Potsdam Spring Dialogues 2012

Trade: Potentials and Pitfalls for Regional Integration and Development in Africa

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# Conference Report

In May 2000, the British news magazine *The Economist* ran a cover story which described Africa as “the hopeless continent”. A decade later, in December 2011, a much more promising picture was painted: “Africa rising”, the cover read. Obviously, prospects have changed for the better for the African continent in the past ten years. This was the message conveyed by Henning Heidemanns, State Secretary at the Brandenburg Ministry of Economic and European Affairs, in his introduction to the Development and Peace Foundation’s Potsdam Spring Dialogues 2012.


Henning Heidemanns and Gerd Harms

In this context, much hope is placed in the impact of increased intra-regional trade in Africa. The concept of enhanced development through an increase of intra-African trade is a topic which has been discussed for at least 30 years now, but recent plans to establish large-scale free trade areas (FTAs) like the 26-nation Tripartite FTA or the Continental FTA (CFTA) have given fresh impetus to the idea. The last African Union Summit in 2012 was also devoted to the objective of “boosting intra-African trade”. Not surprisingly, then, the overall atmosphere at the Potsdam Spring Dialogues 2012 was positive, focusing on the great potentials of regional integration and trade in Africa. Indeed, the advantages of increased intra-African trade and market integration are manifold. More trade and enlarged markets will increase local companies’ scope and economies of scale and lead to more product diversification and refinement. Improved access to a larger market will also attract more foreign investors. Regional trade integration is thus regarded as the way to move from the export of raw materials to the establishment of local value chains and, in the longer term, to sustainable development and poverty reduction.


Alan Kyerematen

While the gains from trade were largely considered to be self-evident, it soon became apparent that there are still various challenges to address. Benefiting from trade would require certain preconditions to be met, such as a sufficient level of industrialisation and product diversification. UNECA official Alan Kyerematen, former Trade Minister of Ghana, hedged the optimism with constraints, stating: “Africa is the next growth pool of world trade, there is no doubt about that. But still, challenges confront us”.

**A bumpy road ahead**

Indeed, many African states have been achieving impressive economic growth rates over the last few years. Eight Regional Economic Communities (RECs) such as the East African Community (EAC), the Southern African Development Community (SADC) and the Economic Community of West African States (ECOWAS) already exist and provide certain levels of trade integration. But with about 12 per cent of total trade, intra-African trade is still comparatively low. This is partly the result of the current trade relations and economic conditions in most African states. One of the main problems, as Wolfgang Stopper from the Federal Ministry of Economics and Technology commented, is that with around 66 per cent, the major share of African exports is composed of raw materials, most of which directly go to Western or


Wolfgang Stopper

emerging economies. As economic growth is based mainly on the export of unprocessed commodities, the industrial and service sectors in many African states are seriously underdeveloped, facing severe structural and infrastructural problems. As a result, African products struggle to compete in international markets, both within Africa and around the globe.

Other reasons for the relatively low level of intra-African trade are to be found in the organisation and policies of the RECs. Experts describe weak governance at the national and REC level as being among the most important obstacles to trade integration in Africa at present. Although agendas on boosting regional trade are usually very ambitious, they often veer off-track when it comes to implementing the necessary policies, according to Trudi Hartzenberg from the Trade Law Centre (tralac). This is obvious, for example, from the de facto liberalisation of trade within the different RECs, where non-tariff barriers still create major obstacles to trade. The issue of governance applies to projects as the Tripartite Agreement or the CFTA, too, Hartzenberg pointed out. Here, decision-makers set very tight timelines for integration which are often unrealistic – partly because these new, larger FTAs are supposed to be built upon the existing RECs, which are already falling short of their integration targets.


Trudi Hartzenberg

Another more general issue is overlapping membership. Many African states are members of more than one regional community. This leads to a complex system of trade relations, confuses trade priorities in the individual states and wastes a lot of scarce capacities. Ironically, as Gerald Ajumbo from the African Development Bank explained, states tend to use overlapping memberships in order to offset the risk that individual RECs might fail. The shortcomings in the quality of governance and the resulting implementation gap can also be traced back to weak institutions on the REC level. These do not have sufficient personnel and financial capacities to actively promote policy implementation on the national level. Another major flaw is the lack of enforcement mechanisms, making it more difficult to monitor and foster progress on market integration.


Gerald Ajumbo

**Two opposing models of integration**

On a more theoretical level, discussions arose about the right approach to regional integration to be adopted in Africa. Professor Helmut Asche, Director of the Institute of German Development Evaluation, presented two opposing models of integration: the Anglo-Saxon approach (known as *light integration*) and the structuralist approach. The first focuses mainly on widening market integration and is characterised by trade liberalisation, low external tariffs and light institutions. According to Professor Asche, the Tripartite FTA as proposed would follow this Anglo-Saxon path. In contrast, the structuralist alternative, which comes closest to the European model, does not rely solely on market-liberal instruments but stresses the need for compensation policies in order to counterbalance the internal heterogeneity of a large-scale FTA. Following Professor Asche's line of argument, in the case of African trade integration, such policies are required to balance out the effect of "the regional champions", i.e. the dominant regional economies such as South Africa, Kenya and Nigeria. However, a key problem in the Af-


Helmut Asche

rican case is that these regional powers are diversifying into the same sorts of low-scale products as their neighbours. Members of an FTA would therefore merely benefit from cheaper access to high-scale products. Other participants such as Paul Kalenga from the SADC Secretariat considered the light approach to the Tripartite FTA as the most promising way forward at present. He argued that many African states regard this as a way to overcome the complex situation of overlapping memberships and the failure of effective integration within the RECs. Furthermore, he pointed out that at the moment, African states show little incentive to trade national sovereignty for deeper integration. During the discussions, there was roughly equal support for both models.


