Chapter 3

Trade policies and regional integration in Africa

This chapter reviews the recent progress of integration in various African regions. It looks at how trade is shaping African integration, obstacles to free movement of people and goods, and the importance of boosting Africa's services sector to achieve a foothold in global value chains.

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In brief

Africa's exports, driven by strong commodity prices, grew faster than any other region in the world in 2012 at 6.1%. However, in the same year Africa accounted for just 3.5% of world merchandise exports, and this has remained low over the years. Intra-African trade with value-added manufacturing grew faster than exports to the rest of the world. Africa can further increase this trade by cutting bottlenecks and strengthening industrialisation. This would help the continent gain a stronger foothold in global value chains. East Asia's economic rise shows that attracting value chain foreign direct investment requires targeted trade reforms and policies, efficient trade infrastructure, and incentives to support value-added technology. This must be carried out at both regional and national levels. The share of African suppliers in the continent's imports has been falling compared to imports from outside Africa. Imports have grown twice as fast as exports, averaging 13.8% per year. African states have not participated fully in this import growth. Likewise, African suppliers need an appropriate enabling trade environment, to scale-up involvement in services value chains. Regional bodies have launched important initiatives to boost regional industrialisation and investment in regional infrastructure but these need to be strengthened.

Africa bids to keep pace with world trade growth

This section looks at how Africa is taking a growing role within dramatically changing trends in world trade, building a stronger relationship with China, the world's leading exporter which is its fastest growing trade and investment relationship.

International merchandise trade quadrupled over 30 years, with average annual growth of 7%, to reach USD 18.3 trillion in 2012.[1] Reduced tariffs and non-tariff barriers and the expansion of trade in intermediate goods all helped. Manufactured goods accounted for 64.1% of world trade in 2012. Fuels, with a value of USD 3.37 trillion, made up 19% of global exports, up from 9% in 2000. However, depressed prices saw the export value of minerals and ores drop by 10%, agricultural raw materials by 9%, and iron and steel by 8%.

Global trade in commercial services saw even higher annual growth – averaging 8% – to reach USD 4.35 trillion in 2012. This is almost 19% of world trade.

Important trends are discernible. The share of developing countries in global trade stood at 34% in 1980. By 2011, this had grown to 47%. Meanwhile, the share of developed economies declined from 66% to 53% over the same period.

Fast-paced industrialisation in China and East Asia and by other emerging powers – Brazil, Russia, India and South Africa – has led the developing economy to surge. China saw its share of world exports rise from 1% in 1980 to 11.4% in 2012 (WTO, 2013a), making it the world's leading exporter. The United States remained the world's largest trader, however, with total trade worth USD 3.88 trillion, and a trade deficit of USD 790 billion for 2012. China followed closely at USD 3.87 trillion, and a trade surplus of USD 230 billion. A notable trend has been the growth in South-South trade from 8% of the total in 1990 to 24% in 2011, with exports from developing countries expected to exceed 50% of global trade within several years. North-South trade also grew from 33% to 38%, but North-North trade declined from 56% to 36%. Exports from least-developed countries fell marginally in 2012, leaving their share of world merchandise exports at just 1%.

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Europe (including between European Union members) had the highest share of intra-regional trade, at 75%, despite sluggishness in 2012 due to troubles in the euro area. This was followed by Asia at 52%, then North America at 48%. Africa stood at 12.8% or USD 81 billion.[2]

Commodities maintain dominance of Africa's surging trade

This section provides a breakdown of what Africa sells and to whom. Europe remains the main market for African exports but China is fast catching up. The section also highlights growing business between African nations. It shows that while growth is strong, there remains room for diversification and significant scaling up in manufacturing value-added and services trade. Africa's agriculture exports also declined in 2012 although, again, there is significant scope for growth in intra-African trade in agricultural products.

Africa's trade rebound

According to WTO data, Africa's exports rallied in 2012 following a decline of 8.5% the previous year due to a slump in Libyan oil exports. Africa's export growth of 6.1% in 2012 was the highest of any region in the world, compared with 4.5% growth in North America and 2.8% in Asia. In 2012, African merchandise exports amounted to USD 626 billion or 3.5% of world exports while imports were USD 604 billion.

Fuels and mining products dominated African merchandise exports, accounting for 69.5% of total exports worth USD 438 billion in 2012. Fuels alone accounted for USD 384 billion worth of exports, 60.9% of African merchandise exports. As Table 3.1 illustrates, only South Africa among the top five African exporters is not an oil exporter, although it is a huge exporter of mineral ores. Major destinations were Europe (38.7%), Asia (29.8% and up from 15.7% in 2005), and North America (14% down from 28% in 2005). This shows how traditional and emerging markets are both crucial. It also highlights the need to retain and reinforce preferential access to markets such as the United States, where the African Growth and Opportunity Act is up for renewal in 2015.

