraints are likely to have the desired impact on intra-African trade if there is political stability and security. The report recognizes the important role of peace and security in creating a favourable environment for expanding intra-African trade and recommends that African Governments promote peace and security through the adoption of inclusive growth policies, better political governance and strengthening mechanisms for conflict prevention and resolution.

D. Conclusion

19. Boosting intra-African trade to create employment, stimulate investment, foster growth and enhance the integration of African countries into the global economy is one of the main objectives of regional integration in Africa. In 2012, African leaders renewed their political commitment to boosting intra-African trade and made a decision to fast-track the establishment of a continental free trade area. This report welcomes the renewed commitment to boosting intra-African trade but argues that there is a need for more effort to foster entrepreneurship and build productive capacity for trade in Africa. In this regard, the report stresses the need for African Governments to shift from a process and linear approach to integration, which focuses on the elimination of trade barriers, to a more development-based approach to integration, which pays as much attention to the building of productive capacities and private sector development as to the elimination of trade barriers. In this respect, the report also suggests that African Governments should create more space for the private sector to play an active role in the integration process. Furthermore, it stresses the need for all African countries to benefit from the integration process and for regional integration to be used as a mechanism to enhance the integration of Africa into the global economy.