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ECONOMIC DEVELOPMENT IN AFRICA

REPORT 2013

INTRA-AFRICAN TRADE: UNLOCKING PRIVATE SECTOR DYNAMISM

UNITED NATIONS

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“Life is like riding a bicycle, you don't fall off unless you stop pedalling”

Proverb from Sierra Leone

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EXPLANATORY NOTES

The $ sign refers to the United States dollar.

Sub-Saharan Africa: Except where otherwise stated, this includes South Africa.

North Africa: In this publication, Sudan is classified as part of sub-Saharan Africa, not North Africa.

A hyphen (-) indicates that the data are either not available or not applicable.

ABBREVIATIONS

ACP	African, Caribbean and Pacific (group of countries)
ADB	Asian Development Bank
AfDB	African Development Bank
AEC	African Economic Community
AMU	Arab Maghreb Union
ASEAN	Association of Southeast Asian Nations
AU	African Union
AUC	African Union Commission
CEMAC	Communauté économique et monétaire de l'Afrique centrale
CEN-SAD	Community of Sahel-Saharan States
CMA	Common Monetary Area
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
ECA	Economic Commission for Africa
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
FDI	Foreign direct investment
GDP	Gross domestic product
ICGLR	International Conference on the Great Lakes Region
IGAD	Intergovernmental Authority on Development
IOC	Indian Ocean Commission
MRU	Mano River Union
NEPAD	New Partnership for Africa's Development
SACU	Southern African Customs Union
SADC	Southern African Development Community
SITC	Standard International Trade Classification
SMEs	Small and medium-sized enterprises
WAEMU	West African Economic and Monetary Union

INTRODUCTION

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 African Union summit 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.

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, African regional economic communities 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 African Governments 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.

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. In this regard, the report highlights distinctive features of the enterprise structure in Africa that have to be addressed to boost intra-African trade. It also argues that putting in place measures to strengthen the capacities, competitiveness and innovative capabilities of domestic enterprises should be an integral part of development policy. Some of the key questions addressed in the report are as follows:

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

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 (UNCTAD), 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

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.

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 competeiveness 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.

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.

ORGANIZATION OF THE REPORT

The report is organized as follows. Chapter 1 provides empirical facts on intra-African trade and investment. It also compares the regional trade performance of Africa to those of other continents. Chapter 2 examines the drivers of intra-African trade with a view to providing an understanding of the regional trade performance of the continent. It also offers insights into how to enhance implementation of existing regional agreements to promote intra-African trade. Chapter 3 focuses on the structure of enterprises in Africa and identifies the distinctive features of the enterprise structures that inhibit trade. It also provides evidence of the link between manufacturing firms, exports and productivity in Africa and discusses policy actions that should be put in place to strengthen the private sector and boost intra-African trade. Chapter 4 discusses how to boost intra-African trade in the context of developmental regionalism. In this context, it stresses the need for a new approach to regional integration in Africa that focuses on development outcomes as opposed to processes of integration. It also outlines the broad features of a developmental approach to regional integration and discusses how it could be applied to Africa. Finally, chapter 5 provides a summary of the main findings and recommendations of the report.

CHAPTER 1
THE STATE OF INTRA-AFRICAN TRADE AND INVESTMENT

A. INTRODUCTION

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. This chapter provides an overview of the scale, trends and composition of intra-African trade for the period from 1996 to 2011. Due to data limitations on services and capital, the analysis focuses mainly on trade in goods. In addition, emphasis is laid on developments within the eight regional economic communities considered by the African Union as the building blocks of the future African Economic Community (AEC) as laid out in the Abuja Treaty. Table 1 shows the affiliation of each African country to the eight recognized regional economic communities[1] and affiliation to various other regional communities.[2] As is evident in the table, overlapping memberships of regional economic communities is a characteristic feature of the African regional integration process. Interestingly, Algeria, Cape Verde and Mozambique are the only African countries that are members of only one regional community.

B. EMPIRICAL FACTS ON AFRICAN TRADE, INTRA-AFRICAN TRADE AND INVESTMENT[3]

The empirical analysis reported below is organized around 10 stylized facts on the evolution of African trade, intra-African trade and investment over the period from 1996 to 2011. The key findings and messages emanating from the analysis are as follows.

African merchandise trade has been rising faster than those of the developed and developing economies. However the continent still accounts for a very low share of world trade.

The level of African merchandise trade (exports and imports) with the world rose from $251 billion in 1996 to $1,151 billion in 2011. In 2011, exports and imports for Africa totalled $582 billion and $569 billion respectively while exports and imports among developing economies totalled $18,211 billion and $7,321 billion respectively.

In terms of nominal growth rates, Africa has kept pace with the surge in world trade that has occurred over the last decade. Exports to the world grew at an annual average rate of 17.5 per cent during the period from 2001 to 2006, outstripping

Table 1. Membership of regional communities (by country)

Country	Membership of RECs recognized by the African Union	Membership of other regional communities
Algeria	AMU	
Angola	ECCAS, SADC	ICGLR
Benin	CENSAD, ECOWAS	WAEMU
Botswana	SADC	SACU
Burkina Faso	CENSAD, ECOWAS	WAEMU
Burundi	COMESA, EAC, ECCAS	ICGLR
Cameroon	ECCAS	CEMAC
Cape Verde	ECOWAS	
Central African Republic	CENSAD, ECCAS	CEMAC, ICGLR
Chad	CENSAD, ECCAS	CEMAC
Comoros	CENSAD, COMESA	IOC
Congo	ECCAS	CEMAC, ICGLR
Côte d'Ivoire	CENSAD, ECOWAS	MRU,WAEMU
Dem. Rep. of the Congo	COMESA, ECCAS,SADC	ICGLR
Djibouti	CENSAD, COMESA, IGAD	
Egypt	CENSAD, COMESA	
Equatorial Guinea	ECCAS	CEMAC
Eritrea	CENSAD, COMESA, IGAD	
Ethiopia	COMESA,IGAD	
Gabon	ECCAS	CEMAC
Gambia	CENSAD, ECOWAS	
Ghana	CENSAD, ECOWAS	
Guinea	CENSAD , ECOWAS	MRU
Guinea-Bissau	CENSAD , ECOWAS	WAEMU
Kenya	CENSAD, COMESA, EAC, IGAD	ICGLR
Lesotho	SADC	CMA, SACU
Liberia	CENSAD, ECOWAS	MRU
Libya	AMU, CENSAD, COMESA	
Madagascar	COMESA	IOC
Malawi	COMESA, SADC	
Mali	CENSAD, ECOWAS	WAEMU
Mauritania	AMU, CENSAD*	
Mauritius	COMESA, SADC	IOC
Morocco	AMU,CENSAD	
Mozambique	SADC	
Namibia	SADC	SACU

Table 1 (contd.)

Country	Membership of RECs recognized by the African Union	Membership of other regional communities
Niger	CENSAD, ECOWAS	WAEMU
Nigeria	CENSAD, ECOWAS	
Rwanda*	COMESA, EAC, ECCAS	ICGLR
Sao Tome and Principe	ECCAS, CENSAD	
Senegal	CENSAD, ECOWAS	WAEMU
Seychelles	COMESA, SADC	IOC
Sierra Leone	ECOWAS, CENSAD	MRU
Somalia	CENSAD, IGAD	
South Africa	SADC	CMA, SACU
Sudan	CENSAD, COMESA,IGAD	ICGLR
Swaziland	COMESA, SADC	CMA,SACU
Togo	CENSAD, ECOWAS	WAEMU
Tunisia	AMU,CENSAD	
Uganda	COMESA, EAC,IGAD	ICGLR
United Rep. of Tanzania	EAC, SADC	ICGLR
Zambia	COMESA, SADC	ICGLR
Zimbabwe	COMESA, SADC	

Source: UNCTAD secretariat (2013).
Note: * Rwanda pulled out of ECCAS in 2007. Statistics drawn from UNCTADstat database do not reflect this. This table does not reflect any suspension of memberships made by the African Union. All figures for all periods in this chapter are calculated on the basis of membership as described in this table.

growth both among developing economies (11.5 per cent) and developed economies (9.3 per cent). Similarly in the period from 2007 to 2011, African exports grew annually on average faster than those in the developing and developed worlds (12.2 per cent as against 9.9 per cent and 7.4 per cent respectively). African imports from the world are characterized by the same scenario, growing nominally faster than those in the developing and developed worlds.

When only volume growth rates are considered, African export performance remained strong over the period from 2007 to 2011.[4] African exports rose in real terms at an annual rate of 5.2 per cent compared to 4.8 per cent for the world, 2.4 per cent for developed economies and 2.9 per cent for the developing Americas, albeit lower than that of developing Asia (8.8 per cent) and developing economies in general (7.8 per cent). However on the import side, Africa still scored the highest real growth rate of all the above-mentioned categories of countries.

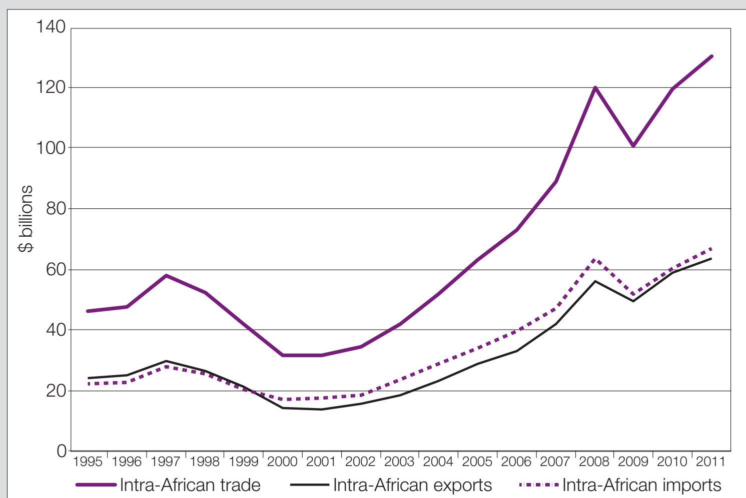
Despite its fast growth in merchandise trade, Africa remains a marginal player in world trade, accounting for only 2.8 per cent of world exports (in current United States dollars) and 2.5 per cent of world imports in the decade from 2000 to 2010 (see table 2). The shares of both Africa and sub-Saharan Africa in world exports and imports have fallen significantly over the period from 1970 to 2011. This downward trend can be observed in almost all regions in Africa and almost all African regional economic communities.

Total intra-African trade reached $130.1 billion in 2011, representing 11.3 per cent of African trade with the world.

The level of intra-African trade has grown in nominal terms, rising from $45.9 billion in 1995 to $130.1 billion in 2011 (see figure 1). It experienced positive growth in all years except for 1998-2001 and 2009. Such negative growth spells coincided with world recessions, indicating a potential sensitivity of intra-African trade to world economic conditions.

In volume terms,[5] intra-African exports grew at an annual average rate of 2.6 per cent in the period from 2001 to 2006 and 3.2 per cent in the period from 2007 to 2011, while for intra-African imports, the real growth rates were 9.4 and 4.2 per

Figure 1. Intra-African trade, 1995–2011



Source: UNCTADstat database.

Table 2. Shares of regional trading groups in world exports and imports , 1970–2010 (current dollars at current exchange rates)

	Exports (percentage of global exports)				Imports (percentage of global imports)			
	1970–1979	*1980–1989*	*1990–1999*	*2000–2010*	*1970–1979*	*1980–1989*	*1990–1999*	*2000–2010*
Developing economies	23.7	25.7	27.3	35.7	20.4	23.8	27.2	32.2
Developed economies	72.1	69.6	70.5	60.9	75.2	71.8	70.6	65.2
Developing economies:								
Africa	4.9	4.1	2.4	2.8	4.3	4.0	2.4	2.5
Eastern Africa	0.6	0.3	0.2	0.2	0.7	0.4	0.3	0.3
Middle Africa	0.4	0.4	0.3	0.4	0.3	0.3	0.1	0.2
Northern Africa	1.7	1.5	0.8	1.0	1.5	1.6	0.9	0.9
Southern Africa	1.0	1.0	0.7	0.6	0.8	0.9	0.7	0.6
Western Africa	1.3	0.9	0.5	0.6	1.1	0.8	0.4	0.4
Sub-Saharan Africa	3.3	2.6	1.6	1.3	2.9	2.4	1.5	1.6
By regional group:								
APEC	30.8	36.2	44.4	45.4	31.6	37.3	45.1	47.4
ASEAN	2.6	3.7	5.7	6.4	2.7	3.6	5.8	5.6
MERCOSUR	1.5	1.6	1.4	1.5	1.7	1.2	1.4	1.2
EU	44.9	41.8	42.2	38.4	47.0	42.1	41.4	38.1
By African REC:								
AMU	1.5	1.3	0.7	0.9	1.1	1.0	0.6	0.6
CEN-SAD	2.7	1.9	1.0	1.3	2.3	2.1	1.2	1.2
COMESA	0.2	0.1	0.1	0.1	1.2	1.3	0.7	0.6
EAC	0.4	0.4	0.3	0.4	0.2	0.2	0.1	0.1
ECCAS	1.9	1.2	1.2	1.8	0.3	0.3	0.2	0.2
ECOWAS	1.2	0.9	0.5	0.6	1.0	0.8	0.4	0.4
IGAD	0.2	0.1	0.1	0.1	0.3	0.2	0.1	0.2
SADC	1.6	1.4	0.9	1.0	1.3	1.2	0.9	0.9

Source: UNCTADstat database.
Note: Figures are reported in UNCTADstat database for three categories of economies: developed, developing and transition. The shares in the first two rows will therefore not add up to 100 per cent.

cent respectively. In nominal terms, the level of intra-African trade was $32 billion in 2000 and $130 billion in 2011. Most of the increase in the value of intra-African trade in the last decade was driven by price increases. While the value of intra-

African trade rose by a factor of 4.1 from 2000 to 2011, in volume terms, it rose by only a factor of 1.7.

As a share of the value of African world trade, intra-African trade rose steadily from 19.3 per cent in 1995, to a peak of 22.4 per cent in 1997 but thereafter fell to 11.3 per cent in 2011.[6] These declining numbers can be attributed to a faster rate of growth in African trade with the rest of the world rather than to a slowdown in intra-African trade per se. From 1996 to 2011, intra-African trade rose at a robust rate of 8.2 per cent on average per year but African trade with the rest of the world grew faster at 12 per cent on average per year.

However intra-African trade remains a very low percentage of African trade with the world. Table 3 (a) confirms the validity of this statement by comparing the share of intraregional trade in Africa to the share of intraregional trade in other parts of the world. In developing Africa, the share of intraregional exports amounted to 10.9 per cent of world African exports in the period from 2007 to 2011, while the share of intraregional imports to world African imports was 12.7 per cent. These shares are lower than those in other developing regions, namely developing America and developing Asia.

Table 3 (a). Intraregional exports and imports, 1996–2011 (percentage of total exports or imports)

	Exports			Imports		
	1996–2000	*2001–2006*	*2007–2011*	*1996–2000*	*2001–2006*	*2007–2011*
Developing Africa*	9.7	9.8	10.9	13.3	13.5	12.7
Eastern Africa	12.4	14.1	13.9	8.8	9.3	7.1
Middle Africa	1.2	1.0	1.3	2.6	2.5	3.1
Northern Africa	3.2	2.9	3.9	2.8	3.7	3.8
Southern Africa*	4.4	2.1	2.1	11.9	10.7	7.9
Western Africa	10.2	10.0	9.0	11.3	12.5	10.2
Developing America	19.1	17.6	20.6	17.6	19.0	21.1
Developing Asia	41.5	45.1	50.1	40.6	49.3	53.0
Developing Oceania	1.3	3.0	3.3	0.9	2.3	2.7
Europe	67.3	71.4	70.0	68.3	67.0	64.4

Source: UNCTADstat database.
* Figure for the period 1996–2000 refers to the year 2000 only.

The share of intra-African trade in total trade is significantly higher for non-fuel exporters than for fuel exporters.

Intra-African trade as a share of world trade has usually been higher among non-fuel exporters (16.3 per cent in 2007–2011) than among fuel exporters (5.7 per cent in the same period). Major fuel exporters in Africa tend to be highly dependent on extraregional markets and consequently their intra-African share is very low. For instance, 13 African countries exported at most 5 per cent of their merchandise exports to Africa over the period from 2007 to 2011 (see table 3 (b)) and all the major fuel exporters, except Nigeria, were on that list. Chad and Guinea Bissau were the two countries with the lowest share of merchandise exports to Africa for the period from 2007 to 2011.

What Africa produces and exports matters for intra-African trade. The narrowness of African production and export structures and relative dependence on primary commodities are inhibiting factors to the boosting of intraregional trade in Africa. The higher intra-trade share among non-fuel exporters in Africa supports the argument that a production base, more diversified away from fuels towards non-fuel production, such as manufacturing, could provide an impetus to a deepening of regional trade in Africa. As discussed in several publications produced by UNCTAD, structural transformation, accompanied by a fostering of manufacturing development and greater economic diversification can reinforce developmental gains for Africa, including the gains from boosting intra-African trade (UNCTAD 2009, 2012a; UNCTAD and UNIDO, 2011).

Substantial and thriving informal trade in Africa is an indication that intra-African trade is not as low as official statistics suggest.

In the discourse on regional integration in Africa, the consensus view is that intra-African trade is very low. This conclusion is based on a comparison of the share of regional trade in total African trade to those of other continents, based on official available data. This method however is problematic because it does not account for informal trade, which by most accounts is relatively large in Africa. Adding informal cross-border trade to official figures for intra-African trade would increase the share of intra-African trade in total trade. Although there are no systematic statistics on this form of intra-African trade, surveys undertaken in some regions reveal that it represents a large share of officially recorded trade. In the Southern African Development Community (SADC) area, for example, informal cross-border trade could amount to $17.6 billion per year, representing 30 to 40

Table 3 (b). Shares of exports and imports (by main destination), 1996–2011

Country	Percentage of total exports							
	Africa		Developed Europe		Developed America		Developing Asia	
	1996–2000	2007–2011	1996–2000	2007–2011	1996–2000	2007–2011	1996–2000	2007–2011
Algeria	1.6	3.2	61.8	50.2	18.1	30.6	6.7	10.7
Angola	0.6	4.0	17.2	13.8	57.4	29.2	21.8	49.1
Benin	18.4	40.0	23.5	9.3	3.6	1.1	31.5	49.0
Botswana	52.8	23.1	45.4	64.7	1.3	4.9	0.1	5.0
Burkina Faso	22.4	18.6	43.1	38.4	1.1	1.7	21.8	38.1
Burundi	6.7	20.8	78.7	48.7	8.0	2.7	5.6	25.4
Cameroon	8.6	13.6	72.1	58.7	3.5	7.2	14.1	18.0
Cape Verde	9.1	9.5	47.7	83.4	2.2	1.8	2.1	2.2
Central African Republic	6.7	15.4	86.2	46.3	0.9	3.2	5.1	29.2
Chad	9.1	0.8	68.7	6.7	5.5	83.5	9.7	7.2
Comoros	3.4	1.0	64.2	35.9	17.9	2.6	8.7	59.5
Congo	2.1	3.0	31.6	13.5	27.0	33.8	35.7	44.3
Côte d’Ivoire	27.7	31.1	52.2	46.0	8.6	11.6	4.8	6.6
Dem. Rep. of the Congo	3.8	15.4	69.3	23.9	18.8	10.4	4.6	47.6
Djibouti	27.8	40.4	20.5	9.2	0.4	2.5	50.0	46.0
Egypt	4.8	12.2	42.0	32.2	11.8	5.9	21.6	36.6
Equatorial Guinea	6.5	2.8	41.7	31.6	17.4	25.1	24.5	27.8
Eritrea	22.3	13.8	53.9	29.5	2.6	20.9	10.7	25.9
Ethiopia	16.0	19.4	43.7	38.5	8.5	6.1	15.5	29.4
Gabon	2.3	5.0	19.3	20.6	61.1	37.5	12.7	27.2
Gambia	9.4	15.8	74.2	26.9	1.2	2.1	4.8	53.7
Ghana	7.6	16.0	64.2	46.6	11.3	6.5	8.4	16.8
Guinea	7.3	4.0	55.8	36.4	19.3	10.1	5.1	22.0
Guinea Bissau	4.3	0.8	19.3	1.7	0.3	6.2	46.3	91.0
Kenya	38.3	42.6	39.2	30.8	4.8	7.0	13.6	15.0
Lesotho	43.0	15.7	2.8	20.1	53.2	63.5	1.0	0.5
Liberia	1.2	7.2	73.3	46.0	3.2	17.1	18.6	24.9
Libya	5.1	2.6	85.8	78.0	0.0	5.7	6.7	11.9
Madagascar	6.8	6.0	67.4	55.4	10.6	18.8	7.1	17.9
Malawi	22.5	29.8	46.3	34.2	14.1	10.6	5.6	13.2
Mali	37.1	54.2	23.0	13.1	4.2	1.7	29.3	29.3
Mauritania	14.8	13.9	58.5	36.3	0.4	1.2	3.1	40.7
Mauritius	6.2	12.7	73.7	61.4	17.2	8.0	1.6	5.5
Morocco	4.1	6.0	71.6	63.5	4.9	4.4	10.7	15.4
Mozambique	31.8	27.8	36.9	57.4	8.0	1.1	15.6	11.1
Namibia	55.4	32.1	36.1	38.6	5.0	14.9	0.9	12.0
Niger	36.6	30.5	24.2	44.0	4.0	15.6	31.2	4.1
Nigeria	8.8	9.9	29.1	24.3	39.3	39.1	16.1	14.9
Rwanda	12.1	43.3	65.2	19.8	7.2	5.9	13.8	28.7
Sao Tome and Principe	4.2	14.4	79.9	57.4	9.5	4.0	8.9	3.0
Senegal	25.4	48.0	44.5	22.9	1.0	0.6	16.3	16.0
Seychelles	3.1	10.1	68.9	65.7	6.5	2.0	17.9	10.3
Sierra Leone	2.4	4.3	79.3	61.3	13.7	14.6	2.7	13.8
Somalia	2.7	4.5	21.4	1.8	0.6	0.1	75.1	93.3
South Africa	43.4	15.5	24.3	32.1	8.9	10.6	11.8	28.2
Sudan	6.8	1.8	26.9	1.8	0.7	3.0	54.8	78.7
Swaziland	69.6	39.5	10.0	20.2	7.5	11.2	9.9	20.8
Togo	29.8	53.1	23.9	18.9	9.9	1.0	27.2	25.1
Tunisia	6.8	11.7	81.2	76.0	0.9	1.9	6.4	6.2
Uganda	14.2	44.5	70.9	35.1	5.0	2.7	6.0	15.2
United Rep. of Tanzania	15.0	26.0	41.4	28.9	3.4	2.3	29.0	34.3
Zambia	21.7	26.3	31.6	32.9	4.7	0.6	31.9	38.9
Zimbabwe	27.6	51.3	41.8	21.0	15.4	19.3	12.9	18.6

Table 3 (b) (contd.)

Country	Percentage of total imports							
	Africa		Developed Europe		Developed America		Developing Asia	
	1996–2000	2007–2011	1996–2000	2007–2011	1996–2000	2007–2011	1996–2000	2007–2011
Algeria	2.2	3.1	61.2	53.2	14.9	7.0	12.2	23.7
Angola	14.7	8.0	50.8	43.5	13.6	10.1	12.1	26.9
Benin	16.9	9.0	46.1	23.6	4.3	8.1	25.6	56.1
Botswana	85.7	82.7	9.7	6.8	2.0	1.5	1.6	6.9
Burkina Faso	32.4	40.1	45.6	34.0	3.6	5.0	6.6	15.2
Burundi	22.9	35.4	49.7	26.9	2.9	3.5	19.7	30.5
Cameroon	22.1	30.6	51.8	34.5	8.4	4.9	7.8	20.5
Cape Verde	3.3	2.5	77.8	80.9	8.0	1.5	4.4	6.0
Central African Rep.	21.2	20.7	60.3	41.4	3.1	9.8	8.3	19.5
Chad	21.3	20.7	62.3	50.6	3.6	13.6	10.8	10.9
Comoros	21.9	20.8	59.1	29.5	0.4	0.4	15.6	47.0
Congo	11.6	13.7	56.5	41.0	8.9	6.4	12.8	30.2
Côte d'Ivoire	22.1	32.7	51.2	29.7	5.4	3.0	11.5	20.7
Dem. Rep. of the Congo	39.9	51.4	40.4	28.3	4.6	3.7	13.0	12.6
Djibouti	13.1	6.3	40.7	12.3	3.6	6.3	36.7	68.2
Egypt	2.0	3.2	41.6	30.0	15.7	11.0	19.2	34.2
Equatorial Guinea	10.7	25.0	48.9	37.9	33.7	13.3	3.5	17.8
Eritrea	4.1	18.6	44.6	21.8	6.5	2.6	33.8	48.4
Ethiopia	4.1	4.7	35.2	17.9	5.7	5.5	40.6	61.4
Gabon	9.8	12.6	70.9	57.3	8.3	10.9	6.2	13.6
Gambia	13.4	20.1	41.1	21.4	3.9	3.9	33.8	44.1
Ghana	20.8	21.3	45.4	27.7	10.8	9.1	14.2	33.2
Guinea	16.3	11.7	50.0	44.9	9.9	5.4	17.4	29.7
Guinea Bissau	16.2	27.5	50.7	44.5	2.5	2.0	25.2	17.5
Kenya	11.3	12.9	34.9	18.4	7.3	5.4	35.4	53.8
Lesotho	77.5	61.2	1.7	3.5	0.4	1.5	19.7	32.7
Liberia	1.0	2.0	32.0	9.3	1.3	1.2	39.0	72.5
Libya	8.6	10.9	65.3	47.4	2.4	4.5	15.4	27.8
Madagascar	13.0	12.9	42.7	23.7	3.7	5.5	30.5	53.6
Malawi	66.7	55.9	15.2	14.9	3.2	4.1	10.0	22.3
Mali	38.0	45.0	43.5	32.1	4.5	3.9	10.3	13.9
Mauritania	12.2	10.7	63.0	48.0	4.3	5.9	14.6	24.6
Mauritius	15.7	12.1	33.4	25.6	3.3	2.5	36.1	49.8
Morocco	5.3	5.6	56.8	51.4	7.7	7.6	14.2	23.6
Mozambique	56.0	38.1	19.9	18.3	5.5	4.9	12.3	28.4
Namibia	78.0	32.7	9.8	27.1	6.7	8.2	2.2	20.8
Niger	26.4	27.3	40.9	35.6	6.8	5.5	21.2	27.2
Nigeria	4.5	6.3	48.2	35.8	12.7	11.0	23.3	33.5
Rwanda	35.3	46.5	31.6	23.2	13.3	4.7	12.6	22.5
Sao Tome & Principe	10.6	20.0	53.3	68.0	0.7	1.3	3.1	5.1
Senegal	16.4	17.0	56.6	46.6	5.1	3.7	13.9	22.6
Seychelles	15.6	10.8	41.6	32.3	7.6	1.6	30.1	51.3
Sierra Leone	9.2	41.3	53.2	19.7	10.5	11.5	12.3	18.2
Somalia	26.7	32.7	13.4	3.8	2.4	2.7	40.1	56.8
South Africa	21.6	6.8	36.8	29.1	11.4	7.6	16.3	32.6
Sudan	11.5	9.2	34.4	17.9	3.3	3.5	43.0	59.0
Swaziland	89.8	70.4	2.5	4.4	1.6	3.2	5.0	19.7
Togo	21.9	13.6	43.7	29.3	4.2	4.7	24.4	47.0
Tunisia	5.8	7.4	75.4	63.0	4.7	3.9	6.9	14.0
Uganda	41.9	25.8	28.5	20.9	4.4	3.6	17.8	40.4
United Rep. of Tanzania	22.6	16.8	27.0	18.9	5.5	3.4	33.6	52.5
Zambia	59.2	63.5	19.2	10.7	4.1	2.3	13.6	21.1
Zimbabwe	54.6	73.8	23.2	6.9	4.9	3.3	9.5	14.6

Source: UNCTADstat database.

Table 4. Intra-trade and GDP by different regional groups

	Shares of intraregional trade (%)			GDP ($ million)		
	1996–2000	*2001–2006*	*2007–2011*	*1996–2000*	*2001–2006*	*2007–2011*
Africa	18.2	11.6	11.7	557 503	799 986	1 569 472
African fuel exporters	5.2	4.9	5.7	140 761	263 012	590 214
African non-fuel exporters	23.8	15.7	16.3	416 742	536 975	979 259
Regional trading agreements						
AMU	2.8	2.6	3.0	139 452	197 131	340 809
ASEAN	21.6	24.0	25.0	609 403	787 900	1 633 163
CARICOM	11.4	11.3	11.9	30 616	43 804	65 412
CEN-SAD	6.9	6.9	6.6	279 527	392 625	778 126
COMESA	5.1	5.8	6.4	185 143	220 045	430 904
EAC	13.8	13.1	12.0	30 502	39 438	74 155
ECCAS	1.7	1.5	1.9	32 383	64 546	170 929
ECOWAS	10.4	10.9	9.4	77 693	141 604	311 739
IGAD	9.3	7.7	5.8	39 450	57 341	130 669
MERCOSUR	21.4	15.7	16.2	1 074 907	905 638	2 245 081
SADC	32.3	13.8	12.9	189 416	269 324	510 538

Source: UNCTADstat database.
Note: Trade refers to exports + imports. Figures for the 11 regional trade agreements reflect trade between countries which are members of the agreements.
ASEAN figures are for the period from 2002 to 2006 due to a shift in figures for Indonesia as from 2002. ECCAS figures exclude Angola for 2011, Equatorial Guinea for 1998-1999 and 2011 and Sao Tome and Principe due to missing trade data. Fuel exporters are countries where fuels accounted for more than 50 per cent of merchandise exports in 2011 and include Algeria, Angola, Chad, Congo, Equatorial Guinea, Gabon, Libya, Nigeria and the Sudan. Whenever GDP figures were not available for a country for a given year, that county was omitted from calculations for that year only.

per cent of total intra-SADC trade. Ugandan informal exports to the Democratic Republic of the Congo, Kenya, Rwanda, the Sudan and the United Republic of Tanzania represented $224 million or 83 per cent of its total recorded trade to these countries in 2006. In 2009 and 2010 Ugandan informal exports to its neighbours were worth $790 million and $520 million respectively. Furthermore, estimates of informal cross-border trade in West Africa show that it could represent 20 per cent of GDP in Nigeria and 75 per cent of GDP in Benin (Afrika and Ajumbo, 2012).