Table 3.1. **Africa's top exporters and importers, 2012**

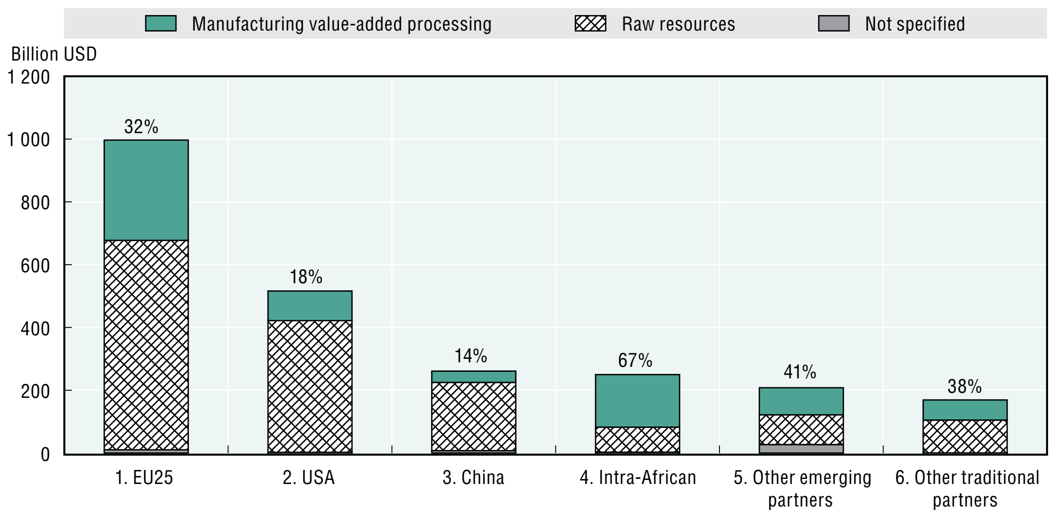
Africa's top exporters			Africa's top importers	
Rank	Country	Value in billion USD	Country	Value in billion USD
1.	Nigeria	116.0	South Africa	124.0
2.	South Africa	87.0	Egypt	69.0
3.	Angola	74.0	Nigeria	51.0
4.	Algeria	72.0	Algeria	47.0
5.	Libya	62.0	Morocco	45.0

Source: WTO (2013b).

Jump in intra-Africa manufacturing trade

Intra-African exports of manufactured goods were worth USD 103 billion in 2012 or 16.4% of total merchandise exports. Although this was just 0.9% of total global exports, intra-African exports exhibited high level of manufacturing and value added intensity as illustrated in Figure 3.1. Europe remained Africa's major export destination (40.3% in 2012, down from 52% in 2005). Asia and North America accounted for 11.5% and 8.5% of African exports respectively. With improved infrastructure, enhanced trade facilitation, reduced costs, greater efficiency and investment, there is significant scope for greater intra-African manufacturing trade (see also UNECA, 2013a).

Figure 3.1. **Manufacturing intensity, by main destinations of Africa's exports, 2005-10**



Source: UN ComTrade (2012).
StatLink http://dx.doi.org/10.1787/888933032890

African agriculture and agri-business need investment

African agricultural exports experienced a 1% decline in 2012 after average annual growth of 14% between 2005 and 2011. Agriculture exports were valued at USD 57 billion or 9.1% of African merchandise exports. Nearly half of Africa's agricultural exports (USD 26 billion) went to Europe. This amounts to just 3.9% of Europe's agricultural imports, although it is an improvement from 2.7% in 2005. Europe in turn exported USD 20 billion in agricultural products to Africa, 35.4% of Africa's agricultural imports in 2012 – down from 50.4% in 2005. Asia also featured strongly, receiving USD 12 billion of African agricultural exports equal to 21.7% of Africa's agricultural exports up from 16.7% in 2005. Intra-African agricultural trade amounted to USD 13 billion or 23.5% of the total, up 4% from 2005.

Strategic leap in South-South and intra-African trade

Europe remained Africa's major trading partner, with two-way trade valued at USD 240 billion in 2012, 38.2% of Africa's total trade. This was followed by Asia at USD 160 billion, or 25.3%. North America stood at USD 74 billion amounting to 11.7% of African trade. This demonstrates the value of the Africa-EU trade partnership. China leads the way among emerging economies, having increased its share of African exports from 3.2% in 2000 to 13% in 2011. A steady increase in trade from Africa to China has resulted in a widening trade deficit for China with the continent. Two-way Africa-China trade was worth USD 198.5 billion in 2012 (an increase of 19.3% over 2011) compared with US-Africa trade at USD 108.9 billion. Standard Chartered Bank estimates that Africa–China trade may surge to USD 385 billion by 2015. What further distinguishes China is that trade with Africa is coupled with high levels of investment. The cumulative stock of Chinese investment in Africa is reported to have risen from just under USD 500 million in 2003 to USD 22.9 billion in 2012, with more than 2 000 Chinese companies reported to be active in Africa.