Paul Kalenga

### From ambitious agendas to action

The application of a structuralist model to the development of a pan-African FTA would undoubtedly require much stronger institutional frameworks, equipped with adequate political and legal mechanisms to implement and monitor the integration process, as well as considerable financial resources. The application of the light integration model would also imply more rules-based governance and coherent policy implementation. As almost all participants agreed, none of the existing RECs actually provides such a deep and sophisticated level of integration and governance at present. Yet ambitious plans foresee the completion of the Tripartite FTA by 2013 and the Continental FTA by 2017. Trade experts such as Paulina Elago from Trade-Mark East Africa are therefore calling for a closer focus on the implementation of the existing RECs and more realistic timelines for projects like the Tripartite or Continental FTA. The underlying rationale is that as long as trade within the RECs is hindered by poor infrastructure, non-tariff barriers, a lack of diversified products and at a certain level mutual mistrust, widened integration will not bring about the desired effects.


Lyal White and Paulina Elago

So regardless of the question of which approach is the most appropriate, a number of priority factors should be addressed and should be the focus of attention for policy-makers. First and foremost, as stated by many different participants, industrial development needs to be fostered, preferably through common industrial policies. Furthermore, Africa has a lot of work to do on its connectivity. According to Dr Lyal White from the Gordon Institute of Business Science (GIBS), the continent needs to improve its infrastructure across the regions and enhance the flow of products, services and persons if intra-regional trade is to increase. In addition, there were calls for a more coherent trade policy across the African states. If trade-related national interests are not articulated and policies remain uncoordinated, the integration processes cannot be successful, Alan Kyerematen explained.

### The answer to poverty and underdevelopment?

If the necessary conditions are not fulfilled or the process of integration is carried out carelessly, increased trade can create pitfalls rather than potential for development and poverty reduction. Among other threats, Jan Rieländer from the OECD Development Centre


Jan Rieländer

stressed the "resource course", applying to states which gain revenues mainly from

Canon Butagira

the resource trade. Here, countries, or their elites, generate income for themselves without any need to provide diversification and good governance – which disturbs the social contract between state and society. The establishment of a pan-African FTA faces another risk as well. Professor Asche feared that without sound structures and good governance, regional trade integration will result in a "worst case" scenario: regional imbalances and non-tariff barriers could destroy the market from within, while low external barriers would open up the market for foreign dumping. It is also important to keep in mind that the initial idea of increased intra-African trade is to achieve self-sustaining long-term development. Simply liberalising trade will not be the answer to poverty and underdevelopment.

**"New kids on the block"**

Although African states are striving for less dependence and more self-sufficiency through a boost to intra-African trade, it cannot be denied that external actors play a significant role in these developments.

Plenum at the Potsdam Spring Dialogues 2012

Over the past decade, the international system has undergone some major changes due to new emerging powers such as China, India and Brazil. An important topic of debate was therefore the impact of these "new kids on the block" on Africa and their increasing presence on the continent. Often driven by the hunger for resources, they trade development assistance, which mainly comes in the form of infrastructure projects, for commodities and thus contest the century-long domination of the old industrial states as trade and development partners. Traditional partners criticise the way in which these new powers, first and foremost China, deliver allegedly less sustainable assistance without the conditionality, such as good governance or human rights criteria, that typically accompanies Western aid. Yet many African leaders welcome the new partners. As Canon Butagira, Ugandan Ambassador to Germany, pointed out, when it comes to the reduction of severe poverty and much-needed structural projects, African states cannot miss out on the new opportunities. Although many concerns were raised, some participants argued that the old and the new powers can also complement each other. Jan Rieländer could imagine that countries such as China may be more effective in providing infrastructure, while traditional partners possibly do better work advising on governance issues.

Heiko Schwiederowski

Apparently, the same applies to the private sector's engagement in Africa. Heiko Schwiderowski from the German Chambers of Commerce stressed the possibility of complementary efforts, since German companies cannot compete with Chinese ones in terms of infrastructure provision. He gave a number of examples of projects in which German and Chinese companies have worked together. And Germany still has potential to do business in Africa: the new "Africa Concept" issued by the German government is supposed to boost African-German business relations. The business sector could be an important driver of regional trade integration in Africa. And yet the German private sector, at least, seems surprisingly unaware of developments on the continent. As Judith Helfmann-Hundack from the German-African Business Association explained, beside the multinationals, many German companies have yet to recognise the potential of trade liberalisation and integration in Africa.


Judith Helfmann-Hundack

**EU and EPA: it's complicated**

Last but not least, one much-debated topic was the role of the European Union in the process of trade integration in Africa and development cooperation in general. Here, the European Partnership Agreement (EPA) negotiations between the EU and the African RECs were of particular interest. The process of negotiating these agreements has been rather frustrating so far and is still ongoing, with each side blaming the other for the slow progress. EU officials invariably criticise the complex situation in Africa, with regional and multilateral integration taking place simultaneously, as well as the overlapping memberships and problems with implementation. Meanwhile, the African representatives and other critics increasingly question how favourable the EPAs actually are for the poor countries' development. There were calls for an open and more genuine dialogue between all stakeholders, which should also include more explicit articulation of the European partners' own interests. Kathleen van Hove from the European Centre for Development Policy Management (ECDPM) argued that the EPA negotiations have been a success at least in intensifying communication between the parties. This applies not only to the EPAs, but to the European Union's development policy in general. Presenting development assistance as a win-win situation, she said, would be a more honest approach and could facilitate further engagement.


Klemens van de Sand and Kathleen van Hove


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