These estimates of informal cross-border trade suggest that the true figure for the proportion of intra-African trade relative to total trade is higher than the official figure of around 11 per cent.

A more rigorous method of assessing the current level of intra-African trade is to compare actual to potential regional trade, as has been done using a gravity model (Foroutan and Pritchett, 1993). The gravity model identifies a long list of variables that determine the level of intra-African trade. They include the GDP or population of a country as a proxy for economic size; income per capita as a proxy for economic development; transport costs sometimes using distance to markets, tariffs and non-tariff barriers as a proxy; cultural factors such as sharing the same language; geographical variables (such as being landlocked, being an island, or sharing a border); historical variables such as sharing the same colonial history; and policy variables such as belonging to a preferential trade arrangement. Some of the variables are fixed and not amenable to policy. Therefore, whether or not there is potential growth for intra-African trade will be determined by the extent to which some of these determinants may be changed.

Several empirical studies have simulated the effect of a variation in one or more of the changing variables on intra-African trade. The following are some examples of the results from these studies:

- Trade within the West African Economic and Monetary Union (WAEMU) could increase threefold if all intrastate roads linking the countries of the Union were paved (Coulibaly and Fontagné, 2005).
- Reducing the distance with trade partners, which means exploiting the trade potential with neighbouring countries, could increase African countries intraregional trade by 173 per cent (Montinari and Prodi, 2011).
- Increasing the GNP of a country by one per cent increases its bilateral trade by 2 per cent (Longo and Sekkat, 2004).
- Simulations also show that if all African countries removed intra-African tariff barriers, while adopting the lowest applied transport cost in the region, welfare would increase by 1.013 per cent per year on average. Some regions would experience higher welfare effects than others. In the Southern African Customs Union (SACU), average welfare would increase by 1.615 per cent per year translating into an increase of 17 per cent over 10 years. The continental elimination of tariffs and a reduction in transport costs

would produce the strongest effect on welfare in comparison with scenarios whereby Africa would liberalize its trade with external partners, namely the European Union, United States of America, Brazil, China and India (UNDP, 2011a).

In summary, intra-African trade is not as low as official statistics suggest. Correctly measured, the share of intra-African trade in total trade could be close to the values observed in other developing regions, particularly in Latin America and the Caribbean where intraregional trade represents about 20 per cent of total trade. Nevertheless, intra-African trade remains low relative to its potential. If some of the factors constraining its expansion could be addressed, intra-African trade could increase substantially, as empirical results suggest.

With the exception of the Economic Community of Central African States, African regional economic communities tend to undertake a significant part of their trade with Africa within their own regional trade bloc.

With the exception of the Economic Community of Central African States (ECCAS), for each African regional economic community, a significant part of their trade with Africa takes place within their own regional trade bloc. This confirms that the formation of regional blocs in Africa has facilitated the creation of trade among its member countries (Cernat, 2001). For instance, in the period from 2007 to 2011, 64.7 per cent of the trade of the Community of Sahel-Saharan States (CEN-SAD) with Africa was with CEN-SAD member countries; 78.4 per cent of the trade of the Southern African Development Community (SADC) with Africa was with other SADC member countries and for the Economic Community of West African States (ECOWAS) the figure was 65.5 per cent (see table 5). However, with the exception of the Common Market for Eastern and Southern Africa (COMESA), these shares have been falling compared to the period from 1996 to 2000. Overlapping membership of regional economic communities could partly account for this trend. From table 5, it can also be observed that of all eight African regional economic communities, the share of Africa in total trade was highest in the East African Community (EAC). The share of Africa in EAC total trade amounted to 23.1 per cent in the period from 2007 to 2011, compared to 16.4 per cent for SADC, 14.3 per cent for the Intergovernmental Authority on Development (IGAD), 14.2 per cent for ECOWAS, 13.3 per cent for COMESA, 10.2 per cent for CEN-SAD, 9.3 per cent for ECCAS and 5 per cent for the Arab Maghreb Union (AMU). However these shares represented a decrease compared to the period from 2001 to 2006 for COMESA, EAC, ECOWAS and IGAD. Conversely, between the period from

Table 5. Intra-African trade 1996–2011: distribution of shares

RECs	Share of Africa in total trade			Share of REC in African trade		
	1996–2000	*2001–2006*	*2007–2011*	*1996–2000*	*2001–2006*	*2007–2011*
CEN-SAD	9.3	10.0	10.2	74.5	67.7	64.7
COMESA	16.6	13.5	13.3	30.8	42.6	48.6
EAC	24.0	26.0	23.1	57.6	49.4	52.1
ECCAS	8.3	7.7	9.3	21.0	18.7	19.8
ECOWAS	13.7	14.7	14.2	76.2	72.7	65.5
IGAD	17.3	15.1	14.3	53.4	48.4	40.5
SADC	34.2	16.1	16.4	94.6	83.6	78.4
AMU	4.2	4.0	5.0	67.1	63.5	59.5

Source: UNCTADstat database.
Note: The first three columns show the percentage of the total trade of the regional economic community that goes to Africa. The last three columns show the percentage of the trade with Africa of each regional economic community that happens within its own bloc.

2001 to 2006 and that from 2007 to 2011, the share of total trade going to Africa increased only for CEN-SAD, ECCAS, SADC and AMU.

In contrast, in absolute levels, trade from each African regional economic community with Africa has been growing at high nominal rates for the period under analysis. Focusing on comparisons between the periods from 2001 to 2006 and from 2007 to 2011, it can be noted that for CEN-SAD, ECCAS, SADC and AMU, their trade with Africa rose nominally faster than their trade with the world, resulting in a rise in the share of Africa in their total trade. For the other African regional economic communities, the share of Africa in total trade has been falling, not because their level of trade with Africa has been falling but simply because their level of trade with the rest of the world has been rising faster than their trade with Africa.

In fact, the level of trade of each African regional economic community with Africa more than doubled from 2001–2006 to 2007–2011. SADC had the largest level of trade with Africa, averaging $53.8 billion in the period from 2007 to 2011, followed by CEN-SAD ($ 46.1 billion), despite the fact that CEN-SAD is the biggest trade bloc in terms of number of countries and size of GDP. The level of trade of the other regional economic communities with Africa was as follows: COMESA, $29.7

billion; ECOWAS, $26.5 billion; ECCAS, $12.8 billion; AMU, $12.4 billion; EAC, $8.4 billion and IGAD, $8.0 billion.

The importance of intra-African trade varies significantly between national economies.

There is significant heterogeneity among countries in the importance of intra-African trade. For instance, in the period from 2007 to 2011, 9 countries (Benin, Djibouti, Kenya, Mali, Rwanda, Senegal, Togo, Uganda and Zimbabwe) exported at least 40 per cent of their goods to Africa, compared to only 5 countries in the period from 1996 to 2000. On the import side, 11 countries (Botswana, Burkina Faso, the Democratic Republic of the Congo, Lesotho, Malawi, Mali, Rwanda, Sierra Leone, Swaziland, Zambia and Zimbabwe) imported at least 40 per cent of their goods from Africa in the period from 2007 to 2011, compared to 9 countries in the period from 1996 to 2000.

In the period from 2007 to 2011, the five best performers in terms of most exports to Africa as a share of world exports were: Mali (53.5 per cent), Togo (52 per cent), Zimbabwe (50.8 per cent), Senegal (47.9 per cent) and Uganda (44.7 per cent). On the other hand, the top five importers from Africa measured as a share of their world imports were: Botswana (82.1 per cent), Zimbabwe (73.5 per cent), Swaziland (69.5 per cent), Zambia (63.5 per cent) and Lesotho (63.5 per cent) (see table 3(b)).

Table 6 lists the top five destinations for the regional exports for 2011 for each African country. For the region as a whole, in 2011 South Africa, Côte d'Ivoire, Ghana, Zimbabwe and the Democratic Republic of the Congo bought 39.4 per cent of African exports. Table 6 reveals some important bilateral export relationships between African countries that in turn signal the relevance of physical proximity for trade or so called neighbourly or gravitational effects. For instance, in the north, Morocco was the main export destination for Algeria; most southern African countries, in particular Angola and Lesotho, counted South Africa as their biggest intraregional export market; in the Indian Ocean islands, Madagascar was the most important export outlet for Comoros; in the west, Nigeria took in more than three quarters of the exports of the Niger to Africa; Chad exported most of its products in Africa to its next-door neighbour, the Central African Republic, and to the east, about 46 per cent of Kenyan African exports were to its close neighbors, Uganda and the United Republic of Tanzania.

Table 6. Intra-African exports, five main destinations by country, 2011

Country	Five main export destinations in order of importance	Share in total exports
Algeria	Morocco, Egypt, Tunisia, Liberia, Ghana	96.7
Angola	South Africa, Ghana, Mozambique, Côte d'Ivoire, Niger	100.0
Benin	Nigeria, Mali, Niger, South Africa, Chad	77.3
Botswana	South Africa, Zimbabwe, Zambia, Namibia, Dem.Rep. of the Congo	95.9
Burkina Faso	South Africa, Ghana, Niger, Benin, Nigeria	71.6
Burundi	Rwanda, Dem.Rep.Congo, Kenya, Uganda, Swaziland	86.0
Cameroon	Chad, Gabon, Ghana, Central African Rep, Congo	75.2
Cape Verde	Ghana, Senegal, Mozambique, Libya, Guinea-Bissau	86.4
Central African Rep.	Dem.Rep.Congo, Morocco, Chad,Nigeria, Congo	96.8
Chad	Central African Republic,Côte d'Ivoire, Morocco, Nigeria, Cameroon	95.4
Comoros	Madagascar, South Africa, Mauritius, Tunisia	100.0
Congo	Angola, Gabon, Nigeria,Côte d'Ivoire, Zimbabwe	80.6
Côte d’Ivoire	Nigeria, South Africa, Burkina Faso, Ghana, Mali	65.0
Dem. Rep. of the Congo	Côte d'Ivoire, Rwanda, Senegal, South Africa, Botswana	97.0
Djibouti	Sudan, Egypt, Ethiopia, Uganda, Kenya	98.9
Egypt	South Africa, Libya, Sudan, Morocco, Algeria	69.5
Equatorial Guinea	Côte d'Ivoire, Senegal, Ghana, Cape Verde, Niger	99.8
Eritrea	Egypt, Sudan, Kenya, Uganda, Tunisia	97.1
Ethiopia	Somalia, Sudan, Djibouti, Egypt, Kenya	96.1
Gabon	Congo, South Africa, Dem.Rep.Congo, Nigeria, Morocco	71.9
Gambia	Senegal, Guinea, Mali, Guinea-Bissau, Ghana	94.4
Ghana	Togo, South Africa, Burkina Faso, Benin,Nigeria	77.3
Guinea	South Africa, Côte d'Ivoire, Morocco, Algeria, Mali	82.2
Guinea Bissau	Mali, Gambia, Senegal, Côte d'Ivoire, Tunisia	98.4
Kenya	Uganda, United Rep. of Tanzania, Egypt, Dem.Rep.Congo, Rwanda	76.8
Lesotho	South Africa, Madagascar, Mauritius	100.0
Liberia	Côte d'Ivoire, Egypt, Ghana, United Rep. of Tanzania, South Africa	98.8
Libya	Tunisia, Egypt, Morocco, Ethiopia, Algeria	99.5
Madagascar	South Africa, Mauritius, Morocco, Comoros, Seychelles	85.3
Malawi	Zimbabwe, South Africa, Egypt, Kenya, Zambia	78.1
Mali	South Africa, Senegal, Burkina Faso, Côte d'Ivoire, Morocco	95.5
Mauritania	Côte d'Ivoire, Cameroon, Nigeria, Liberia, Ghana	88.7

Table 6 (contd.)

Country	Five main export destinations in order of importance	Share in total exports
Mauritius	South Africa, Madagascar,Seychelles, Kenya, Rwanda	91.8
Morocco	Algeria, Tunisia, Senegal, Mauritania, Egypt	44.6
Mozambique	South Africa, Zimbabwe,Malawi, Mauritius, Botswana	95.7
Namibia	South Africa, Angola, Dem.Rep. of the Congo, Botswana, Congo	91.9
Niger	Nigeria, Ghana, Côte d'Ivoire, Mali, Cameroon	95.7
Nigeria	South Africa, Côte d'Ivoire, Ghana, Cameroon, Senegal	94.5
Rwanda	Kenya, Dem.Rep.Congo, Swaziland, Uganda, Burundi	97.8
Sao Tome and Principe	Nigeria, Kenya, Cameroon, South Africa, Zimbabwe	95.1
Senegal	Mali, Guinea, Gambia,Côte d'Ivoire, Guinea-Bissau	70.4
Seychelles	Madagascar, Uganda, Mauritius, Zimbabwe, Zambia	95.4
Sierra Leone	South Africa, Nigeria, Côte d'Ivoire, Algeria, Kenya	75.6
Somalia	Egypt, South Africa, Ethiopia, Algeria, Mauritius	100.0
South Africa	Zimbabwe, Zambia, Mozambique, Dem.Rep.Congo, Angola	62.0
Sudan	Ethiopia, Egypt, Tunisia, Djibouti, Libya	97.1
Swaziland	United Rep. of Tanzania, Mozambique, Malawi, Mauritania, Mauritius	86.7
Togo	Burkina Faso, Benin, Ghana, Niger, Nigeria	78.8
Tunisia	Libya, Algeria, Morocco, Ethiopia, Egypt	86.3
Uganda	Kenya, Rwanda, Dem.Rep. of the Congo, Sudan, Burundi	87.1
Utd. Rep. of Tanzania	South Africa, Kenya, Dem.Rep.of the Congo, Rwanda, Malawi	67.7
Zambia	South Africa, Dem.Rep. of the Congo, Egypt, Zimbabwe, Malawi	87.6
Zimbabwe	South Africa, Dem.Rep. of the Congo, Botswana, Zambia, Malawi	91.8
Africa	South Africa, Côte d'Ivoire, Ghana, Zimbabwe, Dem.Rep. of the Congo	39.4

Source: UNCTADstat database.

Twenty-six countries counted South Africa and 13 countries counted Nigeria among their five main export destinations. In addition, 12 countries counted Egypt and 6 countries counted Algeria among their five main export destinations. On account of their sheer economic and population sizes, in 2011 Algeria, Egypt, Nigeria and South Africa accounted for 67 per cent of total African GDP and it is not surprising therefore to note that they also constituted important export outlets in their respective regions. In addition, the analysis from table 7 shows that in the period from 2007 to 2011, 63.8 per cent of intra-African imports were absorbed by these four economies along with Côte d'Ivoire. South Africa counted among

the top five import destinations for 47 out of 52 countries. Only Burundi, Guinea-Bissau, the Niger, the Sudan and Tunisia did not count South Africa as a major import partner. This indicates the critical role that Algeria, Egypt, Nigeria and South Africa could play in strengthening intraregional trade in Africa, due to their economic might.

At a country level, intra-African exports and imports tend to be highly concentrated on a few destinations. For instance, the top five export destinations listed in table 6 for each country accounted for more than 60 per cent of the total exports to Africa of that country, with the exception of Morocco. On the import side, the top five destinations listed in table 7 for each country accounted for more than 75 per cent of the total imports of that country from Africa, with the exception of the Congo.

Regarding the proportion of intra-African trade to gross domestic product (GDP), only three countries, Lesotho, Swaziland and Zimbabwe, had a ratio of African trade to GDP of more than 50 per cent, reflecting the overall extraregional orientation of the continent in trade and the bias of production and export structures towards satisfying extraregional demand. Ten countries, namely, Algeria, Angola, Cape Verde, Central African Republic, Egypt, Ethiopia, Liberia, Libya, Morocco and the Sudan had an African trade to GDP ratio of less than 5 per cent and 37 countries had a ratio of less than 15 per cent (see table 8). Countries that have experienced a notable increase in their share of intraregional trade to GDP (a rise of at least 5 per cent between 1996–2000 and 2007–2011) include: Burundi, Côte d'Ivoire, Democratic Republic of the Congo, Mali, Mozambique, Rwanda, Sao Tome and Principe, Sierra Leone, United Republic of Tanzania, Zambia and Zimbabwe. On the other hand, countries that have experienced a decrease of a similar magnitude include Angola, Botswana, Lesotho, Namibia, South Africa and Swaziland.

There are unexploited opportunities for intra-African trade in many product categories.

Over the period from 2007 to 2011, Africa traded only 14.9 per cent of its world trade in primary commodities and 17.7 per cent of its world trade in fuels within Africa. Many African countries which need to import primary commodities and fuels are doing so by sourcing outside the region rather than within it. It has been reported for example that, due to a lack of refineries and capacity constraints at home, some African countries such as Nigeria export crude oil and then import refined oil. Infrastructure bottlenecks and lack of investment in domestic refinery

Table 7. Intra-African imports, five main destinations by country, 2011

Country	Five main import destinations in order of importance	Share in total imports
Algeria	Egypt, Tunisia, South Africa, Morocco, Côte d'Ivoire	94.5
Angola	South Africa, Ghana, Côte d'Ivoire, Egypt, United Rep. of Tanzania	97.9
Benin	Togo, Côte d'Ivoire, Ghana,Nigeria, South Africa	79.0
Botswana	South Africa, Zimbabwe, Namibia, Zambia, Mozambique	99.5
Burkina Faso	Côte d'Ivoire, Ghana, Togo, Senegal, South Africa	83.5
Burundi	Uganda, Kenya, Zambia,United Rep. of Tanzania, Egypt	91.9
Cameroon	Nigeria, Equatorial Guinea, South Africa, Mauritania, Côte d'Ivoire	87.9
Cape Verde	Senegal, Morocco, Benin, Egypt, South Africa	84.0
Central African Rep.	Cameroon, Chad, Dem. Rep. of the Congo,South Africa, Gabon	81.2
Chad	Cameroon, Nigeria, Gabon, Senegal, South Africa	88.4
Comoros	South Africa, Kenya,Mauritius, Madgascar, United Rep. of Tanzania	94.0
Congo	Angola, Gabon, South Africa, Namibia, Côte d'Ivoire	58.0
Côte d'Ivoire	Nigeria,Mauritania, South Africa, Senegal, Morocco	88.9
Dem. Rep. of the Congo.	South Africa, United Rep. of Tanzania, Côte d'Ivoire, Rwanda, Botswana	97.8
Djibouti	Ethiopia, Egypt, South Africa, Kenya, Morocco	97.0
Egypt	Algeria, Zambia, Kenya, South Africa, Tunisia	82.3
Equatorial Guinea	Côte d'Ivoire, Senegal, South Africa, Ghana, Togo	98.8
Eritrea	Egypt, South Africa, Kenya, Tunisia, United Rep. of Tanzania	99.7
Ethiopia	Sudan, South Africa, Egypt, Kenya, Morocco	90.9
Gabon	Cameroon, South Africa, Congo, Morocco, Tunisia	80.0
Gambia	Senegal,Côte d'Ivoire, Morocco, South Africa, Egypt	90.0
Ghana	Nigeria, South Africa, Côte d'Ivoire, Morocco, Cameroon	87.4
Guinea	Côte d'Ivoire, Senegal, South Africa, Morocco, Gabon	83.4
Guinea Bissau	Senegal, Morocco, Egypt,Côte d'Ivoire, Gambia	95.7
Kenya	South Africa, Egypt, Uganda, United Rep. of Tanzania, Rwanda	89.0
Lesotho	South Africa, Zimbabwe, Swaziland, Mauritius, Zambia	99.9
Liberia	Côte d'Ivoire, Algeria, Ghana, Mauritania, South Africa	95.6
Libya	Tunisia, Egypt, Morocco, South Africa, Algeria	99.6
Madagascar	South Africa, Mauritius, Swaziland, Kenya, Seychelles	93.2
Malawi	South Africa, Zambia, United Rep. of Tanzania, Kenya, Mozambique	90.3
Mali	Senegal, Côte d'Ivoire, South Africa, Benin, Togo	89.4
Mauritania	Morocco, South Africa, Senegal, Tunisia, Swaziland	92.0
Mauritius	South Africa, Kenya, Egypt, Zambia,Mozambique	84.9

Table 7 (contd.)

Country	Five main import destinations in order of importance	Share in total imports
Morocco	Algeria, Egypt, Tunisia, Nigeria, South Africa	90.7
Mozambique	South Africa, United Rep. of Tanzania, Swaziland, Namibia, Tunisia	97.4
Namibia	South Africa, Botswana, Utd. Rep. of Tanzania, Egypt, Mozambique	99.1
Niger	Nigeria, Togo, Côte d'Ivoire, Benin, Burkina Faso	77.7
Nigeria	South Africa, Côte d'Ivoire, Algeria, Botswana, Egypt	70.7
Rwanda	Kenya, Uganda, United Rep. of Tanzania, South Africa, Dem. Rep. of the Congo	92.8
Sao Tome & Principe	Gabon, Cameroon, South Africa, Côte d'Ivoire, Algeria	99.3
Senegal	Nigeria, Côte d'Ivoire, South Africa, Morocco, Tunisia	88.4
Seychelles	South Africa, Mauritius, Kenya, Swaziland, Madagascar	98.9
Sierra Leone	Côte d'Ivoire, Senegal, Egypt, Nigeria, South Africa	97.2
Somalia	Ethiopia, Egypt, South Africa, United Rep. of Tanzania, Togo	100.0
South Africa	Nigeria, Angola, Mozambique, Zimbabwe, Zambia	85.4
Sudan	Egypt, Kenya, Djibouti, Uganda, Swaziland	95.2
Swaziland	U.R. Tanzania, Malawi, South Africa, Botswana, Mozambique	90.9
Togo	Ghana,Côte d'Ivoire, South Africa, Senegal, Morocco	96.2
Tunisia	Libya, Algeria, Egypt, Morocco, Côte d'Ivoire	97.3
Uganda	Kenya, South Africa, United Rep. of Tanzania, Egypt, Swaziland	96.1
Utd. Rep. of Tanzania	South Africa, Kenya, Swaziland, Zambia, Egypt	92.9
Zambia	South Africa, Dem. Rep. of the Congo, Kenya, Zimbabwe, United Rep. of Tanzania	97.3
Zimbabwe	South Africa, Botswana, Zambia, Malawi, Mozambique	95.6
Africa	South Africa, Nigeria, Côte d'Ivoire, Egypt, Algeria	63.8

Source: UNCTADstat database.

facilities could be hampering intra-trade opportunities in Africa when it comes to the fuels sector. In fact, on average only 24.4 per cent of total African imports of primary commodities and fuels came from African countries in the period from 2007 to 2011.

In that same period, intra-African trade in manufactured goods as a percentage of African world trade in manufactured goods ranged from 15.7 per cent in labour-intensive and resource-based manufacturing to 21.4 per cent in manufacturing with low skill and technology intensity. These numbers are much lower than those

Table 8. Intraregional trade as a percentage of GDP

Country	1996–2000	2001–2006	2007–2011	Country	1996–2000	2001–2006	2007–2011
Algeria	0.8	1.4	2.0	Libya	2.8	3.0	2.4
Angola	15.3	7.3	4.7	Madagascar	3.6	5.0	5.2
Benin	8.7	9.8	11.4	Malawi	26.0	27.4	30.6
Botswana	59.3	30.4	39.5	Mali	19.6	18.7	25.4
Burkina Faso	9.7	12.1	11.9	Mauritania	8.1	8.7	12.5
Burundi	4.1	8.3	10.0	Mauritius	10.3	10.0	8.6
Cameroon	4.7	6.1	9.4	Morocco	2.3	2.3	3.5
Cape Verde	1.8	2.2	1.4	Mozambique	15.4	22.5	23.0
Central African Republic	3.8	3.2	4.3	Namibia	54.2	39.0	26.7
Chad	7.6	6.0	5.5	Niger	11.1	10.2	15.2
Comoros	5.4	6.1	7.9	Nigeria	4.6	4.1	5.0
Congo	5.4	5.5	6.6	Rwanda	5.5	7.3	13.4
Côte d'Ivoire	14.7	19.8	24.0	Sao Tome and Principe	5.4	8.2	12.1
Dem. Rep. of the Congo	7.0	14.3	23.5	Senegal	10.0	13.5	14.8
Djibouti	6.4	8.1	6.0	Seychelles	10.6	10.9	13.8
Egypt	0.6	1.3	2.5	Sierra Leone	1.6	10.4	17.0
Equatorial Guinea	13.7	4.2	10.9	Somalia	-	-	-
Eritrea	3.9	4.6	6.3	South Africa	14.1	4.6	6.0
Ethiopia	1.7	3.0	2.9	Sudan	2.2	1.9	1.9
Gabon	3.2	4.6	5.5	Swaziland	102.4	100.6	63.0
Gambia	3.9	6.8	8.0	Togo	16.9	27.9	21.4
Ghana	10.5	14.2	10.9	Tunisia	4.0	5.1	8.2
Guinea	4.2	5.6	5.0	Uganda	10.4	11.6	15.0
Guinea-Bissau	5.3	7.5	7.3	United Rep. of Tanzania	5.0	7.0	10.2
Kenya	8.0	9.9	11.6	Zambia	22.2	31.7	31.9
Lesotho	105.8	63.6	75.2	Zimbabwe	27.7	36.8	58.7
Liberia	3.0	1.6	3.0	Average across Africa	13.9	13.4	14.8

Source: UNCTADstat database.
Note: Excludes Sao Tome and Principe for period 1996 to 1999, Djibouti and Libya for 2010 and 2011. The average for Africa is the simple arithmetic average across all African countries and does not reflect the ratio of total African trade to total African GDP.

of developing Asia and slightly lower than those of developing America, perhaps reflecting the lower scope for intra-industry trade in manufacturing in Africa in the absence of regional value chains, a lack of economic diversification, a narrow African manufacturing base and the absence of large companies with subsidiaries trading in various parts of the region. The issue of low intra-industry trade in Africa is further discussed below.

Of the 9 Standard International Trade Classification (SITC) categories,[7] at least 25 per cent of African world trade was traded regionally in only 1 product category, namely category 5 (chemicals and related products), with the top four traded subproducts consisting of fertilizers; soaps, cleansing and polishing preparations; perfumery, cosmetics or toiletry preparations; and medicaments. This stands in sharp contrast again to areas such as developing Asia where at least 40 per cent of its world trade in all nine SITC product categories was within the region and the developing Americas where at least 25 per cent of world trade was within the region in 6 product categories out of 9. These statistics demonstrate that significant intra-trade opportunities in Africa remain unexploited in many product categories. This may be ascribed to several factors: there is for instance a mismatch between what Africa produces on the supply side and what Africa consumes on the demand side, but there are also bottlenecks in intra-African trade caused by a lack of infrastructure and transport facilities and a continued dependence on traditional trade partners.

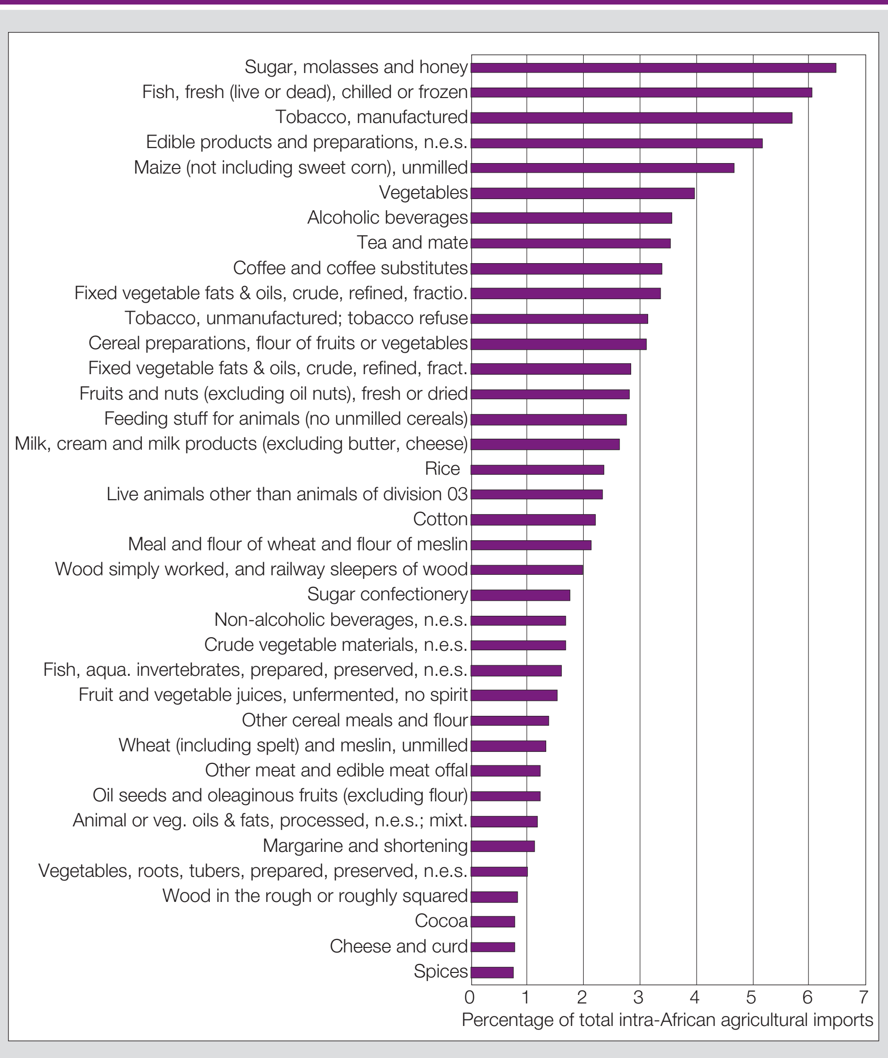
When intra-trade shares by product category at the level of African regional economic communities are analysed, only EAC had more than 25 per cent of its world trade within its own bloc, in five product categories out of nine in the period from 2007 to 2011. This was followed by ECCAS and ECOWAS, which both traded more than 25 per cent of their world trade within their blocs in three product categories; then by COMESA and SADC in only two categories; CEN-SAD and IGAD in one category and AMU in none. For comparison purposes, ASEAN traded more than 25 per cent of its world trade internally in five product categories. A more mature regional group such as the European Union had more than 60 per cent of its world trade within its own bloc in seven out of nine product categories. These figures show that there is room for African enterprises to position themselves increasingly as suppliers of goods in various product categories in Africa, as long as the right policies are put in place to foster competitiveness among African firms, accompanied by productive capacity policies, such as national and regional industrial policies that can promote both inter-industry and intra-industry trade in the long run.