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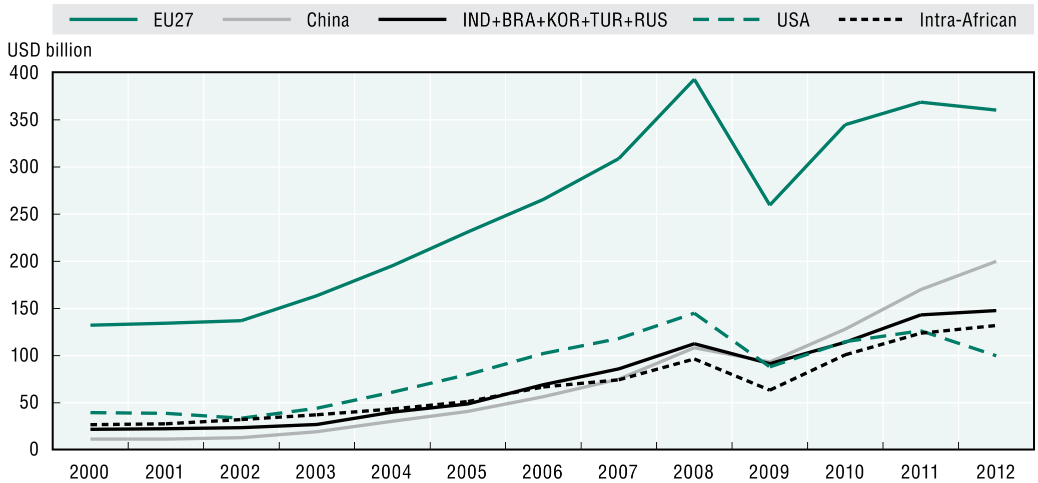
Figure 3.2. **Africa's trade flows with selected partners, 2000-12**



Source: UN ComTrade (2012).

StatLink http://dx.doi.org/10.1787/888933032909

More trade between African states

While the "big picture" remains dominated by trade in traditional primary products targeted at traditional markets plus China, growth in intra-African trade is likely to change the landscape. Commerce between African states remains comparatively low, but it averaged 13.5% annual growth between 2000 and 2010. The trade was valued at almost USD 81 billion in 2012 and it is growing faster than Africa's exports to the rest of the world. From 2000 to 2010, exports to the rest of the world grew by only two-thirds of the rate of exports within Africa. However, the share of the continent's imports going to African producers has declined. On the other hand, imports from outside Africa have surged faster than exports (averaging annual growth of 14% compared to 11%). Africa was the only region to experience double digit import growth at 11% in 2012. Imports grew nearly twice as fast as exports.

Intra-African exports are fairly diversified, though still dominated by primary products. Manufactured and intermediate goods appear to be of more significance in trade within regional groups, having enjoyed greater dynamism than at the continental level. Nonetheless, the big picture remains characterised by a small number of lightly processed exports with petroleum products accounting for nearly 33% of the value of intra-African exports in 2012, up from 25% in 2010.

There are different trading patterns in different regions and also in the pattern of goods traded within a region. In two of the five regions, North and Central Africa, intra-African exports account for only a small or trivial share of total exports by member states.

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Africa is the world's fastest growing but least globally integrated continent

This section briefly examines some of the reasons for sluggish integration within Africa's regions and highlights a need for greater political efforts and better infrastructure. It also argues that the continent's growing middle class and its youthful population could become a key source of demand for African produced goods and services as the expansion of African retail and financial services demonstrates.

There is only low level connectivity between African economies – although this is gradually improving (Visa Sub-Saharan Africa, 2013). This is largely due to an incomplete legal architecture for regional integration, poor physical infrastructure and one-way trading relationships. Leading African exporters such as Angola, Algeria, Egypt, Libya, Morocco, Nigeria and South Africa have stronger economic links to the rest of the world than with regional neighbours. This represents lost economic opportunities. Integration and connectivity in other regions of the world have spurred growth in the free flow of goods, services, capital, and people. These regional economic activities and investment inter-linkages remain low in Africa.

Supply-side responses must be supported by a dynamic legal framework for regional integration, for both the continent and its constituent regional economic communities (RECs). Africa is not immune to the changing trends in the global economy. Production patterns are shifting as countries become less specialised and trade becomes more regional and based on intermediate products. Moreover Africa's middle class, now estimated at more than 300 million people and growing at a rate of 3.2% per year since 1983, could provide a formidable source of consumer demand.

With the United States, Europe and Japan all struggling for growth, opportunities are emerging for Africa to grow on home markets and through its own consumer demand. One example is trade in personal and household goods, which experienced the fastest growth among global merchandise of 10% in 2012. Coupled with sustained economic growth, demographic changes are expected to also transform trade. While parts of the world worry about ageing, Africa has the world's youngest population. Two thirds of its total population is aged under 25. With appropriate skills, infrastructure and the right business environment, Africa could boast a skilled labour force to establish itself as a centre for global manufacturing and services.

Africa's attempts to integrate must adapt to and manage factors such as changing technology, migration from the countryside to cities and Africa's large informal sector – estimated by the African Development Bank (AfDB) to contribute about 55% of sub-Saharan Africa's GDP. Nonetheless, most indicators point to a continent on the move. This transition will be facilitated by more open markets, improving infrastructure, access to technology and improved political stability.

Crossing borders tests African commitment to integration

This section looks at decades of sluggish efforts to bring African states closer together to build the continent's economy. The eight regional communities have been working at different speeds on integration. Some countries and smaller groups have even launched their own initiatives such as joint tourist visas. A joint COMESA-EAC-SADC free trade area accord could become a template for the continent if it is successful.

54 countries, 8 regional communities, work still needed

African countries have been seeking closer economic and political ties for decades (UNECA, 2013b). Experience demonstrates that closer trade links between neighbouring countries can help address the colonial legacy of fragmentation among Africa's

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54 countries while providing a platform for regional dialogue which can help to reduce conflict (AfDB, 2013).

