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De-fragmenting Africa

Regional integration in Africa has long been recognised as essential to address the issues of the small economic size of many countries and the often arbitrarily drawn borders that pay little heed to the distribution of natural endowments. But, as is often noted, Africa trades little with itself, at least to the extent that is recorded in official customs statistics. For example, the share of intra-regional goods trade in total goods imports is only around 5% in the Common Market for Eastern and Southern Africa, 10% in the Economic Community of West African States and 8% in the West African Economic and Monetary Union. This compares with over 20% in the Association of Southeast Asian Nations, around 35% in the North American Free Trade Agreement and more than 60% in the EU. On the other hand, intra-regional trade in MERCOSUR is about 15% of total imports and less than 8% in the Central American Common Market (see Acharya et al 2011).

It has been commonly argued that regional integration can only play a limited role in Africa because of the similarity of endowments between countries. However, the various contributions to a recent report from the World Bank called De-Fragmenting Africa: Deepening regional trade integration in goods and services (Brenton and Isik 2012) highlight the enormous scope for increased cross-border trade in Africa. Regional trade can bring staple foods from areas of surplus production across borders to growing urban markets and food-deficit rural areas. With rising incomes in Africa there are emerging opportunities for cross-border trade in basic manufactures such as metal and plastic products that are costly to import from the global market. The potential for regional production chains to drive global exports of manufactures, such as those in East Asia, has yet to be exploited, and cross-border trade in services offers untapped opportunities for exports and better access for consumers and firms to services that are cheaper and provide a wider variety than those currently available.

The various papers covering trade in goods and services also discuss why Africa is not achieving its potential for regional trade. The report digs down below official trade statistics and measures of trade barriers to show that while there has been some success in eliminating tariffs within regional communities, a range of non-tariff and regulatory barriers raise transaction costs and limit the movement of goods, services, people and capital across borders. The end-result is that Africa has integrated with the rest of the world faster than with itself. This is of particular relevance now that traditional markets in Europe and North America are stagnating and recent export growth in Africa has been driven primarily by commodities with limited impacts on employment and poverty.

The costs of non-tariff and regulatory barriers

The incidence of these barriers to regional trade fall most heavily, and disproportionately, on poor small traders, preventing them from earning a living in activities where they have a comparative advantage – catering for smaller, local markets across borders. Most of these small scale, poor traders are women and their trading activities provide an essential source of income to their households. Their profit margins are small, and are reduced by every delay or extra charge they face. They are also vulnerable to abuse. For instance, the majority of traders who cross from the DRC to Burundi, Rwanda, and Uganda are women carrying staples – 85% report having to pay a bribe and over 50% report physical and sexual harassment. One trader reports: "I buy my eggs in Rwanda; as soon as I cross to Congo I give one egg to every official who asks me. Some days I give away more than 30 eggs!" This experience is not unique to this group of countries.

If the residents of San Francisco faced the same charges pro rata in crossing the Bay Bridge to Oakland as do residents crossing the Congo River between Kinshasa and Brazzaville, a similar distance, they would pay more than $1200 for a return trip. As a result passenger traffic at this obvious focal point for cross-border exchanges between the two Congos is around five times smaller than that between East and West Berlin in 1988 – well before the dismantling of the Wall!

In southern Africa, a truck serving supermarkets across a border may need to carry up to 1600 documents as a result of permits and licences and other requirements. Slow and costly customs procedures and delays caused by other agencies operating at the border, such as standards, raise the costs of trading. For example, the supermarket chain Shoprite reports that each day one of its trucks is delayed at a border costs $500 and it spends $20,000 per week on securing import permits to distribute meat, milk, and plant-based goods to its stores in Zambia alone.

Firms that have access to professional services, such as accountancy, engineering, and legal services, tend to have higher productivity, but many governments in Africa limit the pool of such services that are available to their firms through restrictions on the movement of professionals across borders and regulations that constrain the conduct of service providers.

Hence non-tariff barriers associated with the design and implementation of regulations continue to limit the growth of trade throughout Africa, imposing unnecessary costs on exporters that limit trade and raise prices for consumers, undermine the predictability of the trade regime, and reduce investment in the region. The main message of this work is that to deliver integrated regional markets that will attract investment in agro-processing, manufacturing, and new services activities, policymakers have to move beyond simply signing agreements that reduce tariffs to drive a more holistic process to deeper regional integration.

A regulatory reform agenda

What is needed is an approach that reforms policies that create non-tariff barriers; puts in place appropriate regulations that allow cross-border movement of services suppliers; delivers competitive regionally integrated services markets; and builds the institutions that are necessary to allow small producers and traders to access open regional markets. This is a different approach to one that proceeds within the straightjacket of specific sequential steps to integration, i.e. free trade area, customs union, common market, and economic and monetary union. For example, there are enormous opportunities from trade in services in Africa that are not dependent on a common external tariff being in place. Countries can work to improve trade facilitation at the border and to remove non-tariff barriers with neighbours while free trade agreements are being designed and implemented. Countries that are not members of the same free trade agreements can work to disseminate information on market prices to producers and traders.

This is consistent with recent work that shows that the recipe and toolkit for successful regional integration in the 21st century is quite different from that pursued in the 20th century. Old regionalism focused on the mutual exchange of tariff preferences and trade in goods. The new regionalism concerns a wide range of regulatory issues and is about the "trade-investment-services nexus" (Baldwin 2011).

Our analysis suggests that the returns to a regulatory reform agenda for trade will be substantial while the direct financial costs are small relative to other aid for trade interventions and investments in infrastructure. However, there is a large information-gathering and knowledge-building agenda to support regulatory reform. Better information on non-tariff barriers and their impact is required in many countries to identify priorities for reform. Effective regulation typically requires sector-specific knowledge. The knowledge required to regulate open markets for accountancy services is quite different from that to define standards for milk. This knowledge agenda can be enhanced by learning from other countries and regions of what has and has not worked elsewhere. Nevertheless, in addition to being sector-specific, regulation must also take into account local demand and supply conditions and simply importing standards from outside may not be appropriate. Finally, the regulatory reform process must be open and inclusive to ensure that all stakeholders are involved and that the regulatory outcomes are not unduly influenced by particular stakeholders, such as incumbent firms.

A successful programme of policy reform that seeks to address these constraints to intra-regional trade in Africa will have to confront powerful interests that may be adversely affected. While measures to open up African markets to regional trade will increase the opportunities for businessmen and women and especially poor traders to earn higher returns from their activities and at the same time reduce prices for consumers, some often politically well-connected individuals will lose the high profits they are currently able to earn from the relative lack of competition. In some cases there may be important distributional impacts that will need to be addressed if poor people are employed in the activities that were previously protected. At present there is very limited analysis of these political economy issues and few mechanisms in existing agreements for supportive policies, such as retraining schemes for affected workers.

The appropriate metric for successful regional integration is therefore not the extent of tariff preferences but rather reductions in the level of transaction costs that limit the capacity of Africans to move, invest in, and trade goods and services across their borders.

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