This issue of unexploited opportunities in intra-African trade is particularly evident in the area of agriculture. Africa is the continent which has the greatest percentage of unused arable land; it is estimated that about 50 to 60 per cent of the world's unused arable land is in sub-Saharan Africa. However only 16.9 per cent of African world trade in food and live animals (SITC 0) and only 14.8 per cent of African agricultural imports took place within the continent in the period from 2007 to 2011, denoting that both agriculture and intra-African trade in agriculture remain significantly underdeveloped. In the period from 2007 to 2011, intra-African agricultural imports amounted on average to $10 billion and the top ten intra-African agricultural imports, representing 46 per cent of the total, consisted of the following subproducts: sugar, molasses and honey, fish (fresh, chilled or frozen), tobacco, edible products and preparations, unmilled maize, vegetables, alcoholic beverages, tea and mate, coffee and coffee substitutes and fixed vegetable fats and oils (see figure 2).

When intra-African trade is analysed at a three-digit product level by country (see table 9), only 25 African countries counted an agricultural or agriculture-related product among their top two exports to Africa in the period from 2007 to 2011. If the analysis is extended to cover the top five exports of each country to the rest of Africa, it is noted that intra-agricultural exports take place within a narrow range of only 34 products, of which some are covered by very few countries. For example, based on that analysis, only Benin and Botswana export meat to the continent. Burkina Faso, Djibouti, Ethiopia, Mali, the Niger, Rwanda and the Sudan are the only countries to count live animals among their top five exports to the rest of the region. By the same measure, rice is exported only by Benin and Cape Verde; maize only by Malawi and vegetables only by Eritrea, Ethiopia, the Niger and Somalia.

Table 10 depicts the average net trade balance of each African country over the period from 2007 to 2011 in agricultural raw materials and all food items. Thirty-one African countries are net exporters of agricultural raw materials to the world while 37 countries are net importers of food items from the world. All countries that were net food importers from (or net food exporters to) the world were also net food importers from (or net food exporters to) Africa except for Benin, Djibouti, Egypt, Mauritania, Morocco, the Niger, Senegal and Tunisia, which had net exports to Africa but imported from the world, and Ghana, Guinea-Bissau, Madagascar and Swaziland which had net imports from Africa but exported to the world. In aggregate, however, Africa imported only 15 per cent of its food items from the rest of Africa in 2007–2011. Among net food importers, only Botswana, Lesotho and

Figure 2. Top 37 Intra-African agricultural imports, 2007–2011



Source: UNCTADstat database.
Note: n.e.s = not elsewhere specified.

Table 9. Main African exports to Africa and to the rest of the world by three-digit SITC product category, 2007–2011 (period averages)

Country	Top 2 exports to Africa	Shares
Algeria	Liquefied propane and butane; Natural gas, whether or not liquefied;	83.3
Angola	Petroleum oils, oils from bitumin. materials, crude;Ships, boats & floating structures	94.6
Benin	Petroleum oils or bituminous minerals > 70 % oil; Other meat and edible meat offal	41.2
Botswana	Nickel ores & concentrates; nickel mattes, etc.; Pearls, precious & semi-precious stones	27.3
Burkina Faso	Gold, non-monetary (excluding gold ores and concentrates), Live animals other than animals of division 03	22.3
Burundi	Coffee and coffee substitutes; Tea and mate	26.1
Cameroon	Petroleum oils or bituminous minerals > 70 % oil; Ships, boats & floating structures	42.2
Cape Verde	Petroleum oils or bituminous minerals > 70 % oil; Ships, boats & floating structures	62.9
Central African Rep.	Wood simply worked, and railway sleepers of wood; Sugar, molasses and honey	50.8
Chad	Special yarn, special textile fabrics & related; Cotton	43.3
Comoros	Spices; Lime, cement, fabrica. constr. mat. (excludingglass, clay)	34.0
Congo	Ships, boats & floating structures; Petroleum oils, oils from bitumin. materials, crude	68.5
Côte d'Ivoire	Petroleum oils or bituminous minerals > 70 % oil; Residual petroleum products, n.e.s.,	45.6
Dem. Rep. of the Congo	Copper ores and concentrates; copper mattes, cement; Copper	66.5
Djibouti	Live animals other than animals of division 03; Milk, cream and milk products (excluding butter, cheese)	48.9
Egypt	Gold, non-monetary (excluding gold ores and concentrates); Petroleum oils or bituminous minerals > 70 % oil	14.0
Equatorial Guinea	Petroleum oils, oils from bitumin. materials, crude; Liquefied propane and butane	78.8
Eritrea	Prefabricated buildings; Oil seeds & oleaginous fruits (incl. flour, n.e.s.)	33.1
Ethiopia	Vegetables; Live animals other than animals of division 03	67.1
Gabon	Ships, boats & floating structures; Petroleum oils or bituminous minerals > 70 % oil	50.8
Gambia	Fabrics, woven, of man-made fabrics; Milk, cream and milk products (excluding butter, cheese)	38.8
Ghana	Gold, non-monetary (excluding gold ores and concentrates); Liquefied propane and butane	35.4
Guinea	Fish, fresh (live or dead), chilled or frozen; Coffee and coffee substitutes	52.1
Guinea-Bissau	Fish, fresh (live or dead), chilled or frozen; Household equipment of base metal, n.e.s.	22.9
Kenya	Tea and mate; Petroleum oils or bituminous minerals > 70 % oil	17.2
Lesotho	Television receivers, whether or not combined; Footwear	25.8
Liberia	Petroleum oils or bituminous minerals > 70 % oil; Natural rubber & similar gums, in primary forms	52.3

Table 9 (contd.)

Country	Top 2 exports to Africa	Shares
Libya	Petroleum oils, oils from bitumin. materials, crude; Petroleum oils or bituminous minerals > 70 % oil	58.3
Madagascar	Petroleum oils or bituminous minerals > 70 % oil; Articles of apparel, of textile fabrics, n.e.s.	18.0
Malawi	Tobacco, unmanufactured; tobacco refuse; Maize (not including sweet corn), unmilled	31.1
Mali	Gold, non-monetary (excluding gold ores and concentrates); Live animals other than animals of division 03	86.1
Mauritania	Fish, fresh (live or dead), chilled or frozen; Gold, non-monetary (excluding gold ores and concentrates)	81.3
Mauritius	Articles of apparel, of textile fabrics, n.e.s.; Men's clothing of textile fabrics, not knitted	19.7
Morocco	Fish, aqua. invertebrates, prepared, preserved, n.e.s.; Fertilizers (other than those of group 272)	19.2
Mozambique	Electric current; Petroleum oils or bituminous minerals > 70 % oil	50.0
Namibia	Printed matter; Fish, fresh (live or dead), chilled or frozen	28.3
Niger	Live animals other than animals of division 03; Vegetables	81.1
Nigeria	Petroleum oils, oils from bitumin. materials, crude; Ships, boats & floating structures	88.5
Rwanda	Tea and mate; Live animals other than animals of division 03	39.4
Sao Tome and Principe	Petroleum oils or bituminous minerals > 70 % oil; Tubes, pipes & hollow profiles, fittings, iron, steel	44.8
Senegal	Petroleum oils or bituminous minerals > 70 % oil; Lime, cement, fabrica. constr. mat. (excludingglass, clay)	41.9
Seychelles	Fish, fresh (live or dead), chilled or frozen;	75.7
Sierra Leone	Civil ingineering & contractors' plant & equipment; Petroleum oils or bituminous minerals > 70 % oil	24.6
Somalia	Electric power machinery, and parts thereof; Vegetables, roots, tubers, prepared, preserved, n.e.s.	22.3
South Africa	Motor vehic. for transport of goods, special purpo.; Petroleum oils or bituminous minerals > 70 % oil	12.1
Sudan	Petroleum oils or bituminous minerals > 70 % oil; Oil seeds and oleaginous fruits (excluding flour)	60.2
Swaziland	Essential oils, perfume & flavour materials; Miscellaneous chemical products, n.e.s.	43.5
Togo	Lime, cement, fabrica. constr. mat. (excludingglass, clay); Electric current	33.2
Tunisia	Paper & paperboard, cut to shape or size, articles; Lime, cement, fabrica. constr. mat. (excludingglass, clay)	12.1
Uganda	Lime, cement, fabrica. constr. mat. (excludingglass, clay); Tobacco, unmanufactured; tobacco refuse	15.3
United Rep. of Tanzania	Gold, non-monetary (excluding gold ores and concentrates); Fertilizers (other than those of group 272)	15.3
Zambia	Copper; Copper ores and concentrates; copper mattes, cement	39.5
Zimbabwe	Nickel ores & concentrates; nickel mattes, etc.; Coke & semi-cokes of coal, lign., peat; retort carbon	32.1
Africa	Petroleum oils, oils from bitumin. materials, crude; Petroleum oils or bituminous minerals > 70 % oil	29.6

Table 9 (contd.)

Country	Top 2 exports to the rest of the world	Shares
Algeria	Petroleum oils, oils from bitumin. materials, crude; Natural gas, whether or not liquefied	79.8
Angola	Petroleum oils, oils from bitumin. materials, crude; Pearls, precious & semi-precious stones	97.6
Benin	Cotton; Fruits and nuts (excluding oil nuts), fresh or dried	57.3
Botswana	Pearls, precious & semi-precious stones; Nickel ores & concentrates; nickel mattes, etc.	91.4
Burkina Faso	Cotton; Gold, non-monetary (excluding gold ores and concentrates)	85.4
Burundi	Coffee and coffee substitutes; Gold, non-monetary (excluding gold ores and concentrates)	76.4
Cameroon	Petroleum oils, oils from bitumin. materials, crude; Cocoa	60.3
Cape Verde	Fish, fresh (live or dead), chilled or frozen; Fish, aqua. invertebrates, prepared, preserved, n.e.s.	55.9
Central African Republic	Wood in the rough or roughly squared; Pearls, precious & semi-precious stones	62.5
Chad	Petroleum oils, oils from bitumin. materials, crude; Petroleum oils or bituminous minerals > 70 % oil	95.7
Comoros	Ships, boats & floating structures; Spices	74.1
Congo	Petroleum oils, oils from bitumin. materials, crude; Ships, boats & floating structures	85.7
Côte d'Ivoire	Cocoa; Petroleum oils, oils from bitumin. materials, crude	63.6
Dem. Rep. of the Congo	Copper; Ores and concentrates of base metals, n.e.s.	46.9
Djibouti	Live animals other than animals of division 03; Gold, non-monetary (excluding gold ores and concentrates)	46.7
Egypt	Petroleum oils or bituminous minerals > 70 % oil; Natural gas, whether or not liquefied	26.8
Equatorial Guinea	Petroleum oils, oils from bitumin. materials, crude; Natural gas, whether or not liquefied	93.3
Eritrea	Gold, non-monetary (excluding gold ores and concentrates); Silver, platinum, other metals of the platinum group	88.0
Ethiopia	Coffee and coffee substitutes; Oil seeds and oleaginous fruits (excluding flour)	54.5
Gabon	Petroleum oils, oils from bitumin. materials, crude; Ores and concentrates of base metals, n.e.s.;	85.5
Gambia	Fruits and nuts (excluding oil nuts), fresh or dried; Ores and concentrates of base metals, n.e.s.	45.2
Ghana	Cocoa; Petroleum oils, oils from bitumin. materials, crude	69.1
Guinea	Aluminium ores and concentrates (incl. alumina); Natural gas, whether or not liquefied	66.1
Guinea-Bissau	Fruits and nuts (excluding oil nuts), fresh or dried; Petroleum oils, oils from bitumin. materials, crude	96.8
Kenya	Tea and mate; Crude vegetable materials, n.e.s.	44.0
Lesotho	Pearls, precious & semi-precious stones;Articles of apparel, of textile fabrics, n.e.s.	50.8
Liberia	Ships, boats & floating structures; Natural rubber & similar gums, in primary forms	72.2

Table 9 (contd.)

Country	Top 2 exports to the rest of the world	Shares
Libya	Petroleum oils, oils from bitumin. materials, crude; Petroleum oils or bituminous minerals > 70 % oil	90.7
Madagascar	Articles of apparel, of textile fabrics, n.e.s.; Spices	26.7
Malawi	Tobacco, unmanufactured; tobacco refuse; Sugar, molasses and honey	75.3
Mali	Cotton; Gold, non-monetary (excluding gold ores and concentrates)	74.2
Mauritania	Iron ore and concentrates; Copper ores and concentrates; copper mattes, cement	65.2
Mauritius	Articles of apparel, of textile fabrics, n.e.s.; Sugar, molasses and honey	33.2
Morocco	Motor vehicles for the transport of persons; Fish, fresh (live or dead), chilled or frozen	19.2
Mozambique	Aluminium; Tobacco, unmanufactured; tobacco refuse	66.4
Namibia	Pearls, precious & semi-precious stones; Fish, fresh (live or dead), chilled or frozen	35.3
Niger	Radio-actives and associated materials; Ores and concentrates of uranium or thorium	68.0
Nigeria	Petroleum oils, oils from bitumin. materials, crude; Natural gas, whether or not liquefied	88.9
Rwanda	Ores and concentrates of base metals, n.e.s.; Coffee and coffee substitutes	80.2
Sao Tome and Principe	Cocoa; Lime, cement, fabrica. constr. mat. (excludingglass, clay)	69.2
Senegal	Petroleum oils or bituminous minerals > 70 % oil; Inorganic chemical elements, oxides & halogen salts	39.5
Seychelles	Fish, aqua. invertebrates, prepared, preserved, n.e.s.; Fish, fresh (live or dead), chilled or frozen	69.0
Sierra Leone	Pearls, precious & semi-precious stones; Aluminium ores and concentrates (incl. alumina)	38.9
Somalia	Live animals other than animals of division 03; Gold, non-monetary (excluding gold ores and concentrates)	60.2
South Africa	Silver, platinum, other metals of the platinum group; Coal, whether or not pulverized, not agglomerated	22.3
Sudan	Petroleum oils, oils from bitumin. materials, crude; Petroleum oils or bituminous minerals > 70 % oil	87.4
Swaziland	Sugar, molasses and honey; Pulp and waste paper	30.0
Togo	Cocoa; Cotton	50.2
Tunisia	Petroleum oils, oils from bitumin. materials, crude; Articles of apparel, of textile fabrics, n.e.s.	26.1
Uganda	Coffee and coffee substitutes; Fish, fresh (live or dead), chilled or frozen	48.1
United Rep. of Tanzania	Ores & concentrates of precious metals; waste, scrap; Gold, non-monetary (excluding gold ores and concentrates)	29.5
Zambia	Copper; Copper ores and concentrates; copper mattes, cement	84.3
Zimbabwe	Tobacco, unmanufactured; tobacco refuse; Pig iron & spiegeleisen, sponge iron, powder & granu	41.3
Africa	Petroleum oils, oils from bitumin. materials, crude; Natural gas, whether or not liquefied	54.4

Source: UNCTADstat database.
Note: The third column shows shares of the top two products in exports to Africa and exports to the rest of the world respectively.

Table 10. Net trade balance of African countries in agriculture, 2007–2011 (thousands of dollars)

Country	Net trade balance		Country	Net trade balance	
	Agricultural raw materials	All food items		Agricultural raw materials	All food items
Algeria	-641 117	-7 355 609	Libya	-44 665	-1 327 343
Angola	-129 907	-3 235 044	Madagascar	28 647	8 800
Benin	324 401	-125 845	Malawi	26 472	593 510
Bostwana	-48 824	-490 316	Mali	428 563	-268 879
Burkina Faso	480 519	-158 972	Mauritania	-9 202	-39 226
Burundi	-5 021	-17 585	Mauritius	-94 761	-234 912
Cameroon	599 217	-135 232	Morocco	-594 652	-913 481
Cape Verde	-5 778	-177 847	Mozambique	69 829	-135 997
Central African Rep.	69 086	-54 649	Namibia	-19 482	378 237
Chad	99 624	-307 870	Niger	-32 210	-105 818
Comoros	-1 760	-65 028	Nigeria	223 610	-4 162 785
Congo	185 811	-468 317	Rwanda	-21 911	-104 188
Côte d'Ivoire	849 804	2 951 891	Sao Tome & Principe	-763	-29 387
Dem.Rep.of the Congo	129 014	-845 587	Senegal	-39 880	-585 056
Djibouti	-6 208	-67 475	Seychelles	-15 261	164 444
Egypt	-990 789	-5 812 720	Sierra Leone	-52 272	-138 650
Equatorial Guinea	81 766	-413 097	Somalia	29 063	-410 681
Eritrea	-4 740	-199 583	South Africa	859 587	1 693 937
Ethiopia	152 410	404 907	Sudan	87 289	-799 737
Gabon	840 508	-410 644	Swaziland	90 964	187 999
Gambia	1 138	-81 748	Togo	74 966	12 248
Ghana	267 320	2 324 285	Tunisia	-371 349	-578 464
Guinea	25 765	-187 632	Uganda	128 155	1 009 537
Guinea-Bissau	633	51 801	United Rep. of Tanzania	177 174	392 613
Kenya	509 930	746 656	Zambia	69 970	184 204
Lesotho	-34 441	-371 739	Zimbabwe	293 264	32 267
Liberia	72 024	-7 829			

Source: UNCTADstat database.

Rwanda imported more than 60 per cent of their food items from Africa. On the other hand, Africa exported on average only 21.1 per cent of its food items to the region and among its net food exporters, only Zambia exported more than 50 per cent of its food to Africa.

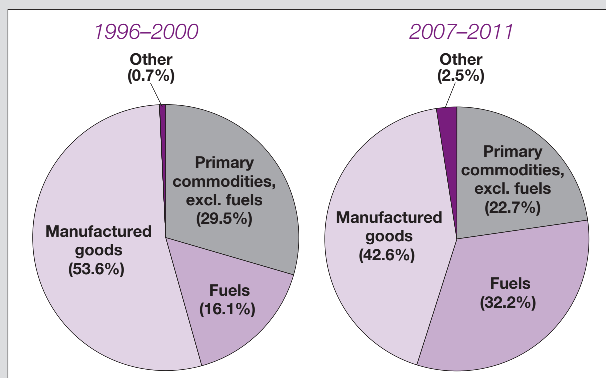
Given the availability of arable land in Africa and the import demand for food, there should be scope for broadening the range of agricultural goods produced and traded within Africa through appropriate agricultural and agro-industrial policies. Countries such as Ghana and South Africa, which run large net trade surpluses on food items with the world, do not currently have agricultural products as their main five exports to Africa. This signals that there exists scope to better meet African food demand from within the region through an upscaling of domestic agricultural production in African countries.

The share of manufacturing in intra-African trade is higher than its share in African extraregional trade. However the importance of manufacturing in intra-African trade has been falling over the last decade.

In Africa, the share of manufactured goods in total intra-African trade averaged 42.6 per cent in the period from 2007 to 2011, compared to 53.6 per cent in the period from 1996 to 2000 (see figure 3). In comparison, the share of manufacturing in intra-trade in developing Asia fell from 71.9 per cent in the period from 1996 to 2000 to 65.2 per cent between 2007 and 2011, while in developing America, the share rose from 55.2 per cent to 56.2 per cent over the same periods. These lower numbers for Africa can be explained by its lower level of manufacturing development as compared to the other two regions (UNCTAD and UNIDO, 2011).

The share of manufactured goods in intra-African trade has always been higher than their share in African extraregional trade since 1996 (see figure 4). As was highlighted in the *Economic Development in Africa Report 2009*, regional integration can serve as a launch pad for manufacturing development in Africa, while the latter can also serve to strengthen intra-African trade. However the share of manufacturing in both intra-African and in extraregional trade has been falling since 1996, signalling a process of deindustrialization resulting from: (a) manufacturing development in Africa being confronted with competitiveness challenges and (b) the boom in commodity prices shifting policy focus and resources into commodity exports.

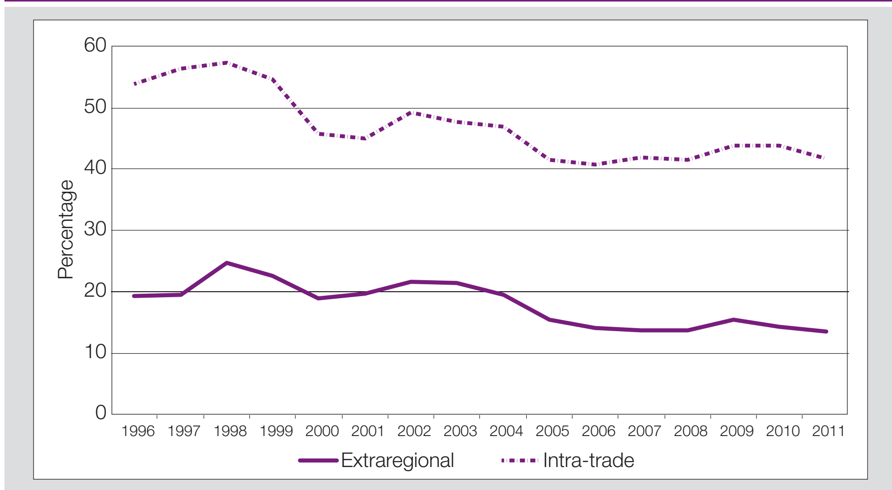
Figure 3. Distribution of intra-African trade by main product category, 1996–2000 and 2007–2011



Source: UNCTADstat database.

In the period from 2007 to 2011, the share of manufacturing in trade between regional economic communities was highest in EAC (58.3 per cent), followed by SADC (51.4 per cent), COMESA (44.8 per cent), IGAD (39.1 per cent), AMU (35.2 per cent), CEN-SAD (34.3 per cent) and ECOWAS (25.7 per cent). These variations in numbers can again be associated with the differing levels of manufacturing development of the member countries of the regional blocs. For instance, as at 2008 Western Africa was the least industrialized region in Africa in terms of the ratio of manufacturing to GDP while Southern, Northern and Eastern Africa had more significant manufacturing sectors accounting for a higher percentage of their GDP (UNCTAD and UNIDO 2011). Over the periods 1996–2000 to 2007–2011, the share of manufacturing in intra-bloc trade fell in all regional economic communities except CEN-SAD, EAC and ECCAS. ECCAS made commendable gains in the share of manufacturing of low skill and low technology intensity in its intra-bloc exports, as the latter rose from 4.8 per cent in the period from 1996 to 2000 to 39.1 per cent in the period from 2007 to 2011. This is because ECCAS members such as Chad, Equatorial Guinea and Gabon increased their regional export intensities in manufactured goods over that period, i.e., the share of manufactured goods in their African exports rose relative to the share of manufactured goods in their world exports.

Figure 4. Share of manufactured goods in intra-African trade and extraregional trade, 1996–2011



Source: UNCTADstat database.

Intra-industry trade is low in Africa and inhibits the expansion of intra-African trade.

A recent study by Ofa, Spence, Mevel and Karingi (2012) estimates that intra-industry trade, that is the simultaneous exportation and importation of products in the same industry, in Africa is low at around 10 per cent of total trade for the average country in the sample. For 32 countries in their sample of 50, intra-industry trade was actually below average. Only 7 countries, namely Côte d'Ivoire, Egypt, Equatorial Guinea, Mauritius, Mozambique, Senegal, Tunisia and Uganda scored above 20 per cent on their index of intra-industry trade. Excluding the importing and re-exporting of petroleum products, only 4 countries (Egypt, Mauritius, Tunisia and Uganda) had relatively higher levels of intra-industry trade. The study also finds evidence of a positive association between export diversification and intra-industry trade in Africa.

Intra-industry trade can involve the trading of goods at the same stage of processing within a given industry (horizontal differentiation) or goods at different stages of processing within an industry (vertical differentiation). Intra-industry trade can be associated with the level of manufacturing development of trading partners and the existence of intra-firm trade within fragmented production networks (Gouranga, 2003; van Marrewijk, 2008). Intra-industry trade matters for intraregional trade. For instance, trade in intermediates accounted for most of the strong rise

in intraregional trade among emerging economies in Asia at the start of the last decade, which in turn led to a sharp rise in the Asian share of world trade (Zebregs, 2004). The participation of these emerging economies in Asia in vertically integrated regional manufacturing production networks led to an increase in intra-industry (namely intra-manufacturing) trade across countries and a rise in intraregional trade. China performs a vitally important role in Asian regional manufacturing value chains as a demander of subcomponents from other countries and in linking Asian regional value chains to global supply chains. That type of spatial development in Africa, where some countries act as development engines for the rest of the region and use their expansion into global value chains to create a demand for intermediate products from other African countries and drive up intraregional trade, has yet to emerge in Africa. Understanding the constraints to intra-industry trade in Africa is relevant for assessing the factors that could potentially provide a boost to it. Low levels of intra-industry trade in Africa inhibit the expansion of intra-African trade and of the African share of world trade.

Intra-African investment is rising in some countries but unexploited opportunities remain to be reaped.

Data on intra-African investment are scarce. There is however evidence to suggest that investment flows within the region have risen over the last decade, but that significant intra-investment opportunities remain to be exploited. One study of all foreign direct investment (FDI) projects by value in Africa from 2003 to 2010 indicates that only 5 per cent of that total value or $46 billion originated from intra-African FDI (Africa Investor, 2012). In contrast, the share of intra-ASEAN FDI inflows in total FDI inflows to ASEAN averaged 16.7 per cent from 2008 to 2010 (ESCAP, 2012).

Table 11 provides estimates from UNCTAD on intraregional FDI inflows and inward FDI stock for selected African countries. Countries such as Madagascar and Kenya received between 6 and 11 per cent of their FDI flows from other African countries over the period from 2007 to 2010, while southern countries such as Mauritius, Malawi, Mozambique, Namibia, Uganda and the United Republic of Tanzania received between 17 and 80 per cent of their FDI flows from the region, most likely originating from South Africa. Between 2008 and 2010, Botswana, Malawi, Nigeria, Uganda and the United Republic of Tanzania had more than 20 per cent of their total FDI inward stock sourced from the rest of Africa.

Surveys undertaken by private companies, such as the Ernst and Young Africa attractiveness survey, estimated that intra-African FDI in new projects grew between 2003 and 2011 at an annual compound growth rate of 23 per cent and that growth

Table 11. Intraregional foreign direct investment in Africa (various years)

Country	Period average/ year	Source region ($ million)		Share of Africa in world (%)
		Africa	World	
FDI inflows				
Algeria	2000–2001	183.5	831.8	22.1
Cape Verde	2004–2006	0.2	84.7	0.2
Egypt	2008–2010	121.2	11 139.5	1.1
Ethiopia	1992–1994	0.1	7.0	1.6
	2002–2004	37.3	421.7	8.8
Kenya	2007–2008	65.2	622.7	10.5
Madagascar	2008–2010	67.7	1 094.3	6.2
Malawi	2008–2010	31.6	74.8	42.3
Mauritius	1994–1996	0.9	25.1	3.8
	2009–2011	62.2	352.5	17.6
Morocco	1996–1998	20.3	664.7	3.1
	2008–2010	55.2	3 636.0	1.5
Mozambique	2009–2011	403.4	1 325.0	30.4
Namibia	2006–2008	522.7	653.4	80.0
Nigeria	2008–2010	1 978.5	7 665.7	25.8
Tunisia	1998–2000	8.5	605.3	1.4
	2008–2010	72.3	1 986.2	3.6
Uganda	2008–2010	189.6	701.5	27.0
United Republic of Tanzania	2006–2008	121.6	461.6	26.3
Inward FDI stock				
Botswana	1997	769.7	1 280.2	60.1
	2010	374.5	1 148.9	32.6
Kenya	2008	241.5	2 773.0	8.7
Madagascar	2002	43.0	165.5	26.0
	2010	289.6	4 382.6	6.6
Malawi	2000	103.6	357.7	29.0
	2010	358.3	1 149.8	31.2
Morocco	2010	320.8	45 081.6	0.7
Nigeria	2010	15 570.3	60 326.7	25.8
South Africa	1990	183.8	9 210.4	2.0
	2000	301.1	43 451.0	0.7
	2010	974.3	153 133.0	0.6
Uganda	2010	1 437.9	5 575.2	25.8
United Republic of Tanzania	2008	2 076.4	6 239.9	33.3
Zambia	2001	143.2	1 084.8	13.2

Source: UNCTAD, FDI/TNC database.

rate has surged to 42 per cent since 2007. The number of new intra-African FDI projects grew from an estimated 27 to 145, driven mainly by Kenya, Nigeria and South Africa. Supplementary data from UNCTAD (see table 12) indicates that a growing share of intra-African FDI is going to the services sector. This is an encouraging trend for the continent, given that access to services such as finance and transport is likely to be a crucial factor in determining the competitiveness of African enterprises. Between 2003 and 2011, of 673 deals relating to intra-African greenfield investments, only 3.7 per cent took place in the primary sector, compared to 7.3 per cent for the period from 2003 to 2007. In the period from 2003 to 2011, 68.4 per cent of deals covered the services sector compared to 54.5 per cent from 2003 to 2007. However deals related to manufacturing accounted for only 27.9 per cent of all deals from 2003 to 2011, as opposed to 38.2 per cent between 2003 and 2007. Within the services sector, 69.6 per cent of all intra-African greenfield deals were in the finance sector. Data on the number of mergers and acquisitions confirm the preponderance of the services sector and within it finance in intra-African deals. Evidence from UNCTAD shows that South Africa is among the top five investing countries in the region, despite the growing importance of trade and investment coming to Africa from emerging economies such as China. However, there is no other African country besides South Africa among the top 20 investors in Africa (see table 13). While the analysis on intra-African investment remains limited in the absence of reliable data, the low level of intra-African trade suggests that there is scope for significantly raising intra-African investment, especially as growth on the continent continues and more African companies search for high returns and diversification opportunities in the region.

To conclude, the stylized facts presented in this chapter confirm the popular discourse on African trade that highlights Africa as a marginal player in world trade, with low levels of intraregional trade. However, they also demonstrate that both intra-African trade and African trade with the rest of the world have been growing vibrantly, displaying nominal growth rates that are comparable to those in other regions. The empirical analyses also show that significant regional trade opportunities remain to be exploited in multiple sectors, including primary commodities, manufacturing and agriculture. Regarding investment, the evidence suggests that there has been a significant increase in the number of new intra-African FDI projects, driven mainly by Kenya, Nigeria and South Africa. However, most of the new deals relating to intra-African greenfield investments were in the services sector. Furthermore, South Africa remains the only African country in the top 20 investors in Africa, as reported by investing economies.