Economic integration requires free movement of goods, services and capital, removal of non-tariff barriers and free movement of people. The eight regional economic communities recognised by the African Union have been moving at different speeds to implement the 1991 Abuja Treaty Establishing the African Economic Community. Despite some progress, commitments made at regional level have not been carried out by individual states.[3] Some countries are members of more than one regional community, and there is a simultaneous challenge in managing external trade relationships such as economic partnership agreement negotiations with the European Union, trade with the emerging powers and multilateral negotiations under the World Trade Organisation's Doha Round.

The regional groups require strengthened capacity to support the negotiation and implementation of regional agreements, as well as to monitor and evaluate integration. The elimination of non-tariff barriers, simplification of border procedures – supported by improved regional transport infrastructure – will improve trade efficiency. There are also legislative and institutional gaps in some regional communities in, for example, competition policies and remedies and mechanisms to settle trade disputes. Such measures will become increasingly necessary as integration deepens.

Using various integration indicators (Walkenhorst, 2013), the five-nation East African Community (EAC) has made the most progress since launching its common market in 2010. Even here, the closer ties have been built at varying speed. Rwanda, Uganda and Kenya agreed to adopt a single EAC tourist visa in 2014 so international visitors can move freely among all three states. The countries have also agreed, with Burundi, on the future use of national identity cards as travel documents. This variable geometry could spur or hinder future integration in the EAC. Intra-EAC trade grew 22% in 2012 over the previous year to reach USD 5.5 billion, up from roughly USD 2 billion in 2002, with Tanzania and Rwanda both registering increased trade. Kenya and Uganda averaged 37% and 24% of total intra-EAC trade, respectively, during 2011 and 2012.[4]

The EAC launched a customs union in 2009 and is working to integrate capital markets. In 2013, EAC heads of state signed a Monetary Union Protocol aiming to establish a single currency within 10 years. They also agreed to a target of 2021 to maintain headline inflation below 8%, fiscal deficit at 3% and gross public debt below 50%.

The experience of the euro area and other monetary unions offers many lessons for the EAC. Its road map towards a single currency will need to include a common financial regulatory framework, harmonisation of monetary and fiscal frameworks, and managing capital flows. Kenya, Tanzania and Uganda have launched the East African Payment System (EAPS) which connects their payment systems in a similar way to the real time gross settlement system. Rwanda and Burundi are expected to join the EAPS later. The region is also investing in a standard gauge regional rail, roads, energy and port infrastructure aiming to strengthen links to the key ports of Mombasa and Dar es Salaam. The countries are also building One Stop Border Posts. Progress has been slow, however, in addressing non-tariff barriers, border constraints and the lack of harmonised import and export standards, procedures and documentation. All this increases the costs of intra-regional trade.

The 19-member Common Market for Eastern and Southern Africa (COMESA) launched its customs union in 2009. The Southern African Development Community (SADC) and the Economic Community of West African States (ECOWAS), which each have 15 states, made some progress in developing free trade areas. SADC planned to inaugurate a customs union in 2013 – whose launch has been delayed – and ECOWAS in 2015.

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ECOWAS has introduced a common passport, but travel across the region is still not easy. It has also established national committees to address non-tariff barriers and started 'complaint desks' at borders. After a seven-year delay, ECOWAS finance ministers agreed in 2013 to launch a Common External Tariff, with five tariff bands, in 2015. The common tariff aims to discourage the high-level of smuggling and wide price differentials on products across the region. An ECOWAS Monetary Union and central bank are expected to be launched in 2020, bringing together the six countries of West African Monetary Zone (WAMZ) and the eight countries of the West African Economic and Monetary Union (WAEMU). The road map for the ECOWAS single currency contemplates launching the WAMZ monetary union by 2015. The eight WAEMU countries use a common CFA franc (XOF).