Table 12. Net cross-border mergers and acquisitions (1990–2011) and greenfield investment projects (2003–2011) in Africa (number of deals by sector/industry of the seller and by investing region)

Sector/industry of the target country	M&As in Africa by ultimate acquiring region, 1990–2011			Greenfield investments in Africa by source region, 2003–2011		
	World	Africa	Africa's share in world (%)	World	Africa	Africa's share in world (%)
Total	1 532	167	10.9	5 145	673	13.1
Primary	349	12	3.4	517	25	4.8
Agriculture, hunting, forestry and fishing	33	3	9.1	2	-	-
Mining, quarrying and petroleum	316	9	2.8	515	25	4.9
Manufacturing	427	25	5.9	2 060	188	9.1
Food, beverages and tobacco	119	-1	-0.8	351	50	14.2
Textiles, clothing and leather	11	3	27.3	173	12	6.9
Wood and wood products	9	4	44.4	32	1	3.1
Publishing and printing	13	2	15.4	3	1	33.3
Coke, petroleum products and nuclear fuel	5	2	40.0	115	9	7.8
Chemicals and chemical products	78	6	7.7	192	19	9.9
Rubber and plastic products	8	-	-	70	1	1.4
Non-metallic mineral products	54	-	-	161	32	19.9
Metals and metal products	36	2	5.6	158	14	8.9
Machinery and equipment	22	-	-	140	5	3.6
Electrical and electronic equipment	28	3	10.7	269	27	10.0
Precision instruments	15	3	20.0	15	-	-
Motor vehicles and other transport equipment	30	1	3.3	343	8	2.3
Other manufacturing	1	-	-	38	9	23.7
Services	756	130	17.2	2 568	460	17.9
Electricity, gas and water	10	2	20.0	128	6	4.7
Construction	3	2	66.7	69	3	4.3
Trade	91	22	24.2	73	11	15.1
Hotels and restaurants	37	7	18.9	198	14	7.1
Transport, storage and communications	149	31	20.8	357	37	10.4
Finance	211	45	21.3	821	320	39.0
Business services	209	20	9.6	786	63	8.0
Public administration and defence	2	-	-	-	-	-
Education	6	-	-	40	2	5.0
Health and social services	12	-	-	29	1	3.4
Community, social and personal service activities	13	1	7.7	36	1	2.8
Other services	13	-	-	31	2	6.5

Source: UNCTAD cross-border mergers and acquisitions database for M&As, and information from the Financial Times Ltd, fDi Markets (www.fDimarkets.com) for greenfield projects.

Table 13. Top 20 investors in Africa as reported by investing economies (percentage shares)

Rank	Region/country of origin	Shares in total inward FDI stock in Africa
	Developed economies	76.2
	Developing economies	23.2
	Southeast Europe and CIS	0.6
1	France	17.9
2	United States	17.5
3	United Kingdom	14.6
4	Malaysia	6.0
5	South Africa	5.7
6	China	4.0
7	Germany	4.0
8	Switzerland	3.9
9	Italy	3.2
10	Singapore	3.0
11	Norway	2.9
12	Japan	2.5
13	Belgium	2.3
14	Hong Kong, China	2.0
15	Canada	1.5
16	Portugal	1.5
17	Sweden	1.2
18	Netherlands	0.9
19	India	0.8
20	Denmark	0.6
	Others	3.8

Source: UNCTAD, FDI/TNC database.

Note: Geographical breakdown of inward FDI in Africa is not available for most African countries. This table is based on outward stock data of Ukraine (2000); The former Yugoslav Republic of Macedonia (2001); Latvia (2004); India (2005); Singapore (2006); Poland (2007); Australia, Brazil and Romania (2008); Canada and the Czech Republic (2009); Bulgaria, China, Croatia, Cyprus, Denmark, Estonia, France, Germany, Greece, Hong Kong (China), Ireland, Israel, Italy, Morocco, Netherlands, Norway, Oman, Pakistan, Portugal, Republic of Korea, Russian Federation, Slovenia, South Africa, Spain, Sweden, Switzerland, Turkey and United Kingdom (2010); Austria, Belgium, Chile, Finland, Hungary, Iceland, Japan, Kazakhstan, Malaysia, New Zealand, Taiwan Province of China, Thailand and United States (2011). Data for India and the Taiwan Province of China are on an approval basis.

2

INTRA-AFRICAN TRADE: DRIVERS, CHALLENGES AND POLICY OPTIONS

A. INTRODUCTION

The empirical facts and analyses of African trade and investment presented in chapter 1 indicate that there has been a significant increase in the growth of intra-African trade over the past two decades but that the level is still very low compared to the levels observed on other continents. They also suggest that actual intra-African trade is low relative to potential trade, indicating that there are unexploited opportunities for regional trade, particularly in the agriculture and manufacturing sectors. The continent has an abundant supply of natural and human resources, which could form the basis for an expansion of agricultural production and trade. For example, with 733 million hectares of arable land, Africa has about 27 per cent of the world's arable land while Asia has 628 million hectares and Latin America 570 million hectares (Juma, 2011). However, many countries on the continent are now net importers of food and agricultural products, as shown in chapter 1, and are food insecure. Reversing this worrying trend will be vital to boosting intra-African trade.

This chapter provides an analysis of the drivers of intra-African trade, with a view to enhancing understanding of African regional trade performance. It begins with a discussion of the mechanisms through which regional blocs could affect trade and growth and then provides an assessment of the empirical evidence on the link between regional blocs on the one hand and trade and growth on the other. It also discusses some challenges facing African countries in boosting intra-African trade and provides new insights into how to enhance implementation of existing regional trade agreements to promote intra-African trade.

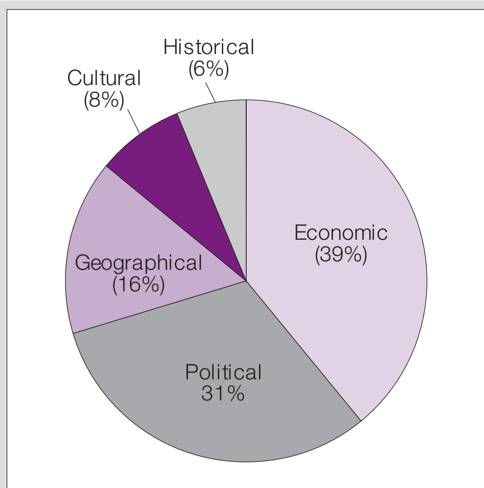
B. REGIONAL BLOCS, TRADE AND GROWTH

The formation of regional trade blocs has been an important and well-documented feature of economic integration in Africa. There are currently 17 regional trade blocs on the continent, of which 8 are officially recognized by the African Union (UNCTAD 2009). Although African regional economic communities were established mostly to promote economic cooperation, they are increasingly active in non-economic areas as well. For example, ECOWAS and SADC have been very active in the promotion of peace and security within their regions. Interestingly, in a recent survey of African countries and regional economic communities conducted by the Economic Commission for Africa (ECA), 39 per cent of respondents indicated that they joined

regional blocs for economic reasons while 31 per cent indicated that they joined for political reasons. Geographical, cultural and historical factors are other reasons identified by African countries for joining regional economic communities (see figure 5).

The large number of regional trade blocs in Africa suggests that policymakers on the continent believe that trade blocs present opportunities for promoting regional trade, boosting growth and engendering development. This conviction can be rationalized based on insights from the literature on economic integration, indicating that there are potential static and dynamic gains resulting from tariff liberalization within the context of regional trade agreements (Viner, 1950). The static gains are due to better and more efficient allocation of resources which occur when the elimination of trade barriers among members of a trading bloc creates trade by shifting production from high- to low-cost producers within the bloc. However, liberalization within trade blocs can also divert trade by inducing a shift from low-cost producers outside the bloc to high-cost producers within the bloc. The net welfare impact will be positive if the trade creation effect dominates the trade diversion effect and this is more likely if bloc members are competitive and production structures differ across economies; the bloc is large in terms of

Figure 5. Main motive for joining regional economic communities (percentage of respondents)



Source: Economic Commission for Africa (2012a).

number of members and share of world trade and production; existing tariffs among members are high; and distances between members are small. Obviously, African regional blocs do not meet some of these criteria and so the economic case or rationale for regional trade blocs on the continent may rest more on dynamic gains (or growth effects) rather than on traditional static arguments for integration.

Regional trade blocs can yield dynamic or growth benefits to members through providing domestic firms with access to a larger market, making it possible to exploit economies of scale and overcome limitations imposed by the small size of national economies. With 54 countries, Africa has more States but a lower population than Asia. This fragmentation of the continent into small States is costly because, in addition to the impact on market size, it makes provision of public goods inadequate and also expensive, with implications for the competitiveness of domestic firms (Collier and Venables, 2008). Regional trade blocs can also have growth effects by facilitating technology transfer from more technologically advanced members to other members of the bloc. In addition, they can reduce duplication of research and development activities in different countries and generate scale effects in such activities. Another channel through which regional trade blocs affect growth is by intensifying competition, forcing domestic firms to use resources more efficiently and be more productive. Better access to a large market through regional trade arrangements can also boost growth by reducing risk and uncertainty for firms and spurring entrepreneurship. This can influence the decisions firms take on location and also enhance their growth, thereby having a positive impact on employment, investment and growth in the economy (Schiff and Winters 2003; Elbadawi 1997; Krugman 1991).

The literature on economic integration also provides interesting insights into the distribution of benefits in a trade bloc. More specifically, it suggests that the distribution of benefits depends on country characteristics and that the formation of a trade bloc is likely to affect members in a different manner. For example, the benefits of bloc membership are likely to be high for landlocked countries, particularly if some members of the bloc have access to the sea and the formation of the bloc results in the development of regional infrastructure. Furthermore, large countries are in a better position to exploit opportunities created in trade blocs and so may derive more benefits. Venables (2003) suggests that in a regional trade agreement between developing countries, the relatively large countries attract the manufacturing sectors and so derive most of the benefits from the partnership. This leads to income divergence rather than convergence, as is the case in partnerships

between developed countries. The reason for this outcome is that in the framework under consideration, integration benefits countries that have characteristics closer to the world average, which in the case of developed-country trade blocs tend to be the poorer members, while in the case of developing-country trade blocs they tend to be the richer members of the bloc (Collier, 2008). The distribution of benefits in African regional trade blocs will to a large extent affect the effectiveness and sustainability of these blocs. It played a pivotal role in the collapse of the East African Community in 1977 and is a contentious issue in other regional economic communities, particularly in ECOWAS, where Nigeria is a dominant member, and SADC, where South Africa is a relatively large and wealthy member. Therefore, as African countries step up efforts to boost intra-African trade through strengthening regional trade blocs, it is crucial that they establish credible mechanisms and means to ensure promotion of equitable development among members.

The growing interest by policymakers in trade blocs as vehicles for promoting trade and growth has generated interest in assessing the impact of regional trade agreements on trade and growth (Schiff and Winters, 2003). Gravity models have been used to examine the impact of trade blocs on intraregional trade. Cernat (2001) found that African trade blocs did have a positive impact on intraregional trade. In contrast, Longo and Sekkat (2004) found no evidence that trade blocs in Africa boosted intraregional trade. Regarding the growth effects of trade blocs, the earlier empirical studies in this area focused mainly on the experience of developed countries, particularly the European Union, and the results have been largely inconclusive. For example, while Italianer (1994) found that regional integration in the European Union had a positive effect on trade and growth, Vamvakidis (1999) found that it had a negative impact on growth and investment, although in some cases the estimates were statistically insignificant. Furthermore, Wooster, Banda and Dube (2008) found that for the European Union, intraregional trade had a lesser impact on per capita output growth than extraregional trade. Using a different approach, Liu (2012) provided evidence indicating that regional trade blocs among non-WTO members promote growth while those among WTO members have an insignificant growth effect.

Empirical studies have also been conducted on the impact of trade blocs on growth, based on the experiences of developing countries. For example, Jalles (2012) suggests that regional trade blocs in South and South-East Asia have an unclear and in some cases potentially detrimental impact on growth. Regarding Africa, Sandberg and Martin (2001) found that intra-SADC trade had a negative but

statistically insignificant impact on growth in the region. However, Kamau (2010) provides evidence indicating that COMESA, EAC and SADC promote growth in the region. There is also strong evidence, using data for ECOWAS, that regional exports contribute to productivity growth, diversification and employment creation (von Uexkull, 2012). There are two inferences that people often draw from the mixed evidence on the impact of trade blocs on growth. The first is to argue, as do most opponents of regionalism, that trade blocs are a barrier to growth and that broad liberalization is much better than preferential liberalization (Schiff and Winters, 2003). The second, and much more balanced, interpretation is that trade blocs can make a positive contribution to growth but that the ultimate impact depends on the characteristics of its members and the design and implementation of agreements (UNCTAD, 2009). A relevant question to ask at this stage is why intra-African trade is low, especially given the relatively high number of regional trade blocs on the continent. The next section provides explanations for African regional trade performance.

C. UNDERSTANDING AFRICAN REGIONAL TRADE PERFORMANCE

One of the characteristics of the African continent is the multiplicity of national borders that act as barriers to intra-African trade. With 54 countries, Africa has very small national markets. In 2010, for example, 24 out of 53 African countries had a population of less than 10 million, with 17 of those 24 countries having a population of less than 5 million. Moreover, the GDP of 29 countries was less than $10 billion, with 18 countries having less than $5 billion of GDP. These economies are smaller than a number of large corporations. In 2012, for example, 266 of the Fortune 500 companies had revenues that were higher than $10 billion.[8] The existence of too many small economies limits the potential for economies of scale, hampering production efficiency and competitiveness. Furthermore, crossing too many borders and complying with different trade regimes implies weak market integration, a factor that discourages intra-African trade. A detailed discussion of the factors holding intra-African trade below its potential is proposed in the following sections. Three categories of factors are highlighted: poor competitiveness in production and trade; product and market concentration; and external factors that affect the capacity of African economies to trade with each other.

Poor competitiveness in production and trade

Intra-African trade is hampered by the weak supply response to regional market opportunities and lack of export competitiveness. Firms in most African countries face high production costs due to poor access to production factors such as electricity, credit, skilled labour and other inputs. As a result, they find it difficult to produce competitively. Africa lags behind other developing-country regions in terms of physical and social infrastructure. Road density on the continent is 7.2 kilometres per 100 square kilometres of arable land compared to 127 for non-African developing countries. Electricity production is 398 megawatts per million population compared to 2,475 for non-African developing countries. Furthermore, only 67 per cent of the population have access to water and 35 per cent have access to improved sanitation facilities. The corresponding figures for non-African developing countries are 85 and 70 per cent respectively (Beck et al., 2011). The continent also has a very low Internet penetration rate: 3 per cent relative to the world average of 14 per cent. In addition, infrastructure services cost twice as much in Africa as in other developing-country regions.

Surveys of manufacturing firms in the textiles sectors in Kenya, Lesotho, Madagascar and Swaziland show that the cost of production is affected by power outages and access to water supply. Furthermore, more than 50 per cent of African firms surveyed between 2006 and 2010 identified the lack of access to reliable electricity as the major constraint to their business. In comparison, transportation was identified as the major constraint by 27.8 per cent of firms (Oseni, 2012). Many firms rely on their own generators to produce electricity, albeit at a higher cost, tying up an important part of their capital, particularly for small and medium-sized enterprises (SMEs). This imposes additional costs on firms and diminishes their competitiveness. Moreover, relying on a generator to produce electricity is not only expensive but also limits the possibility of achieving economies of scale in view of the limited amount of energy a generator can produce (Foster and Steinbuks, 2009). In addition to high production costs, African firms also face relatively high trade costs stemming from tariff and non-tariff barriers, transaction costs (transport and insurance) and administrative barriers.

Intra-African trade is still faced with relatively high tariffs. An African exporter to markets outside the continent faces an average protection rate of 2.5 per cent, largely as a result of the preferences African exporters enjoy under the Generalized System of Preferences, the Everything But Arms initiative and the African Growth

and Opportunity Act. However, if the same good is exported to an African market, the exporter faces an average applied protection rate of 8.7 per cent. This average rate of protection varies across countries and products with higher rates of protection characterizing particularly trade between sub-Saharan and North African countries. For example, on average, Ethiopian exports to Tunisia face a protection rate of 50.4 per cent while a Tunisian exporter to Ethiopia faces a protection rate of 15.7 per cent. Moroccan exports to Nigeria face an average protection rate of 65.7 per cent while a Nigerian exporting to Morocco faces an average protection rate of 17.6 per cent (Mevel and Karingi, 2012).

African countries also impose non-tariff barriers in the form of price controls, product standards, discriminatory foreign exchange allocation, imposition of quotas, non-automatic licensing, administrative hurdles, excessive and unnecessary document requirements and unnecessary delays (see box 1). Given the nature of non-tariff barriers, their effect on trade is hard to quantify. Nevertheless, it is widely believed that these barriers have a negative effect on intra-African trade and need to be addressed. Furthermore, there are concerns that the reduction of tariff barriers in Africa may make the use of non-tariff barriers more pervasive as countries seek to protect their markets from external competition. Empirical evidence suggests that this could indeed be the case. In SADC, for example, econometric evidence suggests that non-tariff barriers reduce intra-SADC trade, while increasing exports of non-SADC countries into the community (Keane et al., 2010). As a result, non-tariff barriers have created a perverse incentive structure which penalizes instead of encouraging intra-SADC trade. In this context, African countries need to take more proactive steps to address the issue of non-tariff barriers inhibiting intra-African trade.

Transaction costs (transport and insurance costs) are also very high in Africa and are an impediment to the growth of intra-African trade. Business surveys reveal that road transport is the main mode of moving goods in the context of intra-African trade (UNCTAD, 2009). The quality of the roads, particularly the major roads linking regional markets, is therefore of particular importance to the competitiveness of African goods. Africa currently has fewer kilometres of roads than it did 30 years ago and the region has the highest costs for transporting goods in the world. In Central Africa, for example, transporting one ton of goods along the route from Douala in Cameroon to N'Djamena in Chad costs $0.11 per kilometre, which is more than twice the cost in Western Europe, where the cost is $0.05, and more than five times the cost in Pakistan ($0.02). On the whole, high transport prices in

Box 1. Negotiating trade facilitation measures

In an effort to reduce non-tariff barriers hampering trade between Rwanda and other EAC countries, Rwanda has initiated bilateral negotiations with its partners over the last two years. In this regard, a memorandum of understanding was signed between Rwanda and the United Republic of Tanzania on 17 October 2012. The two countries committed to take action in order to boost their bilateral trade. Commitments included in the memorandum illustrate the wide range of issues at stake when negotiating the removal of non-tariff barriers. Some of the commitments made by them are to fast-track the construction of a one-stop border post at one of the border crossings between the two countries; ensure interfacing of the customs information technology systems used by the revenue authorities of the two countries; consider adopting and accepting a single customs bond in both countries; facilitate prompt clearance of goods by adopting a 24-hour operation system at all border crossings; speed up coverage of the electronic cargo tracking system; reduce delays by putting in place an optimal number of weighbridges, road blocks and checkpoints; widely disseminate information on the availability of police escorts after 1800 hours for convoys of 10 trucks or more between Isaka and Rusumo; issue simplified certificates of origin for goods originating in EAC free of charge; and exchange lists of sensitive commodities.

Source: Joint communiqué of the bilateral meeting between the Ministry of Trade and Industry of Rwanda and the Ministry of Industry and Trade of the United Republic of Tanzania, Kigali, 17 October 2012, available at http://www.minicom.gov.rw/IMG/pdf/JOINT_COMMUNIQUE.pdf.

Africa have been found to harm the expansion of trade more than tariff and non-tariff trade restrictions (Teravaninthorn and Raballand, 2008).

On average, transaction costs are higher for intra-African trade than for trade with the rest of the world. For example, average transport costs in Africa represent 7.7 per cent of total export value, which is twice the world average of 3.7 per cent. The persistence of high intra-African trade costs more generally, is a reflection of the fact that the continent is still affected by its colonial trade patterns, where infrastructure and trade policies were set in order to orient trade towards countries out of the continent, mostly the former colonial powers. Boosting intra-African trade will require extensive changes in trade policy and the establishment of new infrastructure specifically designed to foster it.

Disaggregated data show that in some sectors and countries transport costs represent an even higher proportion of total export value than the average of 7.7 per cent (UNDP, 2011a). In landlocked countries, poor transport infrastructure not only increases trade costs but also production costs, due to uncertainty over the supply of inputs. As a result of the unreliability of supply routes, firms in landlocked countries face high levels of uncertainty over their production costs and hence

their competitiveness. Firms in Burundi and Zimbabwe, for example, are forced to hold higher than optimal inventories of imported inputs, covering up to one year of production, in order to prevent stocking-out. High inventories, although necessary, increase production costs, thus diminishing the competitiveness of the goods produced (Nkurunziza, 2012).

Product and market concentration

The external trade of African countries is concentrated around a limited range of products. At 0.411 in 2011, the export concentration index in Africa is twice the value of the second highest index, 0.203 in South Asia. Eastern Asia, a region that has been cited as a model in terms of export diversification in the last few decades has a concentration index of 0.103, a quarter of the value in Africa. In addition, many of the products exported are not appealing to consumers in African countries. For example, the 15 landlocked countries in Africa (before South Sudan became independent) export primarily diamonds, uranium, coffee, cotton, textiles and garments, livestock, tobacco, sugar and copper. Most of these products are not vital for intra-African trade as they are not typically used either for consumption or as inputs in the industries of other African countries (Nkurunziza, 2012).

While the narrow production base in Africa restricts regional trade, it does not fully explain intraregional trade dynamics. In ECOWAS, for example, despite the existence of a narrow range of exported products, an index of the region's comparative advantage shows that exports from countries within the region differ considerably from their imports. Hence, there is potential for increasing intraregional trade, particularly in food and agricultural products where African countries have a current comparative advantage. Regionalism increases the potential for trade, owing to economies of scale, product differentiation and intra-industry trade. Product concentration may therefore be seen as a short-term constraint to intra-African trade. Over time, the existence of a large market can alter existing patterns by developing new products, reallocating resources towards new industries and rationalizing existing ones (UNCTAD, 2009; Keane et al., 2010). Hence, the political commitment to boosting intra-African trade will need to go hand in hand with measures to boost industrialization and intra-industry trade development.

With respect to market concentration, some countries depend on a handful of export markets. In SADC, for example, South Africa is such a dominant economy that it accounts for a large proportion of the imports by other SADC countries. In

the second half of the decade beginning in 2000, about 59 per cent of intra-SADC imports were sourced in South Africa. That was a drop from a decade earlier when intra-SADC imports from South Africa represented 81 per cent of total intraregional imports (Keane et al., 2010). The concentration of trade on a few countries is not particular to Southern Africa. In EAC, Kenya dominates intraregional exports, accounting for nearly 75 per cent of total intra-EAC exports. In West Africa, Nigeria, and to some extent Côte d'Ivoire, dominate the intraregional export trade, accounting for about 70 per cent of total intraregional exports (UNCTAD, 2009).

External factors

Intra-African trade cannot be analysed in isolation from external factors that have been shaping international trade. Globalization and trade liberalization in Africa have intensified competition. What used to be local and regional markets are now part of a relatively open global market. African consumers have become more exposed to imported products, including from the emerging economies in the South, that are cheaper alternatives to locally or regionally produced goods (Kaplinsky and Morris, 2008; Ighobor, 2013). This has contributed to deindustrialization, as evidenced by the fact that the share of manufacturing in African GDP fell from 15 per cent in 1990 to 10 per cent in 2008 (UNCTAD and UNIDO, 2011). The implications of this trend for intra-African trade and how African countries can rebuild their productive capacities and attain competitiveness should be part of the new regional agenda to boost intra-African trade.

There are other external factors that may not have a direct effect on intra-African trade but could potentially be important determinants in future. UNCTAD has identified a number of these factors in the past (UNCTAD, 2009), but at least two of them, namely the economic partnership agreements and the African Growth and Opportunity Act, are worth noting, given their relevance for the future of intra-African trade. Economic partnership agreements have been under negotiation between the European Union and regions in the African, Caribbean and Pacific (ACP) group of countries for several years. Many issues have been raised as to whether these agreements will strengthen or hamper regional integration in Africa, including through a series of major publications assessing regional integration in Africa, which have been produced since 2004 by ECA in collaboration with the African Union Commission and the African Development Bank (AfDB). One of these publications acknowledges that the potential benefit of the economic partnership agreements could be great "If the negotiating groups adopt common

external tariffs as a basis from which to make market-access offers to the European Union in the comprehensive EPA agreements" (ECA, AUC and AfDB, 2010). In this scenario, "…regional EPAs would contribute towards enhanced economies of scale" and in addition, "The goal of enlarged regional markets could also begin to be realized". It is further argued that this could "stimulate investment, increase domestic competition and promote the diffusion of technology". Equally, however, the report raises serious concerns about economic partnership agreements, in particular the implications of the "reciprocity principle governing EPA negotiations" and its impact on trade displacement in the regional economic communities. The report concludes that, as a result of this principle, "The EPAs pose a major challenge to the ability of African countries to raise inter- and intra-REC trade". The projections in the report suggest that, with reciprocal trade arrangements under the economic partnership agreements, "European import surges could displace intraregional exports or inter-African trade by up to 16 per cent" (ECA, AUC and AfDB 2010). African Governments should factor these assessments by important regional organizations such as ECA, the African Union Commission and AfDB into their approach to economic partnership agreements.

There are other concerns that have been expressed about the agreements. For example, it has been argued that Africa will lose substantial revenue if import taxes on products from the European Union are totally removed. Although, the number of countries that rely on customs for their revenues has been declining, some recent estimates show that in the long run, African countries could lose up to 71 per cent of their import tariff revenue on imports if they sign economic partnership agreements (Fontagné et al., 2010). In signing such agreements, African countries need to study carefully and employ effectively some of the provisions contained in the agreements that could bring benefits. For example, they include provisions that allow ACP countries to treat up to 20 per cent of the products that are potentially exported by the European Union as sensitive products. This will allow African countries to designate certain products that are traded regionally as sensitive products, thereby protecting intra-African trade. Furthermore, in the long run, Africa should ensure that the development provision included in the agreements supports intra-African trade by requiring, in their negotiations, that the European Union provides additional and targeted support for building the productive capacity of African economies in order to enhance their productivity and competitiveness (Milner et al., 2011).

The African Growth and Opportunity Act offers unilateral preferential access to the United States market for eligible goods exported from African countries that

are party to the arrangement. Oil products dominate African exports under the act, followed by textiles and clothing. Through its third country fabric provision (although this does not come for free and only certain countries comply and benefit), the act offers flexible rules of origin, allowing exporters of textiles and clothing to source their fabrics in third countries where they are cheapest, including China. African countries, particularly West African cotton producers, could consider transforming their cotton into fabrics and exporting them to countries that are eligible under the act. Sourcing fabrics from other African countries would encourage the establishment of regional value chains, increasing intra-African trade while at the same time supporting the industrialization of the continent.

D. ENHANCING IMPLEMENTATION OF REGIONAL TRADE AGREEMENTS

Lifting several of the obstacles to expanding intra-African trade identified in the previous sections will require the effective implementation of regional trade agreements by African countries. More specifically, the removal of tariff and non-tariff barriers to trade will contribute to expanding intra-African trade and should rightly be on the African regional integration agenda. Due to concern over possible short-run revenue losses that might arise from removing tariff barriers, it is understandable that this is a contentious issue, particularly for small African countries. But it is difficult to understand why countries are reluctant to adopt common standards and regulations from which they are all likely to gain. African regional economic communities have signed many agreements on removal of tariff and non-tariff barriers. While some progress has been made in implementation of these agreements, it is a well-known fact that the implementation rate has generally been low and continues to hamper regional trade (ECA, AUC and AfDB 2012). Moreover, although some regional economic communities (COMESA, EAC, ECCAS, ECOWAS and SADC) have set up free-trade areas as envisaged in the Abuja Treaty, others have not reached this stage yet. Even among regional economic communities that have established free-trade areas, lack of implementation of regional trade agreements is also a major challenge. Table 14 presents information on private sector perception of the extent to which selected ECOWAS member States are implementing the ECOWAS trade liberalization scheme launched in 1990 and reaffirmed as part of the ECOWAS Revised Treaty in 1993. It shows more than two decades after the scheme was launched, member States have not fully implemented its provisions regarding free movement of persons, goods and

Table 14. Implementation of ECOWAS trade liberalization scheme by member States (percentage of private sector respondents confirming implementation of the protocol)

	Benin	Burkina Faso	Côte d'Ivoire	Ghana	Niger	Nigeria	Mali	Togo
Free movement of persons	36	60	27	49	56	59	53	61
Free movement of goods	64	60	71	47	61	50	63	70
Free movement of transport	43	75	60	73	75	34	77	54

Source: West Africa Trade Hub technical report No.33, December 2009.

transport. There are also problems of implementation in other regional economic communities. For example, an article in The Independent newspaper of 14 October 2012, reported that Uganda sent a delegation to Kenya in 2012 to discuss the imposition of a cash bond by the Kenya Ports Authority on Ugandan traders using the Mombasa port, which Uganda considers as a non-tariff barrier against the spirit of EAC trade agreements.

If African Governments want to make significant progress in boosting regional integration they will have to make more effort to address the problem of lack of implementation of regional agreements. Overlapping membership of regional organizations, concern about ceding national sovereignty to regional organizations, inadequate domestic financial resources and dependence on donor funding, setting of unrealistic targets and deadlines and lack of effective mechanisms to compensate potential losers from integration are some of the reasons for lack of implementation of regional trade agreements. There is a need for African Governments to consider taking the following actions to enhance implementation of regional agreements and promote intra-African trade.

Leadership by relatively large and wealthy countries (Algeria, Egypt, Nigeria and South Africa) is required to enhance implementation. These countries have relatively better productive capacities to exploit opportunities from integration in the short to medium term. They can facilitate the integration process by voluntarily earmarking a small percentage of the value of their intra-African trade for setting up an integration fund to build export capacity in smaller countries that may lose from integration in the short run. In addition, resource-rich countries in the region should also show more goodwill and commitment to the integration process by contributing a small percentage of their resource revenue for the development of regional infrastructure. Several countries have set up sovereign wealth funds and so are capable of making these contributions if they wish. These gestures by countries

that are both large and resource-rich will enhance implementation by sending a clear signal to other African countries that they are committed to promoting regional integration and are not pushing for integration to advance national over regional priorities. Large and resource-rich countries should have the incentive to do this if they adopt a long-term view of the development process because it is in their interest, given that they cannot achieve sustained growth and development while the rest of the continent experiences economic retrogression. National leadership can also enhance implementation of regional programmes by giving them more visibility and unblocking obstacles to implementation, as we have seen in the case of the Presidential Infrastructure Champion Initiative projects championed by seven African heads of State and Government.

Monitoring is also crucial to enhancing implementation of regional trade agreements. 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, can put peer pressure on members who have very low rates of implementation as it shames non-compliers and empowers compliers. Regional institutions such as ECA and AfDB (that are to some extent neutral in the process) should be mandated to compile and report on this indicator every two years and the results should be presented at the African Union summit.

Rationalizing regional economic communities or harmonizing agreements across existing communities will also reduce compliance costs to members and make implementation of commitments easier. Many African countries belong to more than one regional economic community and more often than not they have different tariff reduction schedules, rules of origin and ambition regarding regional integration. Consequently, as a result of overlapping membership of those communities, member States are faced with conflicting commitments which makes implementation challenging even in situations where the political will to fulfil commitments is present. The African Union attempted to address this issue by recognizing only eight regional economic communities but it has not eliminated the problem of overlapping membership. In this context, the tripartite free trade arrangement between COMESA, EAC and SADC is an essential and timely step in dealing with the challenge of overlapping membership of regional economic communities 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 the ultimate and long-term objective of the African Union.

Being realistic in terms of setting objectives and deadlines for achievable targets will play a crucial role in enhancing implementation of commitments. More often than not African Governments set ambitious targets in action plans, knowing full well that the deadlines for achieving these are not realistic, given weak domestic and institutional capacities and binding financial and human resources constraints. Furthermore, action plans are developed without any credible mechanism for either mobilizing the required finance or enforcing implementation. It is time for African leaders to move away from signing treaties and developing action plans to delivery and implementation. As Donald Kaberuka (President of AfDB) said at the 2012 World Economic Forum on Africa, “The most dangerous thing is to confuse an action plan with action.” The minimum integration programme, which involves a set of projects or activities which regional economic communities and member States have agreed to carry out to speed up the integration process, is an example of a well-intentioned programme with unrealistic deadlines. Although the first phase of the plan, covering 16 identified priority sectors, was for the period from 2009 to 2012, costing for the action plan was only endorsed by the coordination meeting of the African Union Commission, the regional economic communities, ECA and AfDB in January 2012, leaving very little time for resource mobilization and implementation.

The activities of Africa’s development partners also have an impact on the ability and willingness of members to implement regional agreements. The increase in the number of bilateral partnerships with development partners is a burden on African countries both in terms of human and financial resources. It also encourages a race to the bottom and creates an incentive for African Governments to pursue national interests over regional priorities, thereby undermining 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 has indicated it intends to make an effort to address this issue as part of its strategic plan over the period from 2013 to 2063. At the African Union summit in January 2013, the Chair of the African Union Commission in her statement to the Executive Council stated that Africa should impose a moratorium on new partnerships with development partners. This is a step in the right direction and should be welcomed and supported by development partners. Dependence on donor resources by African regional organizations often

compels member States to consider donor priorities as more important than regional interests, thereby affecting implementation as well as ownership of development programmes and outcomes. In 2013, development partners will account 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 programmes budget, where development partners account for 97 per cent and African countries for 3 per cent. Dependence on donor resources also presents challenges for the implementation of regional agreements because donors often prefer dealing with national rather than regional authorities. The key reason why African regional organizations depend excessively 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, only 11 out of 54 countries had fully met their financial obligations. In 2011, the African Union took an important step towards addressing the problem of dependence on donor resources by setting up a high-level panel on alternative financing chaired by Olusegun Obasanjo, former President of Nigeria. The outcome of the work of the panel should be taken seriously as it will go a long way towards giving African countries more ownership of their development strategies, programmes and outcomes. It will also enhance implementation of existing regional trade agreements and pave the way for expanding intra-African trade.

CHAPTER 3
THE PRIVATE SECTOR, ENTERPRISES AND PRODUCTIVITY

A. INTRODUCTION

Africa has a rich and long history of attempts to promote trade through regional economic cooperation. However, the focus of regional trade initiatives on the continent has been more on the elimination of trade barriers and less on the development of productive capacities, particularly in manufacturing and agro-related industries. While lifting tariff and non-tariff barriers to intra-African trade is important, policymakers must also foster entrepreneurship and address supply-side constraints inhibiting the ability of the private sector to produce and export. Elimination of tariffs across countries will not have any significant impact on intra-African trade if market imperfections on the input side (for example in credit, labour and capital markets) are not adequately dealt with. In this regard, there is a need for sustained measures to boost productive capacity to enable African countries to meet regional demand that may be created by eliminating barriers to regional trade. If this is not done there is a risk that domestic firms will be unable to take advantage of the market access opportunities created by regional integration, leaving ample space for foreign firms to capture most of the benefits from the process, with dire consequences for domestic enterprise and industrial development.

The nature of the goods produced and exported by African enterprises matters for growth and the expansion of intra-African trade, both from a demand and a supply perspective. On the demand side, manufacturing products have high income elasticity of demand, indicating that they create more room for export market expansion relative to primary commodities. On the supply side, manufacturing is also of strategic importance because its growth is not constrained by land, as is the case for agriculture, and so in economies with rapid population growth and increasing pressure on land, diversification into manufacturing will be necessary to boost and sustain regional trade. The joint UNCTAD and UNIDO *Economic Development in Africa Report 2011* shows that manufacturing accounts for about 10 per cent of African GDP compared to 35 per cent in East Asia and the Pacific and 16 per cent for Latin America and the Caribbean. In terms of exports, manufacturing represents about 39 per cent of total merchandise exports compared to about 89 per cent for East Asia and the Pacific and 61 per cent for Latin America and the Caribbean. Furthermore, Africa accounts for only 1 per cent of global manufacturing value added and global manufacturing exports.

The fact that African countries do not have diversified production and export structures limits the possibilities for regional trade. In this context, there is a need

for structural transformation of African economies to unlock the trade potential of the continent. The key question then is how to accomplish this objective and, more importantly, what kinds of private sector enterprises are required. This chapter highlights and discusses key distinctive features of the African enterprise structure that have important implications for expanding intra-African trade. It also identifies characteristics that enable enterprises to enter the export market, using information obtained from surveys of manufacturing firms in Africa. Finally, it offers policy recommendations on how to unlock private sector dynamism to boost intra-African trade.

B. FEATURES OF THE ENTERPRISE STRUCTURE IN AFRICA

There are five distinctive features of the enterprise structure in Africa that need to be addressed by African Governments if they are to succeed in promoting entrepreneurship, private sector development and intra-African trade (UNIDO 2008; UNCTAD and UNIDO, 2011). These are (a) high and rising informality; (b) the small size of African enterprises; (c) weak inter-firm linkages; (d) the low level of competitiveness; and (e) the lack of innovation capabilities.

High and rising informality

A common feature of African countries is that they have relatively large informal economies. Although it is difficult to give a precise indication of the degree of informality in Africa, recent estimates suggest that for sub-Saharan Africa, the informal economy accounts for about 38 per cent of GDP compared to 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 (see table 15). There are also indications that the size of the informal economy in Africa is increasing. For example, the share of informal employment as a percentage of local non-agricultural employment rose from 40 per cent in the period from 1985 to 1989 to 61 per cent over the period from 2000 to 2007 (Schneider 2012). Interestingly, informality accounts for a larger source of employment for women than men. In the period from 2000 to 2007, the share of informal employment in non-agricultural employment was 77 per cent for women and 63 per cent for men. This difference across gender lines in some ways reflects the fact that women have much more difficulty in establishing formal businesses than men.

Table 15. The informal economy as a percentage of GDP

Region	Informal economy as a percentage of GDP
Sub-Saharan Africa	37.6
East Asia and Pacific	17.5
Europe and Central Asia	36.4
Latin America and Caribbean	34.7
Middle East and North Africa	27.3
High-income OECD	13.4
South Asia	25.0
World	17.1

Source: Schneider (2012).

It has been suggested that one of the main reasons why firms often choose to remain informal is that it allows them to avoid the cost of paying taxes and complying with regulations. Informality inhibits enterprise development because informal enterprises are not registered businesses and therefore operate outside the legal framework, which means they have very limited access to the basic infrastructure and finance needed for growth. There is a need for policy actions to stem the rising level of informality in Africa as a crucial step towards enhancing private sector development and promoting intra-African trade. This requires facilitation of the transition of firms from the informal to the formal economy by simplifying the procedures for obtaining permits for business registration; government provision of information to all citizens on how to start a business and the rights and responsibilities of entrepreneurs; simplifying the tax system to reduce the costs and difficulties of complying with laws and regulations; and strengthening the capacity of government agencies to administer laws and regulations.

African firms are relatively small

Firm size in Africa is highly skewed towards micro- and small-scale enterprises. While some large firms exist on the continent, medium-scale enterprises that play a crucial role in the economic development of emerging and developed economies are either absent or few in number. Surveys of manufacturing enterprises indicate that the average number of employees in manufacturing firms in sub-Saharan Africa is 47, compared to 171 in Malaysia, 195 in Vietnam, 393 in Thailand and 977 in China. Furthermore, recent evidence indicates that not only informal firms but

also formal firms are very small in Africa (Dinh and Clarke 2012). The relatively small size of African firms is a source of concern because it means they do not operate at an optimum scale and so cannot benefit from the economies of scale needed to be competitive.

The problem of the missing middle in Africa is compounded by the fact that there is also very little upward mobility of firms on the continent. The lack of transition from small to medium and large enterprises is in part due to the high hazard rates of small-scale enterprises, lack of market information and weak access to finance and business services. The small size of African firms, their high hazard rates and the phenomenon of high and rising informality impose a serious constraint on the growth of firms and the expansion of intra-African trade. African Governments should facilitate the upward mobility of enterprises and promote the growth of firms by increasing investment in training and education programmes for entrepreneurs and providing better access to finance and business services, particularly for SMEs. The establishment of guarantee schemes and also credit bureaux and registries (to reduce information asymmetry between lenders and borrowers) are some of the mechanisms that can enhance access to finance for SMEs. However, the need for upward mobility of enterprises does not imply that Governments should promote only SMEs. They should also support large-scale enterprises to enhance their survival rates and their capacity to produce and export. Strengthening development banks will enhance the access of firms to the long-term finance needed for the growth and survival of exporting firms. More effective regional cooperation can also increase the survival rates of African firms, given recent evidence indicating that trade cooperation initiatives can reduce hazard rates for African exports, thereby enhancing export survival and growth (Kamuganga 2012).

Weak inter-firm linkages

African firms also exhibit weak inter-firm linkages. For example, there is limited linkage between the formal and informal economies, between small and large firms and between domestic and foreign firms. Intense competition arising from global economic integration has created the need for large firms (both domestic and foreign) to establish business linkages with SMEs by integrating them into their supply chains. Such linkages enable large firms to reduce input costs, increase productivity, shorten lead times and focus on their core competencies. Interaction between SMEs and large firms is also a good source of learning and technology adoption for SMEs. It can also enhance access to finance, particularly trade credit, and help SMEs grow, thereby creating employment in the economy.

As a result of weak inter-firm linkages, SMEs in Africa are unable to benefit from the skills base and innovation capabilities of large firms, with dire consequences for enterprise development and the growth of firms. Some of the reasons for weak inter-firm linkages are that SMEs often have limited access to finance and market information, lack the necessary skills both in management and production and are unable to meet product quality standards (Jenkins et al., 2007). Developing the capacity of SMEs to meet the needs of large firms through training and the provision of business services and market information should therefore be a priority for African Governments. The development of industrial clusters is also a useful and proven way to promote inter-firm linkages. They permit labour market pooling, enhance access to intermediate inputs and services and create knowledge spillovers. As a result, they facilitate interaction among firms, reduce transaction costs and increase collective efficiency. Large firms can also contribute to the development of business linkages by providing SMEs with information on opportunities in their supply chains and also invest in education and training aimed at building the skills of the local community. Jenkins et al. (2007) argue that large firms are interested in developing relationships with SMEs and are increasingly doing so, even though it is costly to develop and maintain these relationships.

As regards the linkages between FDI and the performance of domestic firms, a recent investment survey of African countries suggests that transnational corporations in Africa generally have a negative effect on domestic firms operating in the same sector, largely due to the fact that they reduce the ability of domestic firms to compete in the market. However, they have a positive effect on domestic firms operating in other sectors of the economy (UNIDO, 2011). This suggests that while FDI has the potential to contribute to trade and development in Africa, the benefits are not automatic and African countries will have to find ways to reap the benefits, perhaps through seeking to attract more FDI into priority sectors, such as manufacturing, and also strengthening linkages between FDI and the domestic economy. The promotion of joint ventures between foreign and domestic firms and the use of economic incentives to encourage foreign firms to source inputs locally are some policy options for strengthening those linkages.

Low levels of export competitiveness

Enhancing the competitiveness of domestic firms is critical to promoting intra-African trade. Africa currently accounts for less than 4 per cent of global trade, due

in part to its low level of international competitiveness. The global competitiveness of countries in Africa ranks low compared to other developing countries. For instance, in the Global Competitiveness Index for 2012-2013 compiled by the World Economic Forum, the most competitive African economy, South Africa, ranked 54th out of 144 countries and the second most competitive, Mauritius, ranked 55th. In developing Asia, Malaysia was the most competitive economy with a ranking of 25th, followed by Brunei Darussalam at 28th. Among the 20 least competitive economies in the world, there were 14 African countries, with Guinea, Sierra Leone and Burundi among the 4 least competitive economies in the world. Furthermore, the *Africa Competitiveness Report 2009* indicates that Africa is 19 per cent less competitive than East Asia and 18 per cent less competitive than South Asia, based on cost shares as indicators of competitiveness. In the report, Mauritius, Morocco, Namibia, South Africa and Tunisia are listed as the best performers in Africa based on the enabling trade index, which reflects how factors, policies and services within a given country facilitate the free flow of goods over borders and to destinations. However out of 118 countries included in the index, only Mauritius and Tunisia ranked among the top 50.

Lack of export competitiveness can arise from low labour productivity and also high labour costs. Recent studies indicate that the productivity of firms in sub-Saharan Africa is lower than in most of the other developing-country regions. For example, the mean labour productivity in sub-Saharan Africa measured in 2005 United States dollars is $4,734 per worker compared to $6,631 in East Asia (Dinh and Clarke 2012). Low productivity in Africa is to some extent related to the issue of firm size because African firms tend to be small relative to those in other regions and it has been shown that small firms are generally less productive than large firms. Other factors that could account for low levels of export competitiveness include low levels of education and skills among workers, low capital intensity, weak infrastructure, poor access to finance, particularly for investment and training, lack of exporting experience and macroeconomic and political instability – which increase country risk and hence the cost of capital. African Governments should address the constraints on intra-African trade imposed by the lack of competitiveness of African enterprises through, for example, subsidizing the cost of factor inputs, improving infrastructure and providing better access to finance, for example through the establishment of credit bureaux and registries to reduce information asymmetry between lenders and borrowers.

Lack of innovation capabilities

The development of innovation capabilities is crucial to withstanding international competition and taking advantage of trading opportunities (UNCTAD and UNIDO, 2011). Firms that survive and are successful in global markets tend to be those that are able to innovate and respond to new opportunities and a rapidly changing market environment. As emerging economies with open and outward-oriented trade regimes, African countries cannot afford to ignore or escape the effects of these fundamental changes in the global economy and their implications for competitiveness at both regional and global levels. With growing knowledge intensity of production and its generalization across all sectors of the economy, increasingly knowledge inputs, in particular investment in new technologies, innovation capability and the skills associated with them, have become important components of production activities and in some cases, overshadow investments in tangible goods such as machinery and equipment. Moreover, this trend is not confined exclusively to large firms, high-tech industries or advanced economies but also affects firms in developing countries and the so-called traditional industries such as textile, forestry, horticulture, leather and food processing.

In conjunction with this trend, the ability to learn, innovate, produce and utilize knowledge, initiate organizational changes and generally adjust rapidly to changing market conditions at the level of the firm have become important determinants of competitiveness. This is not to imply that other factors, such as product price or cheap labour, no longer hold dominant positions as competitive factors. On the contrary, the cost of production still matters and in fact, for some products and markets, it is an important source of competitive advantage. However, dynamic enterprises today are those that compete not only on price but also on the basis of their ability to acquire knowledge and sustain a process of innovation: designing new products, adapting existing technologies to their needs, ensuring high-quality output, modifying product processes and improving eco-efficiency. This calls for investment and policies that encourage knowledge flows and innovative activities, including the generation of a highly skilled labour force through formal learning and on the job training (Kraemer-Mbula and Wamae, 2010). Unfortunately, African countries generally have a very weak knowledge base and lack enterprises with innovative capabilities.

One way African countries can develop their innovative capabilities is by investing in research and development and encouraging the commercialization of the results through linkages with private sector firms. Indeed, for many policymakers

in Africa, the process of innovation is often synonymous with inventions or major technological breakthroughs that take place in specialized scientific or research and development centres. Although such activities are vital for advancing the frontiers of technology, they contrast radically with the reality of the innovative process in a highly competitive environment. In the current dynamic and open market environment, innovative activities are aimed at maintaining competitive advantage and tend to be continuous, incremental and adaptive and to take place predominantly at the enterprise level. They require interaction between key agents in the production system, for example between users and producers, between bodies in the knowledge producing sector, such as universities and research and development institutions and enterprises, and between domestic and foreign enterprises. They also need investment in learning, including at the enterprise level.

The notion of innovation, as defined by UNCTAD, refers to "a process by which firms master and implement the design and production of goods and services that are new to them, irrespective of whether or not they are new to their competitors — domestic or foreign." Defined as such, the innovation process encompasses the wide range of incremental changes that enterprises undertake in order to remain competitive and profitable through improvements in the technologies they use, in product design, technical performance and product quality and by introducing changes in organizational structures, management style, marketing and maintenance routines, as well as other knowledge-intensive elements of production. These types of innovative actions at the level of the firm have kept both large and small firms from the East Asian region competitive in global markets for a lengthy period. Unfortunately, however, in Africa and in many other developing countries, efforts by enterprises to introduce such changes receive very little attention, if at all, from policymakers, as they are not considered innovative activities. Innovation is considered to be those research and development activities by research centres, universities or big firms aimed at the invention of new technology or new products or processes that push forward the frontiers of knowledge. It is important that this misconception is corrected and that African countries begin to see that the efforts of enterprises to remain competitive by adopting all sorts of minor changes and innovative activities are as important from a trade and competitiveness perspective as research and development activities by the public sector, research centres or large private firms.

Thus, while investment in research and development is necessary and can stimulate innovation and enhance the capacity of domestic firms to imitate and absorb foreign technologies, it can do so only if investment in research and

development is geared to promoting innovation at the level of the firm, rather than more general research to enhance scientific capacity. In this regard, there is a need for African Governments to enhance linkages between universities and research institutes on the one hand and domestic and foreign firms on the other. This will ensure that they address the innovation needs of the private sector and enhance their capacity to adapt, imitate and absorb existing technologies (see box 2).

There is also a need for African Governments to use economic incentives to support firms directly in developing the innovation capabilities that are critical for export success. African countries should also take advantage of the opportunities created by the growing role of large developing countries in innovation and technological change. This is particularly important because the technologies produced by other developing countries are likely to be more appropriate and easier to adapt than those from more advanced economies. In a recent survey conducted for the 2011 African Economic Outlook, about 60 per cent of respondents felt that developing-country partners are typically most effective at meeting the development objectives of African countries in the area of innovation. In this context, there is a need for African countries to strengthen efforts to attract more FDI from developing-country partners, particularly in sectors crucial for promoting structural transformation.

Box 2. Building capacity for innovation through linkages between universities and industry

The successful partnership between Nestlé Nigeria and the University of Agriculture in Abeokuta (UNAAB), Nigeria, illustrates the importance of university-industry linkages in building capacity for innovation in African countries. In 1999 Nestlé was facing challenges in meeting its demand for high quality soybeans used for producing baby foods. It recognized that UNAAB had better knowledge than it did of local sourcing of soybeans and started a joint project called the UNAAB-Nestlé popularization and production project. The aim of the project was to stimulate the interest of local farmers in producing high-quality soybeans that would meet the needs and quality standards of Nestlé and also improve the welfare of the farmers.

Until 1999, Nestlé had most of its farms in northern Nigeria. Although these farms were relatively inefficient, Nestlé relied on them because it assumed that soybeans could not be grown in the south-west of the country, due to high rainfall which it considered damaging to soybeans prior to harvesting. But as a result of research collaboration with UNAAB, it discovered that soybeans could be profitably harvested in the south-west. The discovery of this new process for growing soybeans provided Nestlé with an alternative and cheaper source of supply of high-quality soybeans. It also boosted UNAAB extension activities, popularized its model of soybean production in the south-west and built local capacity for innovation at the farm level. Furthermore, it enhanced technology adoption for soybean processing and made south-western Nigeria an important producer of soybeans, thereby improving the livelihoods of people in the region.

Source: Juma 2011.

C. MANUFACTURING FIRMS, EXPORTS AND PRODUCTIVITY

This section 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. It also provides a basis for understanding the drivers of regional trade relative to external trade. There are two levels at which the issue of why some firms export while others do not can be addressed. The first is to seek an explanation for exporting at the level of the enterprise — farm or firm — and the second is at a more macro level where the focus is on factors affecting the overall demand for exports and factors that increase their supply. The former approach, with which we begin, focuses on factors that differ across firms.

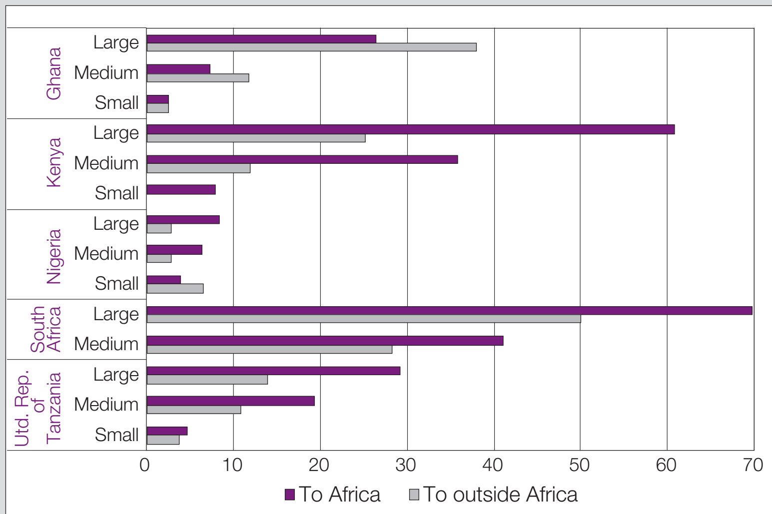
Firm size, efficiency and exporting

A wide range of factors such as firm size and firm-level efficiency have been identified as important for export participation by domestic firms. Rankin, Söderbom and Teal (2006) provide comparative survey data for African firms in five countries — Ghana, Kenya, Nigeria, South Africa and the United Republic of Tanzania — which can be used to examine the relationship between exporting by African firms on the one hand and firm size and efficiency on the other. Although the survey covers only five countries, the sample is representative of the broad groups of countries on the continent, namely relatively advanced manufacturing economies, oil exporters, least developed countries, agricultural exporters and oil importers. The data set has a sample of 1,012 firms spanning the period from 1992 to 2003. The results presented in figure 6 indicate that larger firms are far more likely to export, Nigeria being the exception. In Nigeria, the proportion of firms exporting is extremely small. Figure 6 also indicates that there is a difference between exporting within and outside Africa for these manufacturing firms. If we consider the patterns of exporting within Africa, we see that the pattern in Ghana is very different from that for Kenya, South Africa and the United Republic of Tanzania. Large Ghanaian firms are more likely to be oriented to trade outside Africa, whereas for the other three countries trade within Africa is more important and in the case of both Kenya and the United Republic of Tanzania very substantially so. While the data does not allow the country of destination to be identified, the results of other enterprise surveys

indicate that most Kenyan exporters regard Uganda and the United Republic of Tanzania as their most important export destinations.

Size matters directly for exports, particularly in economies where most firms are on a small scale. Firms incur additional costs when they export to distant markets. Such increases in cost underlie the view that to export firms must operate at an optimum scale — they need to be able to meet the higher costs of foreign markets. Large firms may well be more likely to engage in intraregional trade as they need a larger market for their products. Firms which sell only, or primarily, to foreign markets may be larger for additional reasons. The costs of accessing a foreign market may require additional investment in marketing and foreign sales, which require a certain minimum scale for the firm to be able to export profitably. Furthermore, the management skills required for exporting may be scarce and thus more efficiently concentrated in larger enterprises.

Figure 6. Percentage of firms exporting to Africa and outside Africa



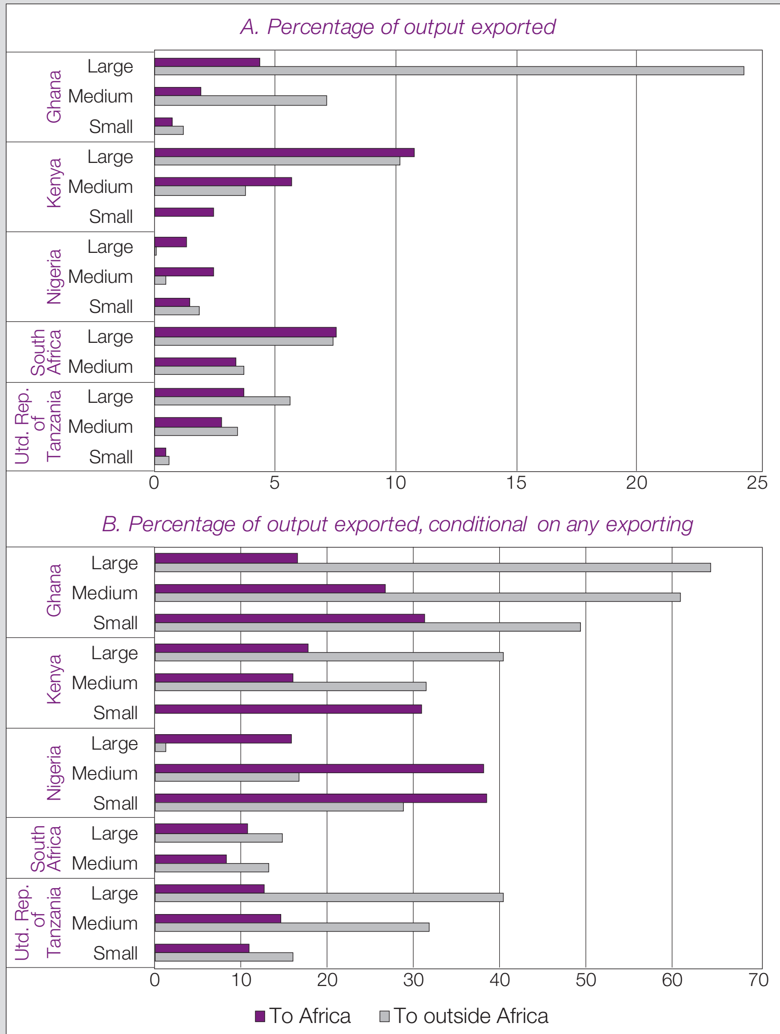
Source: UNCTAD.
Note: A large firm is one with more than 75 employees, medium-sized firms have from 21 to 75 employees and small firms fewer than 21 employees. Median figures are reported so that the results are not dominated by outliers.

Another interesting result from the analysis shows that African manufacturing firms produce mostly for the domestic market. The top panel in figure 7 shows the percentage of output exported by manufacturing firms in Africa. With the exception of Ghana, the proportion of output exported is less than 15 per cent. In the bottom panel of figure 7 we show the percentage of output exported conditional on any exporting. While the pattern differs across the five countries, it is clear from the bottom panel of figure 7 that, with the exception of Ghana, even on condition that they undertake some exporting, exports are not more than 40 per cent of output even for large firms. Thus exporting is not a specialist activity in these economies. In both Kenya and the United Republic of Tanzania there is a general pattern whereby exporting within Africa is a less specialist activity than exporting outside Africa. This lack of specialization suggests that firms are entering the export market only when their scale of operations becomes too large for the domestic and regional markets; they are not entering markets for which there is little or no demand locally. Such a pattern highlights both the advantage and challenge of intra-African trade in manufactured goods. The advantage is that entering regional markets may involve lower costs than entering distant markets. However, while the market is larger it is still very limited relative to what would be available if a world market could be accessed.

A second factor that is considered important for a firm to be able to export is its level of efficiency. Findings from analysis of data from firms across both developed and developing countries show that more efficient firms are more likely to export. In general, the key factors driving efficiency include the degree of competition in markets, investment in fixed capital, which is affected by access to finance, and characteristics such as firm size, organization and location. Skills may also matter as they enable a firm to deal with more complex markets and they may be critical for enabling firms to meet the quality and predictability of supply demanded by foreign markets. Foreign ownership may also have an effect on the efficiency of the firm, but in addition it may supply information about foreign markets and increase the supply of quality inputs, all of which may potentially assist the firm in exporting. However, skills and foreign ownership are likely to be associated with the size of firms, as larger firms will have more skilled workers and management.

To sum up, the evidence and analysis presented in this subsection shows that firm size and efficiency are important determinants of participation in export markets. In particular, large and efficient firms are more likely to engage in exporting than small and inefficient firms. Boosting intra-African trade will therefore require

Figure 7. Percentage of output exported to Africa and outside Africa



Source: UNCTAD.
Note: For definition of firm sizes, see figure 6.

efficient firms of optimal scale. The evidence also suggests that firms in Africa tend to produce mostly for the domestic market and engage in exporting when their scale of operation becomes too large for the domestic market. This suggests that regional markets may be more promising for manufacturing firms in Africa because, compared to global markets, the demands of regional and domestic markets are more similar and thus firms do not require different standards or product types to satisfy demand.