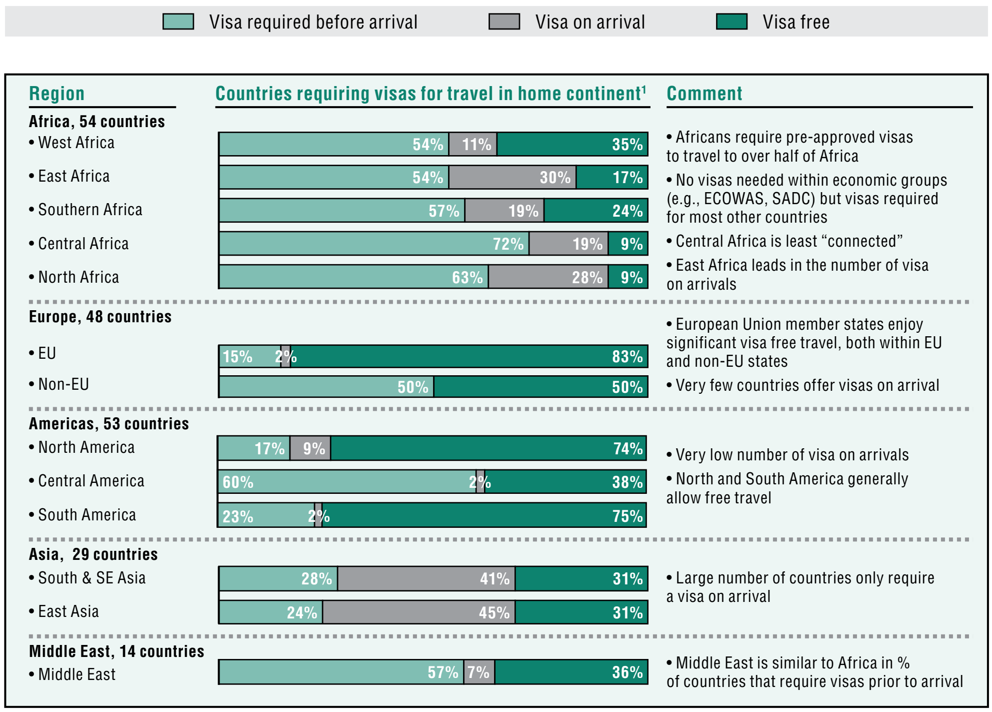
The Economic Community of Central African States (ECCAS) launched a free trade area in 2004 but the fragile state of some of the 10 member states has held it up. Regional integration in the Arab Maghreb Union (AMU), the Economic Community of Sahel-Saharan States (CEN-SAD) and the Intergovernmental Authority on Development (IGAD) has progressed slowly. AMU members have traditionally focused on external markets such as Europe, but political changes since 2011 might give renewed impetus to regional integration. For example, in 2014 a Tunisian-Algerian preferential trade agreement entered into force following a five-year transition.

The COMESA-EAC-SADC Tripartite Free Trade Agreement is expected to serve as a benchmark for deeper integration across Africa. A preparatory phase began in December 2011 with 12 months of exchange of information on tariffs, trade data and trade measures. The current negotiations phase is expected to be concluded in 2014 with the launch of the Tripartite FTA expected in 2016. Building on existing free trade areas, it involves negotiations on key issues such as tariff liberalisation and rules of origin. It will also target trade facilitation including customs procedures and simplification of customs documentation, transit procedures, non-tariff barriers, trade remedies and technical barriers to trade and dispute resolution. The final phase of negotiations will deal with trade in services and trade related issues such as intellectual property rights and competitiveness. Negotiations to facilitate free movement of business people are also being undertaken.

Visa misery for African travellers

Free movement by people is supposed to be the hallmark of African integration, facilitating trade growth across the continent. Research by McKinsey (2013), a consultancy, found that Africa's laws on free movement remain generally restrictive despite political commitments to bring down borders. Central Africa is the most restrictive region and West Africa the most liberal in terms of visa free travel, according to the research. Some African countries fail to provide even for strategic regional preferences when deciding visas. North Americans, followed by Europeans, enjoy the most liberal entry into Africa. They get visa-free travel or can obtain a visa on arrival in at least half the countries on the continent. Africans need visas to get into at least two thirds of other African countries.

Figure 3.3. **Ease of travel within Africa compared to other regions**



1. No distinction made between tourist and business visa. Results are for tourist visas. Business visas may be required before arrival.

Note: Based on data available end 2012. This work was done as a collaborative effort between McKinsey, the AfDB and WEF Global Agenda Council on Africa.

Source: McKinsey (2013).

Several regional communities have made some slow progress on free movement. ECOWAS, for example, is developing a common migration policy. Like the EAC, ECOWAS is also adopting a common regional passport. However, most efforts to ratify and implement legal instruments dealing with the elimination of visa restrictions and to enhance free movement remain trapped in inertia. COMESA members have agreed to establish structures to implement its decisions and a Free Movement Protocol adopted in 2001. As with a 2005 SADC Protocol on the Facilitation of Movement of Persons, the COMESA accord is yet to enter into force as it has failed to garner the required minimum number of signatories and ratifications. Only four countries have signed (none in the last five years) and only one has fully ratified it.

Regional communities must accelerate the implementation of free movement deals which are one of the tangible benefits for citizens from regional integration. In some instances, countries have opted for unilateral liberalisation or bilateral arrangements to fast-track free movement. The single tourist visa scheme devised by Kenya, Rwanda and Uganda is one example. Rwanda, Mauritius and Seychelles have opted for a unilateral relaxation of visa requirements for most, and in some cases, all African arrivals to attract tourists and business. Seychelles, an early visa reformer, has seen 7% annual growth in international tourism arrivals over the past five years. In neighbouring Mauritius there has been growth of just 1%.

Other parts of the world have shown that visa free regional blocs generally lead to visa free continental travel. In the short-term, African countries could: *i*) allow visas on arrival for African citizens; *ii*) simplify applications and allow online applications;

iii) consider at least a visa waiver for countries where numbers fall below a certain visitor threshold and a relaxation of entry requirements where certain nationals exceed certain numbers, as South Africa did with SADC visitors; and *iv*) drastically reduce visa processing times and costs.

Planes and trains held up by regulatory logjam

African heads of state adopted a Programme for Infrastructure Development for Africa in 2012 which identifies priority regional infrastructure projects to be built by 2040. Regional economic communities (RECs) also have their own infrastructure master plans. For example, SADC developed its Regional Infrastructure Development Master Plan Vision 2027, targeting financing from member governments, multilateral lenders and the private sector. While there has been progress in developing regional transport corridors, there are still missing links – which are investment opportunities for African and foreign investors. From the Ethiopia-Djibouti corridor, to Lagos-Abidjan, major road corridor upgrades are needed to link key cities to ports and airports. Urban transit systems are also needed for Africa's burgeoning cities.