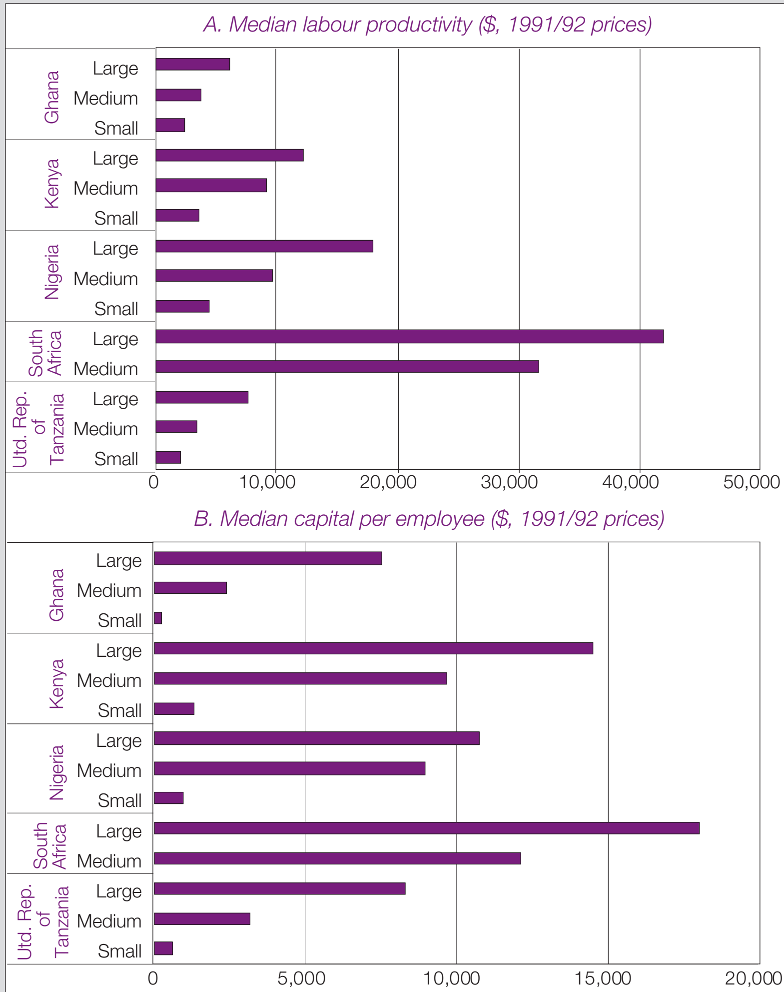
Labour productivity across countries

Domestic firms may also be unable to enter and penetrate export markets because of high costs, particularly in relation to their underlying productivity. The top panel of figure 8 shows how labour productivity (gross output per employee) varies across countries and within countries by firm size for the countries surveyed. The bottom panel shows a similar breakdown for capital per employee. Two features are striking: the first is the common fact across all five countries that both labour productivity and capital per employee increase as firm size increases. The second is that the labour productivity differential between South Africa and the other countries is far greater than is the differential in capital per employee. This finding points to the higher measured total factor productivity for South Africa.

While both labour productivity and capital per employee increase with firm size, this does not necessarily imply there are increasing returns to scale. Indeed the evidence from the work on the firm surveys points to constant returns to scale. The sample for South Africa contains no small firms so we cannot know if the pattern we observe for small firms is a common one across all the countries. However, for four countries, what is striking about small firms is just how low their labour productivity and their capital per employee are. In Ghana and the United Republic of Tanzania, output per employee is only just over $2,000 (in 1991/92 prices) and the capital per employee is well below $1,000 (in 1991/92 prices). Clearly to set up firms with such low amounts of capital does not require a substantial investment. While large firms have many times this amount of capital, their median, excluding South Africa, is $10,000 (at 1991/92 prices), which again is very small by international standards.

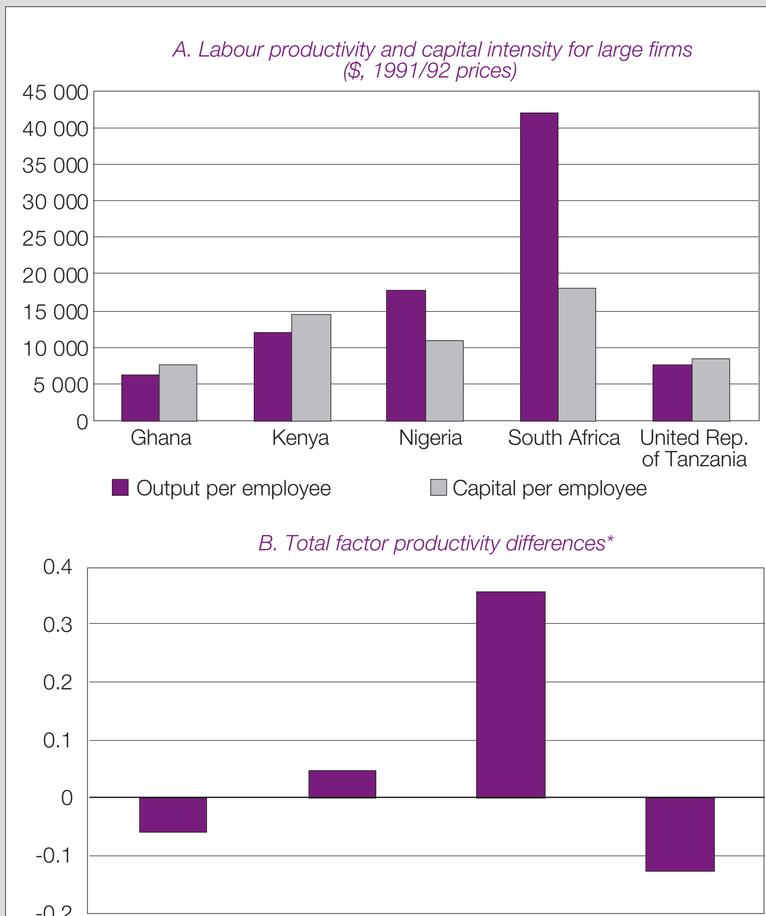
In figure 9 we bring together the results from figure 8 to show in the top panel both labour productivity and capital per employee. It is the gap between these numbers which determines in large part the measure of total factor productivity in the data. The bottom panel of figure 9 shows the differences in total factor

Figure 8. Labour productivity and capital per employee, by firm size



Source: UNCTAD.
Note: For definition of firm sizes, see figure 6.

Figure 9. Productivity across countries and by firm size



Source: UNCTAD.

* Total factor productivity measured relative to Ghana.

Table 16. Labour productivity and costs in Africa and other regions (mean)

Region	Labour cost per worker ($)	Value added per worker ($)
Africa	1 464	4 734
East Asia	1 733	6 631
Eastern Europe and Central Asia	4 046	10 297
Latin America and the Caribbean	3 241	8 890
South Asia	817	1 483

Source: Dinh and Clarke (2012).

productivity across countries, which is based on how much of labour productivity cannot be explained by capital intensity. South Africa emerges as the country with the highest total factor productivity, Nigeria is second and Ghana is third. The country with the lowest total factor productivity is the United Republic of Tanzania.

How important are differences in total factor productivity in explaining the differences in exporting across countries? Rankin, Söderbom and Teal (2006) examined this issue by asking whether the size effect observed in exporting is a reflection of the fact that larger firms have higher levels of productivity. Their regression results indicate that firm size, measured by the number of employees, is not a proxy for either efficiency or capital intensity. Furthermore, the findings indicate that firms with higher labour productivity are more likely to export and this effect is of about the same order of magnitude as that of size measured by employment. The focus of the analysis has so far been on the link between productivity and firm size among African firms. But it would also be interesting to know how the productivity of African firms differs from those on other continents. Dinh and Clarke (2012) examined this issue using recent manufacturing survey data. They found that the average manufacturing firm in Africa is less productive than those found in East Asia and Latin America and the Caribbean (see table 16). However, they also found that if adjustments are made for differences in income, infrastructure, access to credit and other political and geographical differences, then firms in Africa perform better than those in other regions, indicating that lifting these constraints will be crucial for improving manufacturing performance in Africa.

To sum up, the analysis presented in this subsection indicates that firms with higher labour productivity are more likely to export than those with lower labour productivity. They also suggest that African manufacturing firms generally have lower labour productivity than firms on other continents. Poor infrastructure and

weak access to credit are some of the factors accounting for these differences in productivity. Thus, if African Governments want to boost intra-African trade they will have to enhance the export competitiveness of African manufacturing firms by addressing these obstacles to productivity growth.

Exporting and geography

The evidence from the five sub-Saharan African countries presented above points to similar factors determining export participation outside and within Africa. These factors are the scale at which the firm operates and its level of efficiency. Are there, however, aspects in which intra-African trade differs from trade outside Africa and how might intra-African trade differ in its consequences? The most obvious factor distinguishing intra-African from trade outside Africa is geography, in particular transport costs within Africa and the distance to its markets. These are factors common to all firms within a given locality. A panel data analysis of the data set indicates that these fixed effects are important and indeed highly correlated with aspects of efficiency, pointing to the importance of these geographical factors in the growth of different types of exports.

A study of the determinants of exports by Elbadawi, Mengistae and Zeufack (2006) covers 18 countries, of which half are from sub-Saharan Africa and one, Morocco, from North Africa. The study argues that "one part of the effect of geography operates through Africa's lower 'foreign market access': African firms are located further away from wealthier or denser potential export markets. A second occurs through the region's lower 'supplier access': African firms face steeper input prices, partly because of their physical distance from cheaper foreign suppliers, and partly because domestic substitutes for importable inputs are more expensive." There seems to be clear evidence that proximity to markets matters for trade. One reason given for the relative success of Morocco in being able to export garments produced in a labour-intensive way is its close proximity to the European Union market. The (largely unrecorded) trade in agricultural products within Africa points to the importance of being close to markets for such trade. However there are important differences between the export structure of Morocco and that of countries in sub-Saharan Africa. Trade between Morocco and the European Union in labour-intensive products is exploiting fundamental differences in labour endowments, whereas intra-African trade in agricultural products is exploiting in part local differences in geographical endowments and in part differences in demand across areas which traverse national borders.

In summary, the analysis presented here suggests that transport costs and distance to markets are also important determinants of exports in Africa. The successful promotion of intra-African trade will therefore require that government efforts to reduce transport costs are stepped up through, for example, addressing the constraints posed by weak infrastructure. Furthermore, the fact that proximity to markets matters for exports suggests that in the short to medium term African manufacturing firms have a better chance of succeeding in regional than in global markets.

Exporting and firm growth

The evidence presented in previous sections suggests that larger firms are more likely to export than small firms, both within and outside Africa. African economies are dominated by small firms that produce mostly for the domestic market. As a result, their growth is very much limited by the growth of domestic incomes. An interesting issue therefore is why larger firms are not becoming an important part of Africa's industrial landscape. It has been argued in previous sections that there is very little upward mobility of enterprises in Africa. In particular, small firms hardly ever transit into medium- and large-scale enterprises. The literature suggests that firm growth depends on firm size and age, innovation capabilities, level of development of input markets, state of infrastructure and entrepreneur characteristics such as education and gender. Goedhuys and Sleuwaegen (2010) investigated this issue using African data and found that product innovation and access to good means of transportation and the Internet affect the growth of firms on the continent. They also found some evidence that education plays a role.

Another way to look at the issue of the size of firms in Africa is to ask whether domestic firms are unable to grow larger because they cannot export. The evidence strongly points to that being at least part of the story, but if growth is limited by the inability to export, what are those factors that limit exporting? The answer is that costs are too high for the vast majority of firms to be competitive in export markets. These costs divide between those that occur at the level of the firm, the prices it pays for its labour, capital and inputs and the price which it obtains for its output and the costs which are common to all firms in a locality. Lowering costs is, however, not the only way to increase exports. In fact some studies suggest that market familiarity or access is another mechanism by which firms can increase exports (Fafchamps et al., 2008). The idea is that for firms to successfully penetrate an export market they have to produce goods that appeal to consumers

in that market and this comes from familiarity with consumer tastes and market conditions. Both lower costs and market familiarity may be subject to "learning-by-doing" and there is some evidence that manufacturing firms do learn from exporting. Fafchamps et al. (2008) tested the two models of learning-by-doing and selection into exporting. In particular, they compared the role of learning-by-doing in lowering cost (productivity learning) and in enabling a firm to acquire better market familiarity (market learning). They argue that productivity learning depends on the general experience of the firm and implies that older firms are more likely to export. On the other hand, market learning depends on export experience and implies that once a firm starts exporting, it is more likely to develop new products suited to its export market. A test of this model using data on Moroccan manufacturers suggests that there is strong evidence in support of market learning. Exporting firms tend to develop new products very quickly after they enter the market. The results of the study also suggest that among Moroccan firms there is no strong support for the productivity learning hypothesis in the sense that it is young firms rather than old firms that seem to export and most do so immediately after they are set up. While the evidence suggests that productivity learning is not important for Moroccan firms, this does not mean that it is not important for other African countries. In fact it is likely that the relative importance of the two mechanisms of selection into exporting will differ from country to country.

Discussion

To sum up, most African countries continue to be dominated by agricultural exports and by small-scale enterprises overwhelmingly geared to local domestic markets. If regional trade is to develop, the current structure of enterprises needs to develop in a manner that creates more complementarities in regional patterns of demand and supply and an increase in the scale at which enterprises operate. This section has identified four factors that may enable firms to expand their intra-African trade. These are the scale at which firms operate, their level of efficiency, the costs they face and market familiarity and access. All these factors also matter for trade outside Africa, but they may matter for different reasons. For firms that trade regionally, such markets offer a straightforward extension of their domestic markets. The evidence which points to foreign market familiarity and access being important suggests that larger firms may be needed for exporting outside Africa, as the fixed costs of acquiring knowledge of foreign markets necessitate a certain minimum scale of operation. Higher levels of efficiency will enable firms to enter

both regional and more distant markets. However, it is possible that this effect is more important for the regional than the international markets. Relatively greater efficiency may be the key to success against local competitors, while more general issues of market familiarity and access may matter for more distant markets.

D. STRENGTHENING THE PRIVATE SECTOR TO BOOST REGIONAL TRADE

As one of the main stakeholders in any economy, the private sector has a crucial role to play in boosting intra-African trade. In this context, there is a need to strengthen the capacity of the private sector to produce and export goods, particularly those with high income elasticity and export demand. In the 1980s and 1990s, many African countries embarked on reform of the business environment (protection of property rights, relaxation of labour regulations, etc.) with a view to promoting private sector development. The experience of the past three decades has shown that, while these reforms may be necessary, they are not sufficient to promote entrepreneurship, unlock private sector dynamism and boost productive capacity in the region (UNIDO, 2008). Consequently, there is a need for a more balanced and pragmatic approach to promoting private sector development on the continent. This section identifies and discusses some key elements of a credible package to promote private sector development and boost intra-African trade.

Invest in infrastructure

Realizing the trade and development potential of Africa requires that constraints imposed by a lack of transport, energy, communications and water infrastructure be lifted. Inadequate infrastructure limits access to markets, raises trade costs and reduces productivity, thereby hampering intra-African trade. It is estimated that the poor infrastructure in Africa reduces the productivity of companies by 40 per cent and per capita output growth by about two percentage points. Given the scale and scope of African infrastructure needs, there is an understanding that addressing these challenges requires a regional and continental solution. In this context, the African Union launched its programme for infrastructure development in Africa in Kampala in July 2010. The programme emphasizes local ownership and is forward looking, covering the period from 2010 to 2040. It brings under one umbrella existing initiatives on infrastructure such as the short-term action plan of the New Partnership for Africa's Development (NEPAD), the NEPAD medium and long-term strategic

framework, and the African Union infrastructure master plan. If implemented as planned, it is expected to reduce the cost of electricity by $30 billion per year, increase access to power from 39 per cent of the population in 2009 to 70 per cent in 2040, yield efficiency gains of $172 billion from reduced transport costs over 30 years, ensure water and food security and result in a gain of 20 percentage points in broadband connectivity. The short and medium-term infrastructure development projects (priority action plan) covering the period from 2012 to 2020 is expected to cost $68 billion, while the total cost of implementation is $360 billion. Energy and transport projects account for 95 per cent of the estimated cost, reflecting the widely held view that problems in these two sectors are key obstacles to expanding intra-African trade. At the sixteenth African Union summit in January 2011, African leaders showed renewed commitment to improving infrastructure development on the continent by adopting the Presidential Infrastructure Champion Initiative, which focuses on seven regional infrastructure projects to be implemented over the period from 2010 to 2015. Each of the seven projects is championed by a NEPAD head of State or Government, with the President of South Africa as the Chair or convener of the initiative. The champions of the initiative are expected to provide visibility for it, unblock any bottlenecks, coordinate resource mobilization and ensure project implementation.

Mobilization of resources will play a key role in the implementation of programmes on infrastructure development in Africa. Based on a recent study by the Africa Infrastructure Country Diagnostic, the funding gap for sub-Saharan Africa alone is about $50 billion per year. Although, the study did not include North Africa, it is obvious that adding this region will increase the funding gap for the continent significantly. Given the limited financial resources of many African countries, Governments will need to find ways to leverage private investment in infrastructure. Over the past decade, there has been an increase in private investment in infrastructure in sub-Saharan Africa from $3 billion in 1997 to $12 billion in 2009 (OECD, 2012). In 2011, commitment to the infrastructure in sub-Saharan Africa by the private sector was about $11.5 billion, which represents a decline of about 17 per cent relative to the figure in 2010 of about $13.8 billion. It is worrying that most of the private investment in Africa goes to telecommunications and Governments need to step up their efforts to catalyse more private investment into other infrastructure areas such as energy and transport (see table 17). Public-private partnerships have been adopted by African Governments to leverage private investment in infrastructure, but if they are to play a crucial role in infrastructure development in Africa, Governments will have to develop bankable projects, enact enabling legislation and

Table 17. Private sector commitments to sub-Saharan Africa infrastructure, 2011

Sector	Share (%)	Total ($ million)	No of projects
Telecommunications	79	9 040	7
Energy	13	1 495	9
Transport	7	851	3
Water and sewerage	0	-	0
Total	100	11 387	19

Source: ICA (2012).

regulations, provide or facilitate loan guarantees, avoid policy reversals and reduce political instability. Furthermore, having a highly trained and experienced local team to negotiate with private investors is necessary to ensure that societal interests are adequately protected in public–private partnership contracts.

Governments also need to explore new and innovative sources of financing for infrastructure projects on the continent. For example, South Africa and Kenya have successfully used infrastructure bonds to finance road projects. Other African countries should explore this option. Sovereign wealth funds have been set up by resource-rich countries such as Botswana, Chad, Ghana, Libya and Nigeria. It is estimated that African countries had invested about $114.3 billion in sovereign wealth funds as at December 2009 (Triki and Faye, 2011). These resources could be leveraged to fund regional and continental infrastructure projects. Regional development finance institutions, such as AfDB, also have an important role to play in financing infrastructure development. There are already indications that AfDB is becoming more active in infrastructure finance: over the past five years it has invested about $11 billion in infrastructure development on the continent. Furthermore, in August 2012, the President of AfDB indicated that it plans to float a regional infrastructure bond to raise $22 billion from member States. If this plan is successfully implemented it will be a big boost for infrastructure development on the continent. Development partners are also beginning to pay relatively more attention to infrastructure development in Africa, as evidenced by the number of initiatives such as the G20 infrastructure action plan, the EU-Africa Infrastructure Trust Fund and the Infrastructure Consortium for Africa. It is estimated that in 2011, members of the consortium committed $11.9 billion to infrastructure in Africa, while the Arab Coordination Group committed $2.9 billion and China $14.9 billion (ICA, 2012).

Make finance more accessible and less costly

Lack of access to affordable finance is a major challenge for firms in Africa. Only about 23 per cent of African enterprises have loans or lines of credit compared to 46 per cent for non-African developing countries (Beck et al 2011). The lack of access to finance is especially serious for SMEs because banks tend to target large enterprises and microfinance institutions focus on microenterprises, while meeting the financing needs of SMEs is hardly given priority by domestic financial institutions. Several characteristics of African economies are crucial to understanding why there is limited access to finance on the continent. The financial system is dominated by banks which, compared to those on other continents, are often small, concentrated and in many countries foreign-owned. Many countries on the continent also have a weak financial infrastructure — for example, a lack of credit bureaux, collateral registries, credit rating agencies and payment and settlement systems — and this affects access to credit and hampers the smooth functioning of the financial system (see box 3). These characteristics, coupled with excessive documentation requirements by banks, high perceived risks due to information asymmetry, the informal nature of SMEs and the fact that they do not follow established accounting and auditing standards, contribute to limited access to finance in Africa. African Governments need to work closely with the private sector to improve the financial infrastructure on the continent. For example, they could work with the private sector to enhance access to credit by reducing information asymmetry between lenders

Box 3. Credit bureaux, registries and access to finance in Africa

Information asymmetry between lenders and borrowers is a major factor militating against access to finance in Africa. The establishment of private credit bureaux and public credit registries can reduce the information gap between lenders and borrowers and enhance access to credit. Using data for 42 African countries, Triki and Gajigo (2012) examined the effects of private credit bureaux and public credit registries on access to finance in Africa for companies. They found that economies with private credit bureaux have better access to finance than either those with only public credit registries or those lacking both institutions. Furthermore, they found that in economies where public credit registries collect both positive and negative information on borrowers' credit history, the access to finance for firms improves. Algeria, Egypt, Mauritius, Mozambique and Rwanda are countries in the data set in which public credit registries collect both positive and negative information. Private credit bureaux differ from public credit registries because they are usually created by the private sector while public credit registries are generally public institutions created primarily for banking supervision.

Source: Triki and Gajigo (2012).

and borrowers through financing the establishment of private credit bureaux and public credit registries. Furthermore, provision of business support services to SMEs can facilitate their transition from informal to formal enterprises and enhance their access to credit. The private sector should also find innovative methods to address the barriers inhibiting access to credit for SMEs. For example, they could use value-chain finance and leasing to overcome the problem of lack of collateral. An example of value-chain finance (also called buyer and supplier finance) is when an input supplier provides inputs such as fertilizers on credit to a farmer (or members of a farming group) with the understanding that repayment will be made after the harvest. This has been successfully used in the agricultural sector in Ghana and Mozambique (Beck et al., 2011). Regional development finance institutions can also play a crucial role in enhancing access to finance for SMEs. In this context, in 2012 AfDB took an important step for improving access to finance for SMEs by launching the African Guarantee Fund, which will be financed in partnership with the Governments of Denmark and Spain. The fund will operate by providing financial guarantees to financial institutions, thereby incentivizing them to finance SMEs. Reducing the cost of finance and trade should be on the priority list of African Governments because it hampers investment and regional trade. Financial institutions in Africa tend to charge high fees and interest rates. Consequently, they have high interest rate spreads and margins. It is estimated that interest rates charged by banks in Africa to SMEs are 5 to 6 percentage points higher than in other developing-country regions (Martinez Peria, 2009). While the high interest rates charged by banks often reflect the fact that they are small and face higher risks, the spreads are often too wide relative to what would be expected on the basis of those risks.

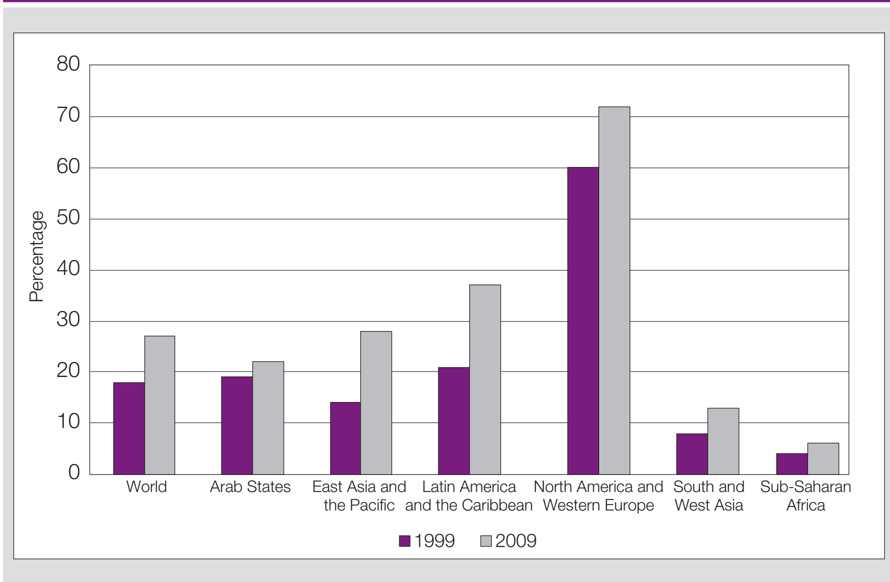
While the problem of finance is more acute for SMEs, large firms in Africa also face significant financing challenges that have to be addressed. For example, they have difficulty obtaining access to long-term finance. It is well known that financial institutions on the continent tend to offer short-term loans and are reluctant to provide long-term finance. About 95 per cent of loans to firms in Africa are for five years or less (Beck et al., 2011). The short duration of financial contracts in Africa is not conducive to promoting investment and building productive capacity. Governments need to use economic incentives (particularly guarantee schemes) to encourage financial institutions to lengthen the duration of financial contracts, reduce fees and interest rate margins and make finance more accessible and affordable for domestic firms. Strengthening development banks and promoting the development of regional capital markets will also contribute to enhancing access to finance on the continent.

A major issue of concern to exporting enterprises is how to deal with the payment risks associated with regional trade. Payment risk largely depends on the creditworthiness of the importer and the convertibility of the importer's currency. The formation of currency unions is one way African Governments could reduce payment risks associated with currency inconvertibility. Currency unions would also eliminate the transaction cost associated with using multiple currencies and thereby boost regional trade. However, it takes time for countries to fulfil the conditions necessary to establish a functional currency union, as we have seen in the case of the West African monetary zone. As African countries strengthen their efforts towards currency unification, in the short run they should therefore consider strengthening cooperation in payments systems to reduce transaction costs and make regional trade easier. This will allow them to facilitate regional trade while putting in place the institutions and rules necessary to implement a full currency union in the medium to long term. African countries are aware of the importance of effective payments and settlements systems for trade and several of the regional trade blocs have initiatives or projects under way on developing and strengthening regional payments systems. For example SADC launched a regional payments system in 1996 and EAC has a project to integrate payments and settlement systems among its member States. Nevertheless, the implementation of these initiatives or projects has been very slow and there is therefore a need for renewed government efforts to fully implement or operationalize existing initiatives and projects (ECA, AUC and AfDB 2010). COMESA has made significant progress in implementing its regional payment and settlement system, which became operational on 3 October 2012 with the central banks of COMESA member States as the main participants. Under the system, central banks guarantee trade payments by pre-funding commercial bank accounts with the central bank, thereby eliminating the need for confirmed letters of credit by importers and exporters.

Develop and strengthen workforce skills

Domestic firms are increasingly facing intense competition in exports markets as a result of globalization. Their ability to withstand competition depends in part on their technological capabilities, which can be developed either through technology transfer or domestically through investment in education, training and research and development. Relative to other regions of the world, African countries are not investing enough in either education and training or research and development. In 2009, gross enrolment in tertiary education was only 6 per cent in sub-Saharan Africa compared to a world average of 27 per cent (see figure 10). Furthermore,

Figure 10. Tertiary education gross enrolment ratios by region (percentage)



Source: : Elaborated using data from the UNESCO Institute for Statistics fact sheet, Nos. 21 and 22, December 2012.

Africa devotes less than 1 per cent of its gross domestic product to research and development and accounts for only 0.9 percent of global expenditure on it (see table 18). As a result of these facts, lack of availability of key skills is a major problem facing African firms. In the sixteenth annual survey of chief executive officers (CEOs) conducted by PricewaterhouseCoopers, eighty-two percent of African CEOs listed availability of key skills as the top business threat they are concerned about. Availability of workforce skills is crucial for building supply capacities and promoting regional trade. Firms cannot produce and compete if they do not have affordable and reliable access to key skills. In this context, there is a need for African Governments to invest more in high-quality education and the development of workforce skills. They should also consider allocating more resources to science and technology fields, particularly engineering, manufacturing and construction, deemed crucial for private sector innovation and the development of supply capacities.

ILO (2010) provides a strategic framework for skills development, stressing that it should focus on increasing the availability of good-quality education; matching

Table 18. Investment in research and development, 2009

	Percentage of GDP devoted to R&D	Percentage of global R&D expenditure
Africa	0.4	0.9
Europe	1.8	28.5
Latin America and the Caribbean	0.7	3.1
North America	2.7	32.7
Asia	1.6	33.0
Oceania	2.2	1.8

Source: Elaborated using data from the UNESCO Institute for Statistics fact sheet, Nos. 21 and 22, December 2012.

skills supply with the needs of the labour market; enabling workers and enterprises to adjust to changes in technology and markets; and anticipating and preparing for the skills of the future. There are indications that African Governments are paying more attention to some of these issues. For example, over the period from 1999 to 2009, the percentage of the population enrolling in technical and vocational education training programmes increased from 9 to 16 per cent in sub-Saharan Africa. However, the development of workforce skills is not the responsibility of Governments alone. The private sector can also play a role through on-the-job staff training and also by contributing to financing research and training programmes in universities and research institutes.

Strengthen mechanisms for consultation with the private sector

The establishment of a credible mechanism for effective State-business relations 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 undertake 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 them. Governments must also make sure that dialogue with the private sector is done in such a way that

it 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 local and regional value chains

Local and regional value chains have vital roles to play in broadening the manufacturing base of African economies, expanding productive capacity and boosting intra-African trade. Regional value chains present opportunities for improving productivity and quality standards, both for domestic firms with export potential and those that produce goods predominantly demanded at the national and regional levels. For domestic firms that have good export potential but face challenges competing in international markets, regional value chains give them the opportunity to upgrade and achieve international competitiveness, thereby making it easier to connect to global value chains. About 80 per cent of the global trade in goods takes place along value chains. Therefore, if African countries want to increase the benefit they derive from the trading system they have to integrate into global networks. Insertion into global production networks is not easy and requires domestic firms to meet very demanding market requirements on price, quality and lead times. In this context, the development of regional value chains could facilitate the entry of African firms into global networks. Regional markets will permit domestic firms to learn, meet the product standards and develop the production capabilities required for successful participation in global production networks. Given the fact that most African countries currently have a 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 that it presents (ECA and AUC, 2013). They do, however, need to put more investment into developing the innovation capabilities of domestic firms to enhance their ability to upgrade into more advanced segments of the value chain.

The experience of Asian countries indicates that regional value chains tend to be successful and sustainable if they have a global presence. The regional value chains in Asia trade intermediate inputs regionally and use them to produce final goods for export to the rest of the world (particularly the United States and the European Union). If African countries want to use the regional value chain approach

to promote intra-African trade, it is important that they see it as an essential part of an overall strategy to improve international competitiveness and integrate the region into the global economy, rather than a mutually exclusive option. Another important lesson from the experiences of other developing-country regions is that the participation of large and wealthy countries in regional production chains enhances the likelihood of success of regional value chains. China and Japan played this role in Asia. Algeria, Egypt, Nigeria and South Africa are examples of African countries with the potential to play this role in the development of regional production chains in Africa. However, they will have to undergo significant structural transformation and also invest in national and regional infrastructure in order to play this role effectively.

Maintain peace and security

Achieving peace and security is the most pressing development challenge facing Africa and must be a key element in any credible policy package to strengthen private sector development and boost intra-African trade. Insecurity has been a reoccurring problem on the continent since the 1960s. It takes various forms, ranging from civil wars, criminal violence and political unrest to terrorism and piracy. While significant progress was made in the last decade, several countries are currently involved in violent conflicts which have dire consequences for their economies and for regional trade and development. For example, in 2012 there were coups d'état in at least two countries, violence in at least three countries, piracy attacks in at least two countries and terrorist attacks in at least two countries. Insecurity has wreaked havoc on African economies (see box 4). It has a negative impact on infrastructure development, private investment and entrepreneurship. It also has serious consequences for country risk premiums and hence access to finance for intra-African trade. It is estimated that in a country in conflict, trade drops by as much as 12-25 percentage points in the first year of the conflict and that it can take up to 25 years before it returns to pre-crisis levels. While there are many possible causes of insecurity, there is an understanding that the systematic exclusion of some stakeholders from the institutions of political governance and access to assets and social services is a major cause of conflicts (United Nations, 2012). In this regard, inclusive growth policies and mechanisms are needed for conflict prevention and resolution in order to promote peace and security in Africa and lay a good foundation for expanding regional trade. In July 2002, the African Union took a bold step in addressing peace and security issues by adopting the

Protocol relating to the Establishment of the Peace and Security Council of the African Union, which entered into force in December 2003. The adoption of the protocol paved the way for the African Peace and Security Architecture which is now the framework for crisis management on the continent. African Governments need to pay more attention to peace and security issues because they are necessary conditions for boosting regional trade and promoting development on the continent.

Box 4. Effect of the political shock in Côte d'Ivoire on West African economies

The historically open policy of Côte d'Ivoire encouraged free trade and the free movement of people in West Africa. Before the country's political instability, there were intensive exchanges through trade and travel with people from neighbouring countries (Burkina Faso, Ghana, Guinea, Liberia and Mali) and even beyond (Benin, the Niger and Togo). Several landlocked countries in West Africa depended on the ports of Côte d'Ivoire to access international markets. The country was also a financial hub for the region and many West African countries benefitted from positive spillover from the economic success of Côte d'Ivoire. As a result, the political problems that arose in 1999 affected not only Côte d'Ivoire itself but also several other countries. Although some countries benefited from the diversion of trade away from Côte d'Ivoire, the cumulative loss of intra-WAEMU trade was estimated at $9 billion. Actual intra-WAEMU trade was 60 per cent lower than it should have been without the conflict. The most affected countries were the ones which were most dependent on the Ivorian economy. The CFA franc 35 billion worth of yearly imports from Côte d'Ivoire into the Niger dropped substantially at the height of the conflict in 2010. Landlocked, the Niger was forced to divert its import and export routes to more expensive alternatives in order to avoid the ports of Côte d'Ivoire which it had traditionally used. Insecurity in Côte d'Ivoire also forced Burkina Faso to divert transport routes to the ports of Lomé, Accra and Cotonou, despite the fact that these options were more expensive than using the port of Abidjan. High import and export costs increased consumer prices in the country. Moreover, the prices of traditional imports from Côte d'Ivoire, including some inputs, increased by 15-30 per cent. For a country where 32 per cent of total official imports were from Côte d'Ivoire, instability in the latter country had a serious negative effect on the trade and economy of Burkina Faso in general. Similar effects were noted for Benin, Guinea, Mali and Togo.

Source: UNDP Regional Bureau for Africa, "The conflict in Côte d'Ivoire and its effect on West African countries", issue brief, April 2011, available from http://web.undp.org/africa/knowledge/issue-cotedivoire.pdf.

CHAPTER 4

BOOSTING INTRA-AFRICAN TRADE IN THE CONTEXT OF DEVELOPMENTAL REGIONALISM

This chapter begins with the recognition that boosting intra-African trade cannot be done in isolation. To be successful and have maximum impact, it has to be part of an overall strategy to promote private sector development and regional integration in Africa. In this context, the chapter considers the basic tenets for promoting private sector development and boosting intra-African trade within the framework of developmental regional integration. It explores the defining features and scope of developmental regionalism and compares it to the predominant paradigm of market-led regional integration that is characterized by a specific focus on the reduction of tariffs and the elimination of other border measures that inhibit cross-border trade in Africa. A brief review of African integration reveals that, although there are elements of a developmental integration agenda in some subregions, a comprehensive, coherent developmental integration agenda has yet to be developed and implemented.

Comparative experience, specifically in the Greater Mekong Subregion in Asia is reviewed here, drawing lessons for enhancing the African integration strategy to encompass a developmental agenda and address constraints on the capacity to produce goods and services competitively. Lessons concerning the management of such a developmental integration agenda involving broad stakeholder inputs are also drawn from this case study. A key feature of the developmental integration agenda is that, in addition to supporting intraregional integration to ensure benefits to national member economies, it also provides a platform for competitive integration into the global economy. The chapter also discusses the tools and drivers of a developmental integration agenda led by the State but with significant and active private sector participation. These include industrial policy and specific initiatives such as special economic zones and development corridors. A brief detour back to the traditional integration agenda reveals that aspects of this agenda and the non-implementation of the agreed integration initiatives may well also be responsible for the limited success of regional integration in promoting intra-African trade to date. The chapter concludes with recommendations for the design of a developmental integration agenda, recognizing that there may well be associated challenges that have to be factored into the agenda to ensure enhanced development outcomes.

A. CONCEPTUALIZING DEVELOPMENTAL REGIONALISM

This report considers developmental regionalism as a development-based integration agenda aimed at securing the traditional benefits of regional integration,

ensuring that such benefits flow to all member countries and seeking to enhance the integration of member countries into world markets as a means of fostering sustainable development (UNCTAD, 2011). This approach assumes the need for gradual and sequenced trade liberalization alongside conscious and planned policy actions aimed at building the productive capacities of member countries (mainly in the domestic private sector) and promoting industrial restructuring. The development of productive capacities and enhancing competitiveness are necessary to enable domestic businesses to participate in regional and global value chains and to compete in global markets.

Developmental regionalism encompasses cooperation in the area of trade, with an emphasis on the promotion of intraregional trade and integration into the global economy. It goes beyond the domain of trade per se by including cooperation in other, more ambitious areas, such as industrial policy. Emphasis is placed on implementing "strategic" trade policies (i.e. those which include both more and less traditional policy tools, such as export promotion and selective protection) and ensuring that these are consistent with the domestic industrial policy framework of each State involved. For instance, regional trade can be promoted through coordination of investment into strategic areas, such as regional transport and other ancillary infrastructure, in order to improve linkages between countries and thereby facilitate the creation of larger markets. Thus, prioritizing investment in areas of common interest can help to overcome the pre-existing bias against regional trade caused by the colonial legacy that still characterizes many poor and least developed countries around the world (i.e. small domestic markets which are not conducive to industrial diversification), including in Africa. Developmental regionalism can therefore involve a variety of policy tools which are not generally included in market integration initiatives. The agenda extends beyond tariffs and non-tariff measures, import and export quotas and bans, technical and phytosanitary standards, to include issues such as competition policy, the provision of infrastructure and other public goods, investment, promotion of research and development and building the domestic productive capacities of both the private sector and State-owned enterprises, among other things. To ensure the greatest impact and efficiency, these policies should be harmonized and coordinated among participating countries in a regional arrangement. At the same time, the promotion of developmental regionalism should go hand in hand with the strengthening of the structures, institutions and capabilities of national Governments to implement such policies in order to foster sustainable development.

B. CURRENT REGIONAL INTEGRATION INITIATIVES IN AFRICA: ARE THEY CONDUCIVE TO DEVELOPMENTAL REGIONALISM?

Since gaining independence, most African countries have embraced regionalism as a framework to address obstacles to intra-African trade and improve the competitiveness of their small and fragmented economies. However, the African integration agenda, which has been followed by the regional economic communities, is based on the linear model of market integration, in which groups of countries move progressively from a free trade area to a customs union, a common market, an economic union and eventually a political union, by reducing barriers to economic and non-economic transactions amongst participating countries. Although some progress has been made by some regional economic communities in their attempt to integrate, the implementation record as a whole has been poor. Regional initiatives have largely failed to uplift the economic conditions of African economies and ensure sustainable growth and development, and intraregional trade as a proportion of total trade remains much lower in Africa than in other developing regions such as Asia and Latin America, as demonstrated in chapter 1 above.

Several constraints and challenges have emerged to consolidating and furthering the integration agenda in Africa and to expanding intra-African trade. These include the overlap and duplication of integration agendas and objectives, given the multiplicity of memberships in various regional economic communities; a lack of political will; the poor quality of the infrastructure, particularly in energy, transport and communications; the high dependence of most member countries on the export of primary commodities; a poor macroeconomic and financial environment; the lack of a compensation mechanism; institutional barriers; and limited private sector involvement (Attah-Mensah, 2012; Maruping, 2005; UNCTAD, 2009). Although inefficient customs and regulatory procedures certainly hamper trade in the region, experience has demonstrated that the main barriers to increasing intra-African trade are often not found at the border. Given that the linear market integration approach tends to focus more on tariffs and other border barriers to trade without adequately addressing supply-side constraints, a development-led integration agenda that includes structural transformation, investment, services, regional infrastructure, enterprise and private sector development, institutional capacity and technology and innovation could address the constraints facing African economies far more effectively than an agenda which focuses almost exclusively on border

measures (Hartzenberg, 2011). However, many of the current regional integration initiatives in Africa are still not conducive to such an approach; explaining why the trade expansion and market integration objectives of most regional economic communities have not been met. Although a number of important steps have been taken in recent years in an attempt to deepen the integration process (e.g. the EAC industrialization strategy and the SADC regional infrastructure development master plan), efforts need to be further scaled up in a pragmatic way in order to achieve ultimate economic development and transformation objectives for Africa.

Furthermore, the private sector and other local stakeholders remain passive participants in African regional integration initiatives. This contrasts markedly with other integration initiatives, for example in Asia, where the private sector plays a crucial role in shaping the integration agenda. Implementation challenges continue to bedevil African integration arrangements: missed deadlines for tariff reductions and the lack of domestic implementation and application of regional agreements are characteristic of all African arrangements. This has led some cynics to question whether African countries are indeed serious about rules-based integration. High-level political commitment aside, the litmus test of real commitment is the implementation of regional commitments at the national level. Since much of the implementation of regional commitments has to take place at the national level, the capacities of nation States will be an important determinant of the success of regional integration. Weak institutions, in terms of the capacity to make and implement policy, will provide a weak basis for regional integration. Furthermore, arrangements for robust regional dispute resolution are not a hallmark of all African integration arrangements at this stage (Erasmus, 2011). However, rules-based governance is essential for the achievement of development outcomes at a national and regional level and could be used to address challenges of non-compliance with regional obligations.

It is in this context that the need for a paradigm shift to enhance and reinvigorate the African integration agenda has become evident. Market integration initiatives aimed at reducing tariffs and non-tariff barriers have traditionally been the hallmark of African integration efforts. However, African growth and development prospects will remain unfulfilled unless the challenges of inadequate infrastructure, a low level of diversification, the limitations imposed by small and fragmented economies and a weak private sector are addressed, alongside efforts to promote market integration. Indeed, it has been recognized that removing artificial obstacles to intra-African trade may not be sufficient to expand trade and deepen economic integration on the continent, given the structural deficiencies and other weaknesses which remain (ECA, AUC and AfDB 2010).

Built-in constraints to effective integration, and specifically to increasing intraregional trade, are also to be found in existing arrangements in very specific provisions on, for example, rules of origin. Rules of origin are essential in a preferential trade agreement. By determining the origin of goods, rules of origin are the instrument used to prevent trade deflection, to ensure that only the member States of a preferential trade arrangement benefit from the negotiated tariff preferences. However, rules of origin can of course also be used, just as the import tariff can, to protect domestic industry from import competition. It is important therefore to find an appropriate balance between preventing trade deflection, while not imposing significant costs on firms obliged to use inputs from specific sources and adapt production processes to meet the rules of origin requirements to qualify for preferential market access. SADC rules of origin follow a line-by-line approach with rules devised for a specific product or sector. Rather than having a generic rule, or set of rules, that applies to all sectors and products, SADC rules have sector- or product-specific requirements (Naumann, 2011). For garments, the rule requires that two stages of transformation take place in a SADC member State for the garment to qualify for SADC preferences. This means that both the fabric and the garment have to be manufactured in a SADC member State. With very little textile manufacture in this region, the rules effectively limit trade in garments in this region. This approach to rules of origin does not support developmental regionalism in SADC and demonstrates that a developmental regional integration agenda requires scrutiny of the provisions in the current linear integration agenda of African regional economic communities.

Adopting a “developmental regionalism” approach, in which regional integration is used to build an industrial base and address supply-side constraints to private sector development with the aim of improving international competitiveness, thus holds much promise for Africa. It is argued that to meet the key challenge of economic transformation, regional integration initiatives need to be designed and carried out within a broader development framework, which promotes economic diversification, structural transformation and technological development, thereby enhancing the productive capacities of African economies, realizing economies of scale, facilitating infrastructure development and supporting industrialization. This in turn leads to increased foreign and domestic investment, enhanced trade, improved competitiveness and development of human capital (UNCTAD, 2009; ECA, 2012b). In this way, Africa will be able to attain high, sustainable and shared economic growth and become further integrated into the global economy. However, political commitment to boosting intra-African trade, as recently reaffirmed in the

African Union Commission action plan for boosting intra-African trade, needs to be followed through by the requisite implementation and operationalization at the regional and national levels.

Box 5. African regional economic communities and developmental regionalism

This box provides an overview of developments in regional integration in SADC, EAC and COMESA, with a view to highlighting some areas where the framework is or is not consistent with the paradigm of developmental regionalism.

Southern African Development Community

Since its inception, SADC has formulated policies and strategies for regional integration in support of economic growth and development. Current SADC regional integration priorities, policies and programmes are contained in the regional indicative strategic development plan adopted by the Council of Ministers in August 2003. The plan notes that SADC has adopted a “development integration” approach, which recognizes the political and economic diversities of member countries and aims to address many of the production, infrastructure and efficiency barriers arising from the underdevelopment of the region. The plan thus provides a comprehensive development agenda for social and economic policies for SADC, with priority intervention areas including trade/economic liberalization and development; infrastructure support for regional integration and poverty eradication; science and technology; information and communication technologies; private sector development; and environment and sustainable development (SADC secretariat, 2003).

East African Community

The EAC integration process is guided by the Treaty for the Establishment of the East African Community, which entered into force in July 2000, and the rolling five-year development strategies. Significant progress has been achieved over the past 12 years, particularly through improved intra-EAC trade and investment which has broadened prospects for economic growth and development. Nevertheless, from a macroeconomic perspective, significant imbalances among the EAC partner States remain, highlighting the challenges of integrating partners at different stages of development The current EAC development strategy, covering the period 2011/12 to 2015/16, focuses on deepening and accelerating integration, in particular through consolidation of the benefits of a fully-fledged customs union; implementation of the common market; concluding and establishing the monetary union; and laying the foundation for a political federation. In order to support the regional integration process, the strategy has prioritized the expansion of productive capacities to facilitate product/service diversification and infrastructure network development for enhanced connectivity within the region and the global community (EAC, 2011). It is thus evident that the EAC agenda contains elements of a developmental regionalism approach, as these initiatives indicate:

- The adoption of the EAC industrialization policy (2012-2032), which has as its overall objective to enhance industrial production and productivity and to accelerate the structural transformation of the economies of EAC member States.

Box 5 (contd.)

- The identification and development of regional infrastructure projects, including in roads, railways, power/energy, civil aviation, telecommunications and metrology. Examples include an East African transport strategy and regional road sector development programme; an East African railways master plan; and the ongoing development of a regional power master plan and interconnection code, in collaboration with the Eastern Africa Power Pool.

Common Market for Eastern and Southern Africa

In order to spur growth, COMESA is currently pursuing a strategy of "economic prosperity through regional integration". COMESA has traditionally emphasized market integration through the removal of barriers to trade and investment, although increasing emphasis is being placed on development integration by focusing on supply-side constraints and thus investment in the productive sectors, in line with recent developments at both the global and regional levels. The core of the COMESA development integration agenda is fourfold: trade development, infrastructure development, investment promotion and coordination and science and technology development. The private sector is viewed as the main driver of the economic integration process and efforts are being made to create an environment in which private investors can play a central role. Programmes have been established in the following areas to assist in achieving COMESA objectives: trade policy, trade facilitation, competition policy, removal of non-tariff barriers, private sector development, investment promotion, multilateral transport, information and communications technology, energy, gender mainstreaming and science and technology, among other things.

This review indicates that there are elements of a developmental integration agenda in these regional economic communities. However, these and other aspects of a developmental integration agenda need to be coherently structured in a comprehensive strategy and effectively implemented. These two challenges bedevil most African integration initiatives which involve the integration of partners at different stages of development. This means that the benefits and adjustment costs of integration may accrue unequally to member States of a regional economic community. A developmental integration paradigm will have to explicitly factor this into the equation.

Sources: COMESA strategy, retrieved February 2013 from http://about.comesa.int/index.php?option=com_content&view=article&id=78&Itemid=118; SADC secretariat (2003); EAC (2011).

C. DEVELOPMENTAL REGIONALISM IN PRACTICE: LESSONS FROM SOUTH-EAST ASIA

The history of the Greater Mekong Subregion economic cooperation programme in South-East Asia provides a good example of how regional integration — and developmental regionalism in particular — can be used and adapted in the face of changing domestic and global circumstances in order to enhance and support economic development and transformation. The Asian Development Bank (ADB) played a critical role from the outset to ensure the successful management of the programme by providing both advice and finance to member countries. Drawing on the experiences and lessons learned from the programme may provide African leaders with useful insights moving forward, given the slow implementation track record on the continent to date. An overview of the programme will be provided in what follows, along with some of the key lessons and recommendations for Africa.

In 1992, the six countries sharing the Mekong River in South-East Asia — Cambodia, China, the Lao People's Democratic Republic, Myanmar, Thailand and Viet Nam — launched a subregional programme of economic cooperation with the assistance of ADB in order to promote development in the subregion by enhancing economic linkages across their borders. The underlying strategy of this initiative, known as the Greater Mekong Subregion economic cooperation programme, was to integrate the countries of the subregion through improvements in infrastructure, with an initial focus placed on overcoming barriers to physical connectivity within the subregion, thereby promoting trade and investment and stimulating economic growth. At the same time, the countries of the subregion agreed on the need for subregional cooperation on other sector issues in order to complement national efforts (ADB, 2007). Since its inception, the programme has thus adopted a developmental regionalism approach to integration by focusing on infrastructural development and sectoral policy coordination in several areas of cooperation (including agriculture, energy, the environment, human resource development, telecommunications, transport and tourism), as well as promoting cooperation in the cross-cutting areas of trade and investment (ADB, 2012a).

The first development planning framework for the programme, the 10-year strategic framework (2002–2012), was adopted by the leaders of the subregion in November 2002. The framework contained five strategic objectives: (a) strengthening infrastructure linkages, with a multisectoral approach; (b) facilitating cross-border trade, investment, and tourism; (c) enhancing private sector

participation and improving competitiveness; (d) developing human resources and skills competencies; and (e) protecting the environment and promoting sustainable use of shared natural resources. To operationalize the framework, 11 flagship projects were outlined, with the aim of achieving closer links among the six countries of the subregion and facilitating cross-border commerce (ADB, 2007). These included the development of three economic corridors[9] — the north-south, east-west, and southern economic corridors — which are considered to be key connectivity facilities for region-wide integration. Two medium-term development plans were subsequently adopted to facilitate implementation of the programme, each of which contained specific priority projects and activities in each of the identified sectors. Since 2002, the countries of the subregion have met frequently at various levels in order to review the programme and adapt it to changing global and regional circumstances and developments within the subregion, taking into account the progress, issues and challenges related to implementation (ADB, 2007).

Over the past two decades, the programme has made a notable contribution to the increased integration and prosperity of the Mekong subregion, which has seen a significant improvement in socioeconomic development and reduction in poverty since the early 1990s.[10] As of June 2012, projects had been implemented with a total investment of approximately $15 billion (ADB, 2012b). Overcoming geographical barriers, integrating regional markets and promoting new economic opportunities have been key dimensions through which regional projects have complemented national development agendas. What, specifically, has contributed to the success of the programme over the past 20 years and what lessons can Africa draw from this example of developmental regionalism in practice? A number of important points are highlighted below:

(a) The programme adopted a pragmatic, activity-based and results-oriented approach to the design and implementation of sector-specific subregional projects, focusing initially on improving economic linkages through infrastructure development (particularly physical infrastructure such as transport and communications networks) and more recently on further developing the policy and institutional framework in order to enhance competitiveness. The fact that these projects are realistically attainable within a reasonable time frame and many have already been successfully implemented has helped to build confidence among participants in the region, which is an important ingredient for success. In Africa, regional

initiatives have tended to focus largely on politically visible yet practically limited commitments to overly ambitious integration agendas, such as establishing a common market, without adequate planning of how to achieve such goals. Regional leaders need to recognize that regional cooperation and integration can only succeed once the hard and soft infrastructures are in place (Page, 2011).

(b) In preparing the strategic frameworks and plans of action, the countries of the subregion have emphasized the need to take cognizance of emerging global and regional trends and remain flexible and adaptable in response to changing circumstances, given that these developments present challenges, opportunities and threats to further regional integration (ADB, 2011). By continuously updating and fine-tuning the programme, the countries of the subregion have thus ensured that it remains relevant and appropriate in the light of a changing context. An important lesson from this approach is that global economic developments require a flexible and adaptive approach to developmental regionalism; new approaches and policies may be required to promote development in a fast-changing global economic environment. African leaders need to be aware of the constantly changing world around them and adapt their integration programmes and efforts accordingly;

(c) The countries of the subregion and their Governments have actively encouraged participation by all stakeholders in the management and coordination of the programme, including civil society, non-governmental organizations, the private sector, academia and the donor community. It is recognized, in the first instance, that the sustainability of the programme will ultimately depend on its continued ownership by the member countries. This entails the commitment and involvement of various levels of government and civil society to the goals and objectives of the programme and coordination between them. However, given the lack of capacity and resources within the countries of the subregion, efforts to encourage broader-based participation from other concerned stakeholders have also been undertaken. There is a need to encourage wider stakeholder participation in the regional integration process in Africa, particularly from the private sector, in light of the vast financial resources and business know-how they can provide. It will only be through collective efforts, with dynamic political commitment to integration, that Africa will be able to

overcome its significant development challenges (Attah-Mensah, 2012). African integration has been to date a State-focused, top-down process, with very little input specifically from the private sector and civil society. The experience of the Greater Mekong Subregion and other experiences in Asia indicate that there is much to be gained from the active involvement of non-State actors, especially the private sector. African integration could benefit significantly from such input;

(d) Critical to the impact and success of the Greater Mekong Subregion programme has been the ability to mobilize substantial financial resources. Securing the required financing, both from ADB and other development partners, has enabled the programme to move from a general discussion of strategies and approaches to the implementation of specific projects, with tangible results. Looking ahead, the countries of the subregion have also recognized the need to tap private sources of funding more effectively. Developing public–private partnerships has been cited as a potentially viable and important strategy over the coming decade. The lack of funding for regional integration in Africa is another widely cited problem. African leaders need to do more to mobilize the funding required to implement their ambitious agendas and should explore various potential avenues, including the pan-African financial institutions, development partners and the private sector. A clear financing strategy is also needed to ensure that the funding received is appropriately allocated to different areas based on priority and feasibility of implementation. Regional development banks, such as the AfDB and the Southern African Development Bank, can play an important role in leveraging finance for infrastructure and other development programmes;

(e) The Greater Mekong Subregion countries have also focused on establishing the requisite institutions in order to provide a flexible and simple, yet effective, administrative framework for implementing the programme. Since its inception, ADB has played the role of secretariat and has undertaken the monitoring and coordination of activities under the programme, as well as providing critical technical assistance. Despite recent efforts in Africa, there is an urgent need to strengthen economic governance by building healthy institutions at the national, regional and continental levels. The regional economic communities need to provide stronger leadership and better coordination of regional development strategies, thereby helping

their member States to better prioritize projects and programmes aimed at deepening integration. Supported by its member States, the African Union should act as leader in the integration process. Regional institutions such as secretariats, tariff boards, competition authorities and tribunals or courts need clear mandates, resources and capacity, without political interference.

D. FOSTERING DEVELOPMENTAL REGIONALISM IN AFRICA: KEY POLICY TOOLS AND DRIVERS

As Africa continues to encourage regional economic integration on the continent as an essential component of its collective development and transformation strategy, various initiatives and areas for cooperation have emerged, through which a developmental regionalism agenda can be pursued. These include the use of industrial policy (at a national and regional level), development corridors and special economic zones as tools to foster the objectives of boosting intra-African trade and promoting industrialization, as well as developing regional value chains in order to expand productive capacity and thereby encourage economic development. The growth and strengthening of the private sector also has a crucial role to play in facilitating growth and the financing of the future development of Africa, as discussed in previous chapters. While some initial efforts have been made to implement programmes and encourage cooperation in these areas (through public–private partnerships for example), more needs to be done to take advantage of the opportunities that these and other integration drivers present and to ensure that the bold visions of African leaders are translated into practical and attainable actions towards achieving wider African integration and transformation objectives.

1. Industrial policy

African countries recognize the need for deliberate government measures to promote industrial development through industrial policy and many countries are beginning to review their industrial development strategies to reflect this fact. However, an effective industrial policy has to be complemented with a range of other policies such as macroeconomic, trade, and finance policies (UNCTAD and UNIDO, 2011). Furthermore, industrial policy has to take into account the relationships and linkages that exist among economic activities; focusing therefore on supporting the core manufacturing activities, while also recognizing the complementary role to be

played by agriculture and explicitly recognizing the role of services in all economic activity. Indeed it is not possible to be competitive in manufacturing without competitive services inputs.

To be successful, industrial policies need to be tailored to the needs and challenges facing each country and its domestic firms; there is no “one size fits all” approach, as UNCTAD and UNIDO argued in their *Economic Development in Africa Report 2011*. Thus, African countries need to have flexible, strategic and dynamic industrial policies which build on the initial conditions prevailing in the economy and deliberately target the specific economic constraints that act as obstacles to a sustained industrial growth path. It is important, however, to take into account the limits imposed by available resources and government capabilities, as well as the political feasibility of proposed policy actions, to ensure that industrial policies and development programmes are not overly ambitious and have a good chance of achieving success. Decisions about the sectors and activities to be supported through industrial policy should be made in a transparent manner, based on research and consultation with firms and other relevant stakeholders in order to ensure public legitimacy and reduce the risk of political capture. Interaction and coordination between the State and the private sector will also ensure that policymakers have a clear understanding of the constraints facing local businesses and entrepreneurs, which should thus have a positive impact on policy design and implementation. Once decisions have been made regarding which activities to support, clear benchmarks and criteria for judging success or failure need to be put in place and continuous monitoring and independent evaluation of the activities of firms being supported is required. It is also important for African countries to give priority to the creation or development of linkages in the domestic economy to ensure that the promotion of industrial development yields positive spillover in other sectors (UNCTAD and UNIDO, 2011).

Since the fortunes of national economies in Africa are inextricably linked with each other, individual Governments have an interest in promoting higher levels of industrialization, not only to promote structural transformation within their local economies but also to facilitate industrial development across the wider region. National industrial policies should be complemented by regional industrial policies in order to harness the market potential offered by larger, regionally integrated areas, facilitate access to infrastructure and services for national firms and build trade complementarities among the national industries of the region through, for instance, the development of regional industrial value chains. By implementing

proactive and strategic national and regional industrial policies which successfully promote structural change and improve competitiveness and economy-wide efficiency, national Governments can thus facilitate the broader integration and development agenda of the continent. In this context, the explicit incorporation of industrial development and industrial policy in the African regional integration agenda is gaining ground. A number of regional economic communities such as EAC and ECOWAS do now have a regional industrial development policy. Industrial development is also one of the three key pillars of the proposed tripartite free trade area (see box 6) and there is a need for coherence between national and regional industrial policies. Industrialization in Africa can contribute towards boosting intra-African trade and supporting regional integration objectives if there is proper coordination between the State and the private sector and they are embedded in a common industrial vision shared by the member countries of the regional economic communities.

2. Development corridors in Africa

Sustaining the growth that has been achieved across the continent in recent years will require enhanced productive capacities in order to convert the natural comparative advantage of Africa in resources into a competitive advantage and to spread the benefits of growth more widely through well-focused linkages between sectors of productive activity (African Union, 2008). There has been growing interest in development corridors as a way of realizing latent economic potential and encouraging development on the continent. Since the late 1990s, the transformation of existing regional transport corridors into diverse, multisectoral development corridors, based on the principles and strategies underlying the spatial development initiatives approach, has become an increasingly important means through which to encourage industrialization and thus support the broader socioeconomic development process in Africa. Regional development corridors in Africa have generally been established where there is proven, inherent but currently underutilized economic potential (in particular, through the existence of natural resources) and have made use of existing transportation and economic infrastructure (including roads, railways and mines) through rehabilitation and/or expansion, as well as enhanced operational efficiency and effectiveness. While public sector support (financial, technical and political) has formed the backbone for these projects, private sector support has also been actively encouraged (de Beer, 2001).