Increasing attention is being given to obstacles such as regulatory bottlenecks, the opaque legal environment and institutional inefficiencies holding up new infrastructure. A WTO ministerial meeting in Bali, Indonesia, in December 2013, urged countries to use regional initiatives to invest in trade facilitation reforms, reduce customs and border inefficiencies and streamline procedures. Critics warn that simple trade facilitation or tariff liberalisation cannot alone improve Africa's foothold in global value chains – the economic conveyor belt that takes a product from conception to consumer stores (South Centre, 2013). Instead, acquiring a greater share of value added trade involves structural transformation through policies for industrial development, agriculture, services and infrastructure. To this end, trade within domestic and regional markets in Africa offers a useful and lucrative platform for value-added trade growth.

Infrastructure and services can improve African participation in global value chains

This section looks at the crucial need to improve Africa's infrastructure and services industry and the role this can play in giving Africa higher participation in global value chains. It looks at the experience in Asia and initial moves to achieve this by the ECOWAS and EAC African regional groups.

Look to East Asia's example

Intermediate goods now make up two thirds of world commerce and are the fastest growing area of trade. Much of this is within global value chains (IMF, 2013). In East Asia, 62.5 % of total manufactured exports are related to value chains (Razeen, 2013). Foreign value-added is estimated to make up about one third of the value of exports – double what it was in 1990. The share is much higher for many small economies. Trade in services – generally referring to the sale and delivery of a service between a producer and consumer – is also growing quickly. The WTO General Agreement on Trade in Services sets out four modes of supply and classifies them into 12 broad sectors and 160 activities. These range from business and communications services, construction, distribution, educational, financial, health-related, tourism and travel-related services, and transport. Trade in services accounts for about 30% of gross merchandise exports and this is growing. The figure is much higher for developed economies. According

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to the International Monetary Fund, more income is generated by exporting services within value chains (IMF, 2013).

Many African countries are already striving to copy the experience of East Asia and other developed countries which have shown that services are key enablers supporting value added trade in global value chains (WTO and IDE-JETRO, 2011). Research on trade patterns and global value chains in East Asia, identifies outsourcing and offshoring as being of growing importance to global production. A good trading environment, with efficient international flows of investment, goods and services, is critical for a country to attract outsourced and offshore business. India and the Philippines are leading examples of offshore centres in information and communications technology and business process outsourcing. India exported USD 26.6 billion in computer services and USD 8.4 billion in business process outsourcing services between 2008 and 2009. Activities vary from basic back and front office procedures such as payroll and human resources administration to legal services, information technology, medical support and other technical support. The services are provided to sectors ranging from manufacturing, finance, utilities and healthcare to retail and transport clients. The global business processing outsourcing market was forecast to grow 5.1% in 2013 and reach USD 304 billion. The race is on among countries such as Egypt, Kenya, Ghana, Mauritius, South Africa, Tunisia and Uganda to become the new "India" in Africa using incentives and special economic zones to develop their outsourcing sectors.

Improved infrastructure secures a foothold in global value chains

Investment in improved transport, information technology and financial services allow service providers to play a bigger role in global value chain networks. The growth in offshore services means firms have become increasingly reliant on efficient logistics. This includes multi-modal transport, freight and cargo handling, storage and warehousing as well as supply-chain management. Hong Kong, China, and Singapore have leveraged their infrastructure and connectivity to establish themselves as transport, transhipment and logistics hubs connecting international buyers and suppliers. Spill-over economic activities include re-exports were worth USD 313 billion for Hong Kong, China, in 2009.

African commercial services exports grew 6% to reach USD 90 billion in 2012, while imports grew 3% to USD 162 billion. Africa's share of just over 2% of world exports of commercial services allows for enormous scope for growth. Services could contribute more to trade growth if African policy makers undertook sustained reforms and provided incentives to removing barriers to services trade. Apart from business process outsourcing prospects, countries such as Namibia, which has the Walvis Bay port, Djibouti and Kenya's Mombasa are well positioned to develop into significant logistics and exporting hubs.

The liberalisation of services and the increased private sector role have worked together to drive growth in global value chains. Yet protectionism in services tends to be higher than for trade in goods. Regional negotiations on services tend to move more slowly and with lower ambition than for trade in goods. Moreover, the commitments to liberalise services are weaker at multilateral and regional levels. Countries should consider unilateral reforms to target services sector growth and efficiency, leveraging infrastructure investment to complement industrial policy.

Box 3.1. **Value chain lessons from Senegal's support for agricultural development**

Over three million people, close to a quarter of Senegal's population, suffer from seasonal or year-round hunger. Much of the country falls in the drought-prone Sahel region, with poor soil. Only 5% of the land is irrigated and agriculture productivity is low compared to the rest of West Africa. Despite almost 75% of the labour force being engaged in agriculture, the sector only accounts for 14% of GDP. It is estimated that out of the 347 000 hectares (ha) of fertile and irrigable land in the Senegal River Valley only 135 000 ha are being used. Nearly 40% of cultivated land, some two million ha, is devoted to peanut production which employs close to one million people. Historically, exports of peanut products have reached a high of nearly 60% of total agricultural exports. Three quarters of this value is comprised of peanut oil which accounts for 45%-50% of the world market.