Box 6. The tripartite free trade area: a developmental integration paradigm?

In October 2008, the heads of State and Government of the 26 member States of EAC, SADC and COMESA agreed to establish a grand free trade area incorporating the economies of their States. This ambitious plan to establish a tripartite free trade area was elaborated by technical experts who prepared a draft agreement and 14 annexes prior to the launch of the negotiations. The plan was that these draft instruments would serve as the starting point for negotiations on a comprehensive agenda, including matters relating to trade in goods (tariffs, rules of origin, customs cooperation and management, trade remedies and dispute resolution), services (including the movement of business persons), competition policy, investment and many more trade-related issues. The free trade area is to be anchored on three pillars: market integration, infrastructure development and industrial development. The broad scope of the proposed free trade area suggests that this could be a model for a new developmental regional integration agenda for Africa. The infrastructure pillar reflects concerns about the infrastructure deficit and the concomitant non-tariff barriers that inhibit intraregional trade and limit competitiveness in the global economy. The industrialization pillar indicates that the supply-side constraints associated with the lack of industrial development and diversification are acknowledged to be major limitations on the ability of the region to develop productive capacities and regional value chains and to integrate those value chains into the global economy. This could well be a pilot for a broader pan-African developmental integration strategy. The African Union plan to establish a continental free trade area by 2017 sets out the intention to use the tripartite free trade area as the model for the continent-wide free trade area.

While the scope and coverage of the proposed tripartite free trade area reflects a developmental regional integration agenda and there is ostensibly political support for the initiative, there may be cause for concern. Negotiations are planned to take place in distinct phases: phase 1 will cover the trade in goods agenda and, on a separate track, the liberalization of the movement of business persons. Phase 2 will cover services and other new generation issues. Phase 1 was launched in June 2011 and negotiations began early in 2012. At this stage (February 2013), there is not much progress to report. Issues such as sensitive products and rules of origin are proving to be highly contentious and are retarding the negotiation process.

Sources: Based on the declaration at the eighteenth African Union summit available at http://summits.au.int/en/sites/default/files/ASSEMBLY%20AU%20DEC%20391%20-%20415%20(XVIII)%20_E_0.pdf.

The potential of development corridors for promoting industrialization and economic growth in Africa is based on three characteristics which distinguish them from traditional transport corridors. Firstly, the inclusion of production functions, which make available basic goods and services, encourages cross-border economic activity and therefore economic growth. Secondly, expanded infrastructure networks (including transport, energy and information) increase productive capacity, which enables these products to be transformed into value

added commodities which can then be sold to end customers. Finally, improved access to regional and international markets increases opportunities for trade and investment and enables integration into regional blocs and the global economy (Bender, 2001). In light of the above, development corridors in Africa are viewed as a means of promoting and upgrading interrelated infrastructure in defined geographic areas with the aim of optimizing the use of such infrastructure, promoting trade and investment-led economic growth, encouraging value added processing and enhancing the competitiveness of African economies (Thomas, 2009). By their nature, these corridors could facilitate developmental regionalism by providing a focus for strategies to promote regional economic development and integration.

The history of spatial development initiatives and development corridors in Africa, however, is not encouraging. Over 20 corridors are currently in operation across the continent, most of which have been unable to translate improved infrastructure development into broad-based growth that contributes to poverty reduction and employment creation (ECA, AUC and AfDB 2010). The African spatial development initiative strategy will require a considerable amount of concerted effort and cooperation between a diverse group of actors and partners in order for it to succeed. Strong political will and commitment at the national level are needed; capacity-building initiatives to ensure that government officials are able to effectively develop and manage the process must be put in place; and a strong legal, regulatory and institutional framework established to provide the necessary support. The importance of sociopolitical stability and sound governance as the necessary backdrop for investment in development corridors cannot be underestimated (Thomas, 2009). There may also be a need to negotiate sensitive social and political issues in frontier areas and address complex environmental concerns. The small size of African economies and the fact that many are landlocked means that regional approaches to infrastructure development, harmonized institutional and legal frameworks (customs administration, competition policy and regulation of transport) and increased trade-related services are imperative to facilitate integration and thereby stimulate economic growth and development (Page, 2012).

The Maputo Development Corridor provides an important case study of a successful development corridor. This spatial development initiative programme was conceived in South Africa in 1995 and began implementation in 1996. The corridor links the Gauteng province in South Africa to the Mozambican port of Maputo. It was the first spatial development initiative to be implemented at the regional level and has been one of the most successful initiatives to date. A number of features of the

corridor are important to note. Broad stakeholder involvement in the initiative, and specifically a public–private partnership spanning South Africa and Mozambique, has been the cornerstone of its success. The public–private partnership has been important not only in the design and implementation of the corridor project, but in providing a funding model which has seen private sector funding fill the finance gap that government resources were not able to fill. Effective management of the corridor, as well as lobbying to address challenges, has been the responsibility of the Maputo Corridor Logistics Initiative. This initiative, which operates in both South Africa and Mozambique, has provided a platform through which stakeholders can engage to resolve logistical and operational issues. Enhanced border and customs management programmes (one-stop border posts and single window border management facilities) have further enhanced the impact of the corridor (Bowland and Otto, 2012). Similarly to the Greater Mekong Subregion programme, the Maputo Development Corridor highlights the importance of an integrated approach to corridor or infrastructure development: the physical infrastructure forms the basis for the initiative but finance, regulation, a platform for resolution of challenges or disputes and linkages to other trade facilitation endeavours, such as border management, are essential for success.

3. Special economic zones

Over the past few decades, many developing countries, particularly in East Asia and Latin America, have implemented special economic zones as a means of enhancing industrial competitiveness, attracting FDI, developing and diversifying exports and piloting new policies and approaches to industrial development (FIAS, 2008). Special economic zones can be traditionally defined as geographically demarcated areas within the national boundaries of a country, where the rules of business are different — generally more liberal — from those that prevail in the national territory (World Bank, 2012) and are aimed at attracting export-oriented investment. Economic zones are designed as a tool of trade, investment and spatial industrial policy with the aim of overcoming barriers that hinder investment in the wider economy, including restrictive policies, poor governance, inadequate infrastructure and problematic access to land (Farole, 2011), and thereby attract FDI, alleviate large-scale unemployment and/or support a wider economic reform agenda (Altbeker et al., 2012). Most special economic zones thus offer export-oriented investors three main advantages relative to the domestic investment environment: (a) a special customs regime, including expedited customs and

administrative procedures and (usually) access to imported inputs free of tariffs and duties; (b) infrastructure (including serviced land, factory shells and utilities) that is more easily accessible and reliable than is normally available in the domestic economy; and (c) a range of fiscal incentives, including corporate tax holidays and reductions, along with an improved administrative environment (Altbeker et al., 2012).

Special economic zones can take different forms, depending on their intended purpose, including export processing zones, free trade zones, enterprise zones, and free ports. Since the mid-1980s, the number of newly-established zones has grown rapidly in almost all regions, although they have had a mixed record of success. While remarkable achievements have been made in implementing special economic zones in some countries, including China, the Dominican Republic, India and Malaysia, many in Africa have failed to deliver on their intended objectives and have been criticized on grounds of rent transfer, failure to contribute to building local economies, low competitiveness, high capital intensity and various social and labour complaints (World Bank, 2012). Box 7 provides a summary of the factors that have contributed to the implementation of some of the more successful special economic zones around the world.

African countries in general have been late adopters of special economic zones, with most programmes only being initiated in the late 1990s and 2000s. This is significant, as the global economic climate today differs in important respects from that of the 1970s and 1980s when the growth of special economic zones and their success in contributing to export-led development in rapidly rising regions was due, in part, to an unprecedented era of globalization of trade and investment and the rise of global value chains. Today, African countries are confronted with a more competitive environment, resulting from the consolidation of global value chains, the emergence and entrenchment of "factory Asia" (the network of regional value chains in Asia supplying world markets), the expansion of regional trading arrangements, slowing demand in traditional export markets, increasing South–South trade and investment and the growth of opportunities for offshoring services (World Bank, 2012). In this changing context, the traditional approach to export processing and special economic zones adopted by most African countries may no longer be the most appropriate in serving the interests of the continent. Drawing on the lessons from past failures in Africa (due for example to a lack of competitiveness) and successful international experiences, it is evident that a more flexible and integrated approach to the development of special economic zones is

Box 7. Lessons from experience of special economic zones

The development of special economic zones over the past three decades suggests that the failure or success of a zone depends on the investment climate, the policy and incentive framework, the location and the way in which it is developed and managed and broader issues within the domestic economy. International experience provides useful lessons on the factors that determine whether a special economic zone programme is likely to be successful. Two examples are provided here: China and Mauritius. The Chinese special economic zones were formally established in 1979 as catalysts in the transition from an inward-looking, centrally planned economy towards economic liberalization. China initially established four zones along the south-eastern coastal region of the country. In 1984, 14 Chinese coastal cities set up industrial and technological development zones, many of which nurtured clusters targeting a particular industry. The number of zones expanded rapidly throughout the 1980s and 1990s; more than 200 zones of various kinds have now been established around the country, offering low taxes and infrastructure at international standards. The Chinese strategy, in which zones were used as experimental laboratories for the application of new policies and approaches (introducing liberal economic policies and testing them within the zones before extending them to the rest of the economy), contributed strongly to the rise of China to become the world leading exporter of manufactured goods and the principal recipient of FDI among the developing economies.

Mauritius, originally a sugar monocrop island economy, established an export processing zone in 1971 as an enclave for foreign-oriented activities to absorb the growing labour surplus in the face of a rapidly growing population and to generate much needed foreign exchange revenues. According to Ancharaz (2003), the export processing zone act of 1970 led to the creation of a special incentive regime for firms catering exclusively to the export market. The intended objective was to attract FDI into the zone through a package of incentives stemming from duty-free imports of machinery, raw materials and other inputs, tax holidays, subsidized power rates and factory space, free and unlimited repatriation of profits and dividends and access to concessional credit (Ancharaz, 2003).

The combination of incentives as laid out in the act with a supply of relatively cheap semi-skilled labour and flexible labour laws led to a wave of investment in the export sector. In addition, there were external factors that favoured the success of the Mauritian export processing zone. For instance, investors from Hong Kong, who were about to use up their Multi-Fibre Arrangement quota ceilings in the then international trade regime, came to invest in the zone, in order to benefit from the preferential access that was granted to Mauritian textile and apparel exports into the then European Economic Community under the Lomé Convention.

While initially most of the investment into the zone was from foreign sources, domestic investment later grew significantly and eventually surpassed foreign investment. The domestic-owned capital stock in the zone as of 1998 was estimated to be 4.8 times larger than the foreign-owned capital stock (Ancharaz, 2003). The presence of a capable indigenous private sector that had a long history of involvement in the sugar industry and the creation of SMEs through special State-supported measures contributed to the

Box 7 (contd.)

success of the export processing zone programme. The coexistence of a highly protected sector in the domestic industry competing with imports with a liberal export-oriented sector was a striking feature of the Mauritian experience.

Mauritius undertook a gradual and sequential trade policy reform as from 1984 to remove an anti-export bias in its domestic industry. However, domestic manufacturers in the protected sector also benefited from income tax rebates on the proportion of output exported, thereby introducing export incentives for domestic enterprises. Ancharaz (2003) reports evidence that the trade reform that was subsequently gradually introduced in Mauritius boosted export performance by inducing a shift into the export sector and stimulating domestic and foreign investment into the export processing zone. This suggests a strong interface between trade and industrial policy. Furthermore public–private forums such as the Joint Economic Council facilitated a constant dialogue between the State and private entrepreneurs for diagnosing constraints and opportunities in manufacturing and engaging in a collective vision of the country's development path. Other State-supported institutions, such as the Mauritius Export Development Investment Authority, were set up in the early 1980s to mobilize foreign investment and market products from the zone abroad (Ancharaz, 2003).

However some have argued (Sawkut et al., 2009) that the export processing zone in Mauritius generated more costs than benefits, namely that the costs to the economy in terms of incentives given outweighed the benefits generated. This points to the need to carefully evaluate the contribution of export processing zones to national economies through cost-benefit analysis. Drawing on these experiences and others documented in the literature, a number of important success factors are highlighted below:

- Strong support and active commitment to the programme at the highest levels of political leadership are required, along with sufficient domestic investment and resource commitments. However, a key factor in ensuring that special economic zones become successful and sustainable rather than stagnant enclaves is the extent to which the programmes associated with them have been strategically integrated into the broader economic and industrial policy framework of the country. This would also mean that zone programmes benefit from interventions beyond strictly zone policies, such as those that promote clusters, provide supporting trade and social infrastructure, improve trade facilitation and address labour market issues.
- Public-private partnerships are playing an increasingly important role. While Governments provides strategy and policy formulation, legislation, regulation and enforcement — key public goods the private sector cannot or should not provide — the private sector develops and operates special economic zone projects.
- The legal and regulatory frameworks form the critical foundation for any zone programme. They must be comprehensive, transparent and with unambiguous ground rules established for all actors.
- There is a need for policy consistency, effectively functioning institutions and a high-quality civil service. Policy consistency should be balanced with the need for special

Box 7 (contd.)

economic zone programmes to evolve to meet the changing needs of investors and Governments and to experiment with different approaches to identify the most effective policies.

- Greater strategic planning and positioning is needed in order for zones to attract significant amounts of investment. The success in East Asia suggests that many zones have established themselves as industry clusters, rather than focusing on a range of manufacturing sectors that is too wide. Successful programmes should focus on activities that align well with the comparative advantage of a country. However, over-reliance on a specific sector and market can create vulnerability; balance is key.
- Although fiscal incentives may play a role in attracting investment in the short term, particularly in new programmes, successful zones compete on the basis of trade facilitation, provision of facilities and infrastructure and services.
- The location of a special economic zone in a country — in particular, its proximity to major trade gateways (ports and airports) and metropolitan areas — is critical to its success. This is particularly important for zones that rely on manufacturers who require access to imported inputs, business services, large pools of labour and transport networks.

Sources: Ancharaz (2003), Bek and Taylor (2001), Farole (2011), FIAS (2008) and Sawkut et al. (2009).

needed to ensure that they are able to grow to a significant scale and generate the desired spillover to the wider economy. The nature of the design, implementation and management of current and future African special economic zones is thus likely to prove crucial in determining whether they are able to promote employment and economic growth on the continent (Woolfrey, 2012).

Economic zones in Africa may become increasingly attractive to investors, domestic and foreign, as platforms from which to sell to regional markets. Given the challenges of scale in most African countries and the significant transaction costs in production and cross-border trade, tapping into the potential of special economic zones to serve as platforms for regional markets represents an important opportunity (Dobronogov and Farole, 2012). However, economic zones may also serve as locations from which specialized regional inputs (notably in the natural resources-based sectors in which African countries have a comparative advantage) can be tapped and production scaled up. Strategic focus should thus be placed on the use of special economic zones as a tool of spatial industrial policy in order to support the diversification and scaling up of regional production in Africa. Special economic zones have the potential to scale up production by allowing suppliers to move into processing activities that are one stage or more downstream from

production and by integrating local value chains (providing raw material inputs, services and support) with foreign investors, thus improving the likelihood of capturing the spillover from FDI (Dobronogov and Farole, 2012).

Linking regional special economic zones to key trade infrastructure investments (ports, roads, power projects etc.), as well as domestic industry clusters and local labour markets, in order to create economic and development corridors may be a powerful new route to enhanced competitiveness and improved growth (Farole and Akinci, 2011). Regional integration initiatives combined with special economic zones thus have the potential to generate significant synergies: by lowering barriers to intraregional trade and facilitating the potential for realizing scale economies in regional production, regional trade arrangements stimulate investment by both foreign and domestic firms. On the other hand, by offering an improved regulatory environment, special economic zones lower the cost and risk to firms in undertaking such investments, while the provision of sector-specific public goods, such as warehousing and logistics platforms, shared processing facilities, serviced land and infrastructure increases the competitiveness of wider industry clusters in the region (Dobronogov and Farole, 2012; Koyama, 2011). These potential benefits suggest that greater emphasis should be placed on the supportive role special economic zones can play in the regional integration agenda in Africa.

The success of the special economic zone model in Africa will depend on a number of factors, some of which are highlighted in box 7. Importantly, special economic zone programmes will need to be focused where they can best complement and support sustainable sources of comparative advantage. In addition, it is essential to place a strategic focus on them as a component of a broader industrial and economic development policy, recognizing that they are a tool to foster development and are not an end in themselves (DTI, 2012). In order to make the most of a country's sources of comparative advantage and improve domestic spillover, Governments will need to adopt more integrative policies by shifting away from the more traditional models to more open, flexible, multi-purpose zones that allow for participation by local firms and facilitate linkages amongst local suppliers, as well as between foreign investors and the domestic economy. This will require the promotion of skills development, training and knowledge sharing; cluster development; integration of regional value chains; and enhanced public–private partnerships (Farole, 2011).

Recognizing the potential that special economic zones have to facilitate regional synergies, it is also important to put them on the regional integration agenda (DTI,

2012). Traditionally, incorporating special economic zones into regional integration frameworks has proven difficult, given that, while regional trade agreements incorporate bilateral or multilateral instruments, special economic zones are generally instruments by which an individual country promotes investment and exports and the two are potentially in conflict with one another. Although some efforts have been made to harmonize special economic zone programmes across regional economic communities in Africa — exceptions include EAC and COMESA — there are several potential areas in which the complementarities between special economic zones and regional integration initiatives could be better exploited, including harmonizing the regulations for special economic zones and establishing integrated procedures (notably customs); harmonizing financial incentives; establishing an integrated and harmonized strategic framework, which may include the development of regional manufacturing or service linkages using the special economic zones as hubs; the specialization of zones based on the comparative advantages of member countries; and joint marketing of the region as an investment destination (Koyama, 2011). Such collaboration could generate considerable benefits for Africa by acting as a step towards greater economic integration.

Other necessary preconditions for success include high-level political support and commitment, sufficient State capacity to manage and implement the programmes, sound legal and regulatory frameworks, high-quality hard and soft infrastructures, greater private sector participation, support to domestic SMEs, a comprehensive monitoring and evaluation mechanism and commitment over the long-term. Although the effort required to successfully develop sustainable and growth-inducing special economic zones in Africa is considerable, by focusing on comparative advantage and on integration — with national industrial policies, between government institutions and the private sector and between the zones and domestic (and regional) markets — they have the potential to contribute to improving the competitiveness of Africa and its integration into the global economy, thereby helping to create jobs, raise incomes and improve growth (Farole, 2011).

4. Regional value chains

One of the key mechanisms through which to improve competitiveness in Africa in the twenty-first century is by scaling up regional production, i.e. integrating regional value chains (Dobronogov and Farole, 2012). In today's world, specialization is no longer based on the overall balance of comparative advantage of countries in producing a final good, but increasingly on the relative efficiencies of

firms in providing different "tasks" at specific stages along the value chain (WTO et al., 2011). Developing regional value chains thus allows firms to reap the benefits of greater specialization and scale, creating opportunities for a greater number of SMEs and hence countries, to participate in the global industrialization process and in so doing, spur on their own national industrial development (UNCTAD and UNIDO, 2011). Successful integration of regional value chains would therefore promote employment, spur the growth of downstream industries and create backward and forward linkages across the region, thereby creating a platform for the upgrading of capabilities into higher value and more diversified industrial and service activities (Stephenson, 2012). Participation in regional and global value chains also provides SMEs with greater access to international markets and opportunities for task-based trade in foreign countries, as well as the opportunity to develop technological capabilities (UNCTAD and UNIDO, 2011). The ability of African firms to develop and insert themselves into regional and global value chains is thus being viewed as a vital condition for Africa's economic development (Stephenson, 2012).

The development of integrated regional value chains and the insertion of African firms into global value chains will, by their nature, facilitate increased intra-African trade and could contribute to sustainable long-term growth. However, the barriers hampering intraregional trade and investment will be a key determinant of the success or failure of this endeavour. Such challenges, as discussed in the preceding chapters of this report, include high transport and logistics costs, weak infrastructure, restrictive policies and incoherent regulations and inefficient customs procedures (Page, 2011). In this regard, priorities for African Governments include improving access to finance, reducing trade costs, improving logistics services and infrastructure development, particularly in energy, transport and telecommunications (UNCTAD and UNIDO, 2011). Trade facilitation measures have also been identified as increasingly important tools to facilitate the expansion of regional value chains in African economies (Brenton and Isik, 2012). It is important, however, that African countries place the development of productive capacities at the heart of their national policies. The development of domestic industry or service networks requires the promotion of entrepreneurship through skills development and training, as well as continuous technological upgrading and the promotion of linkages between SMEs and multinational enterprises in order to enhance competitiveness at the level of the firm (UNCTAD, 2010).

Although increased participation in regional and global value chains holds significant opportunities for furthering a developmental regionalism agenda and

promoting intra-African trade, policymakers need to be aware of the “fallacy of competition” — the danger that firms which start out as low-cost suppliers in the lower stages of a value chain (where entry is easier) may become trapped in that position as they are unable to build up capacity and move up the value chain (UNCTAD, 2012b). This phenomenon reiterates that the benefits that may accrue from participation in global value chains are not automatic and that Governments need to take proactive measures to create an enabling investment environment, by establishing the hard and soft infrastructures required for the development of regional value chains (Yamashita, 2010), and support the integration of SMEs into global production networks by facilitating continuous upgrading opportunities for domestic firms participating in value chains, building linkages across firms supplying value chains in different sectors and forging closer relationships with foreign firms in those value chains (UNCTAD and UNIDO, 2011). Governments also need to invest in horizontal policy measures, including in education, innovation, technology, intellectual property and industrial policies, in order to enhance access to global value chains and the long-term benefits they offer (Draper et al., 2012).

E. CONCLUSION

The global economy has undergone significant changes in recent years and the ingredients for successful regional integration and global competitiveness today are no longer the same as those that were assumed to be indispensable 30 years ago. A development-based integration agenda which goes beyond trade liberalization to include broader economic and industrial policies aimed at addressing real economy capacity constraints, strengthening the domestic private sector and facilitating diversification and structural transformation holds great potential for Africa. This agenda can help to minimize the costs of market fragmentation and provide the necessary conditions for further integrating African economies into the global economy, while at the same time addressing many of the systemic weaknesses of Africa, such as a large informal economy, narrow production and export structures and the poor competitiveness of African enterprises.

An agenda which covers not only trade in goods, but also trade in services, investment, trade facilitation and elimination of non-tariff barriers, will provide a foundation for enhancing policy, legal and institutional capacity at national and regional levels. The trade in goods agenda has to be carefully crafted so that it supports industrial development as well as facilitating trade. This requires, for

example, rules of origin that prevent trade deflection but that do not impose significant costs on firms as they struggle to meet restrictive requirements related to sourcing of inputs and their transformation. Effective implementation of tariff phase-down commitments is essential to enhance intraregional trade. Enhanced management of customs and other border procedures to reduce the time spent and the cost of intraregional trade are also important. Closely linked to trade facilitation is investment in the infrastructure, such as roads, rail and telecommunications, necessary to facilitate the competitive access to infrastructure services that will reduce the cost of production and trade.

Rethinking industrial development options, taking into account important developments in the global economy and specifically the role of global and regional value chains, requires the involvement of the private sector and other stakeholders to identify key government initiatives to support industrial restructuring, transformation and the development of sustainable industrial activities. However, it must be recognized that a developmental regional integration agenda will set in motion a process of adjustment at national and regional levels, with winners and losers, as some industries grow and others decline in response to a changed incentive environment. Mitigation of adjustment costs at national and regional level needs to be explicitly factored into the development paradigm.

To promote the competitiveness of African firms and increase intra-African trade requires the effective implementation of commitments undertaken. Checks and balances in the form of robust dispute resolution will signal a strong commitment to rules-based governance of developmental integration and support effective implementation. Africa is poised to take advantage of developments in the resources sectors and embark on a new pathway to industrialization through participation in regional and global value chains. This renewed focus on industrial development and diversification provides an opportunity to chart a new development trajectory. There are elements of developmental regionalism in many African regional economic communities but it is not yet a coherent strategy for African integration. It could, however, be the development paradigm for Africa for the twenty-first century.

CHAPTER 5

INTRA-AFRICAN TRADE: UNLOCKING PRIVATE SECTOR DYNAMISM - MAIN FINDINGS AND RECOMMENDATIONS

A. INTRODUCTION

At the African Union summit held in January 2012, African leaders renewed their political commitment to boosting intra-African trade within the context of regional economic integration. The rationale for this renewed commitment ranges from the need to promote sustained growth and economic transformation to insulation of African economies from external shocks and seizing the growing opportunities for regional trade created by the recent economic growth in Africa and the rise of the middle class. In this context, increasing intra-African trade is regarded by African leaders as an important vehicle to boost growth, create jobs and promote economic development on the continent.

Previous attempts to promote regional trade and integration in Africa had modest results at best, due in part to the lack of implementation of agreements by States, overlapping memberships of regional trade blocs, lack of structural transformation, inequitable sharing of the benefits and costs of integration, setting of unrealistic targets and timetables and the lack of involvement of key local stakeholders, particularly the private sector, in the process. The African approach to regional integration has also focused more on processes than on development outcomes. For example, in the discourse on regional trade and integration, policymakers seem to devote more attention to issues such as the choice of instruments and the structure of institutions than to more substantive matters. There has also been more emphasis on the elimination of trade barriers and less attention paid to the promotion of entrepreneurship and the development of the productive capacities needed to boost regional trade. Furthermore, Governments have been the active drivers of regional integration on the continent with the private sector mostly playing a passive role. If current efforts to promote intra-African trade are to succeed, Governments need to provide more space for the private sector to play an active role in the integration process. As African leaders strengthen their efforts to boost intra-African trade, it is therefore important that they address these issues that have for so long militated against efforts to promote regional integration on the continent.

Against this backdrop, the present report focuses on how to boost intra-African trade, with particular emphasis on policy measures that have to be taken by African Governments to promote domestic entrepreneurship, expand productive capacity and boost regional trade. It 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. The main findings and recommendations are set out below.

B. MAIN FINDINGS

1. *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.

2. *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 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.

3. *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 ECCAS, 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 ECOWAS and CEN-SAD 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 COMESA.

4. *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 GDP, only 5 countries (Botswana,

Lesotho, Malawi, Swaziland and Zimbabwe) had shares above 30 per cent over the period from 2007 to 2011.

5. *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 (SITC) categories, Africa realized at least 25 per cent of its world trade regionally in only one product category, namely chemicals and related products (SITC 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.

6. *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.

7. *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 FDI from other African countries. Furthermore, it is estimated that intra-African FDI in new projects grew at an annual compound rate of 23 per cent between 2003 and 2011. A growing share of intra-African FDI 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.

8. *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 GDP 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.

9. *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.

10. *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

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

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.

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 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

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

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

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.

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 COMESA, EAC 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.

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

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

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

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.

NOTES AND REFERENCES

NOTES

1. These eight regional economic communities are the Arab Maghreb Union (AMU, 5 countries), the Common Market for Eastern and Southern Africa (COMESA, 19 countries), the Community of Sahel-Saharan States (CEN-SAD, 28 countries), the Economic Community of Central African States (ECCAS, 11 countries), the Economic Community of West African States (ECOWAS, 15 countries), the Intergovernmental Authority on Development (IGAD, 7 countries), the Southern African Development Community (SADC, 14 countries) and the East African Community (EAC, 5 countries).
2. These other regional communities are the Communauté économique et monétaire de l'Afrique centrale (CEMAC), Common Monetary Area (CMA), Indian Ocean Commission (IOC), International Conference on the Great Lakes Region (ICGLR), Mano River Union (MRU), Southern African Customs Union (SACU) and West African Economic and Monetary Union (WAEMU).
3. All data used in this chapter are downloaded from UNCTADstat, based on the Standard International Trade Classification (SITC). SITC and the Harmonized System (HS) are two different trade classifications. SITC, developed by the United Nations, is focused more on the "economic functions of products at various stages of development, whereas the HS deals with a precise breakdown of the products' individual categories" (source: International Trade Centre). SITC is usually recommended only for analytical purposes and is more appropriate when analysis takes place over longer time series, especially in developing countries, as is the case here.
4. Figures on volume growth rates are from UNCTADstat and reflect percentage changes over the third quarter of a given year as compared to the third quarter of the previous year.
5. Calculated by deflating the export and import values for Africa (at current United States dollars at current exchange rates) by unit value indices on exports and imports (base year 2000). The latter series are available for Africa in UNCTADstat as from 2000.
6. In volume terms (at constant 2000 prices), intra-African trade amounted to 11.4 per cent of African world trade in 2000, rose to 12.5 per cent in 2009 and fell to 11.4 per cent in 2011.
7. The nine SITC categories are: 0, Food and live animals; 1, Beverages and tobacco; 2, Crude materials, inedible, except fuels; 3, Mineral fuels, lubricants and related materials; 4, Animals and vegetable oils, fats and waxes; 5, Chemicals and related products; 6, Manufactured goods; 7, Machinery and transport equipment; and 8, Miscellaneous manufactured articles. Agriculture and agricultural products in this chapter refer to categories 0, 1, 2 and 4, less SITC 22 (crude fertilizers etc.) and less SITC 28 (metalliferous ores and metal scrap).
8. See http://money.cnn.com/magazines/fortune/fortune500/2012/full_list/index.html.
9. An economic corridor is defined as a geographic area in which infrastructure investments are linked directly with trade, investment and production opportunities as a means of facilitating regional integration.

10 Gross domestic product in the subregion has grown at around 8 per cent per year on average over the past two decades, while the poverty rate in each country has declined substantially. For example, the poverty rate in Viet Nam fell from 58.1 per cent in 1993 to 14.5 per cent in 2008. See Asian Development Bank, *The Greater Mekong Subregion economic cooperation program: strategic framework 2012–2022* (Manila, 2011).

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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. African Governments have made several attempts to exploit this potential of regional trade for development, the most recent being the decision by African leaders at the African Union summit in January 2012 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 (EDAR) 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 Africa's enterprise structure 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 into 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 African Governments should promote intra-African trade in the context of developmental regionalism. In particular, it stresses the need for a shift from a linear and process-based 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.

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