To spur economic development and youth employment the government has sought to build an efficient and diversified agriculture sector. It is targeting mainly rice (about 45% of the typical Senegalese diet) and peanuts, which have potential to boost food security and regional exports. The crops also provide an opportunity to integrate smallholder farmers into global value chains through increased collaboration with the private sector. The approach seeks to improve land tenure, develop infrastructure and encourage concessional financing. Using PPPs for peanuts and integrated value chain models for rice, the approach focuses on fostering industrial and out grower production capacities. To eliminate production inefficiency, the approach targets enhanced product quality, processing, storage, transportation, packaging and branding. These improvements are expected to substantially raise the quality of produce and ensure growth on regional and international markets. The World Bank has provided USD 90 million in support, while under the *Programmes des domaines agricoles communautaires*, the government plans to develop over 30 000 ha for smallholders. The potential for reforming Senegalese agriculture and development of value chains is therefore on course given the government's commitment to increase productivity and market linkages and more than double yields per hectare by 2015.

Regional groups are beginning to take initiatives on industrialisation and value chains

This section looks at efforts by Africa's regional groups to tighten economic links and their policies to get onto global value chains. Multinationals are investing more in Africa's agriculture but booming commodity exports are not yet creating the industries and services the continent needs. More outsourcing and offshore business processing could be one answer.

Global value chain policies are new to Africa

COMESA, the EAC and SADC each have industrialisation strategies as well as their tripartite free trade area initiative. Regional efforts on global value chains are still new however. The 26 tripartite member countries are seeking to strengthen co-ordination in industrial policy. This includes developing and upgrading regional value chains. This would enhance production capacity and competitiveness. Substantive work on industrialisation has yet to be started, however, and individual regional programmes have suffered from poorly implemented or still-born industrialisation strategies.

The 15 member ECOWAS group cuts across West African countries with English-, French- and Portuguese-speaking backgrounds that have given them diverse economic

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systems and structures. Individual countries such as Nigeria, Ghana and Côte d'Ivoire have their national agro-processing sectors linked to global value chains, but progress to develop regional value chains has been slow. Nascent regional industrialisation and private development initiatives focus on addressing policy and institutional barriers and competitiveness issues such as non-tariff barriers, political and economic fragility and the adverse effects of informal trade. The Intergovernmental Authority on Development region's industrialisation and private sector authorities are taken over by the COMESA-EAC-SADC tripartite where its members are also part of the EAC and COMESA groups.

A continent looking for ways to leapfrog in global value chains

Multinationals are enhancing Africa's local agricultural production and involvement in global value chains through local sourcing that gives them an edge in global markets. African countries are trying to revive national and regional level industrialisation through value chains. There is limited thrust at the regional level, however, and country level initiatives are at earlier and lower-value stages of the global chains. This is characterised by the dominance of agricultural and raw materials. Foreign investment in Africa's agriculture has boosted production, jobs and incomes while providing opportunities for increased participation the global chains.

Heineken International, a major brewer, produces over 11 000 tonnes of rice in the Kisangani region of the Democratic Republic of Congo (*Financial Times*, 2014) to make beer with a distinct taste from the region. Even though not directly involved in cocoa exports from Côte d'Ivoire, Mars Inc., the food conglomerate, believes that Ivorian production enhances its cocoa products sold around the world. In Mozambique, SABMiller plc, another major brewer, developed the first commercial beer from cassava. Success stories abound in many parts of Africa.

Even though Africa continues to receive investment in agriculture-based value chains, the continent's contribution to the global value chains is a mere 1.5%. This is partially attributed to lack of a reliable planning of value chain activities. There is no clear link with innovative policies and regulatory development to allow the continent to scale up value chains.

African countries have limitations such as remoteness, size, fragmentation, transport logistics and weaker capacity to use financial and other services. Their markets are smaller and more fragile. Weak infrastructure, a low entrepreneurial base and a lack of support at national and regional level does not help enhanced productivity. This undermines the development of regional and global value chains along with competitiveness. African countries have responded mainly through regional communities that are meant to facilitate the structural reforms and manage the economic and trade liberalisation required to open up to the globalised world.

The belief that regional initiatives would offer the scale to overcome the many challenges has not always been justified however. National and regional level implementation has been lethargic. Countries continue to miss deadlines and there are no measures to deter non-compliance. Sub-Saharan countries such as Mauritius, Rwanda, South Africa, Botswana and Ghana are members of regional blocs, but have undertaken substantial autonomous measures to improve their economies. The results are exemplified by their business environment ranking in the World Bank report *Doing Business* 2013 (World Bank, 2013). These countries rank from one to five within Africa and from 20th to 56th out of 189 countries overall. Their steady growth, improved supply-side performance, higher investment, productivity and competitiveness greatly enhance their opportunity for GVC participation and intra-African trade.

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The African Union's Action Plan on Boosting Intra-African Trade highlights attempts to improve investment conditions. The action plan outlines policies, regulatory and institutional issues to be overcome to help Africa's business environment. The COMESA-EAC-SADC Tripartite shows however that countries favour regionally based policies to boost intra-African trade. African regionalism places the emphasis on harmonisation and co-ordination of policies and regulatory environment to improve the business environment and scale up industrialisation and trade. Given the low share of intra-African trade the benefits of this approach have not been tested against the autonomous action taken by some countries. But it could improve cross border trade and hence regional value chains.

Successful development of global value chains requires a subtle balance between trade and industrialisation policies yet in many regional communities these are sometimes contradictory. Under free-trade-area-based regional integration, trade and tariff liberalisation is a crucial part of creating a single economic space. However, concerns over customs revenue losses and macroeconomic imbalances have resulted in policy reversals and non-implementation of regional policies in some countries. While many regions, particularly East Asia, initiated global value chains through "industrial catch-up policies" that entailed protectionism, discrimination, use of subsidies, controversial local content policies, disregard for intellectual property rights and infringement of competition policies, African countries, at national and regional level, are increasingly bound by contemporary multilateral rules.

Difficulties in developing the knowledge economy and weak decision-making have also hindered attracting investment for global value chains in the higher value stages of manufacturing or services. Despite prerogatives under free trade area arrangements that would allow participating countries to discriminate against third countries through deliberate "industrial catch-up policies", there is a lack of capacity among African countries to create an enabling environment by adapting global and multilateral rules. There is inadequate national and regional competition to stimulate technological upgrading and enterprise development. While uneven policies might not be a major problem nationally, at the regional level, it has constrained global value chains. Imbalances manifest themselves in terms of capacity, technological prowess and export drive that constrain cross-border trade as member countries impose non-tariff barriers.

Even though regional communities are perceived as the main policy and institutional vehicles, they have not helped member countries to meet their potential on global value chains. There is a lack of incentives and absence of, or limited institutional structure for, supporting global value chains. Despite developing regional investment frameworks for the private sector, the COMESA, EAC and SADC regions are unable to enforce implementation. EAC states have a common Investment Code but no one is implementing it. The COMESA Common Investment Area framework is also not being applied. Countries struggle to align national policies with regional ones. But regional communities also lack capacity to mobilise political goodwill to facilitate implementation of their programmes to upgrade and standardise research and development and improve links between institutions and business.

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Africa's dynamic products create global value

This section looks at areas, such as the need for new technology, which could boost Africa's presence in global value chains. Perhaps the continent needs to work on regional and global value chains to make progress. Stronger institutions and policies that bring down protective barriers are also needed.

Employment and income statistics show that the primary sector has played a role in economic diversification and unlocking opportunities for global value chains. In Africa, however, national and regional comparative advantages can be found in low labour costs and low-tech activities. Cocoa, rice, cassava, pineapples, peanuts, and cotton are all dynamic products that have created value chains in Africa. The activities are smallholder based and labour intensive. Upgraded technology is needed however. Regional mobilisation could create sizeable markets and innovative policies are needed to strengthen indigenous smallholder activities that could grow into the medium-sized enterprises that are needed to fill the gap between multinational corporations and smallholder enterprises.

Over-reliance on external investors, foreign technology and capacity has limited the expansion of global value chains. Unlike the East Asian countries that have higher shares of regional value chains – such as Japan investing in Chinese Taipei, Malaysia, Singapore, Thailand in the early 1980s – Africa does not have robust clusters to foster regional value chains. Regional communities may need to develop regional and global value chains at the same time. As they deepen their capacities for global chains, the regional versions can create complementarities and benefits for member countries in terms of local sourcing, productivity, capacity growth, economies of scale, dismantling of monopolies and the reduction of external shocks associated with global chains.

National and regional competitiveness on global value chains are dependent on structural factors that require attention. There must be strong national and regional institutions to support policy implementation while collecting critical data to share with policy makers and economic operators across the region. Regional communities could help countries scale up value chains by enacting regional policies that remove excessive protectionism and promoting incentives for upgrading such as tax-breaks for new technology.

Notes

1. For the sake of uniformity and for ease of comparison, the data in this chapter is drawn from the AfDB's research data, the authors' calculations based on UN ComTrade, http://wits.worldbank.org/wits/ and the WTO's *World Trade Report 2013 and International Trade Statistics 2013* available online at www.wto.org.
2. The African Development Bank measures intra-African trade at 16% rather than the 12% commonly cited.
3. For more details on the status of African integration see AUC (2013), *Status of Integration in Africa IV*, Available online at www.au.int/. See also UNECA and AUC (2014), *Assessment of Progress on Regional Integration in Africa*; Report on the Meeting of the Committee of Experts of the Sixth Joint Annual Meetings of the ECA Conference of African Ministers of Finance, Planning and Economic Development and AU Conference of Ministers of Economy and Finance, Abidjan, Côte d'Ivoire, 21-24 March 2013, available online at www.uneca.org; various decisions of the AU Executive Council and Assembly of the Union, 21-31 January 2014; draft Decision on the Report of the High Level African Trade Committee on Trade Issues; Committee on Trade Issues Decision on the Sixth Conference of African Ministers in Charge of Integration; Decision on 20th Ordinary Session of the Conference of AU Ministers of Industry.
4. See www.eac.int and Trade Mark East Africa, www.trademarkea.com.

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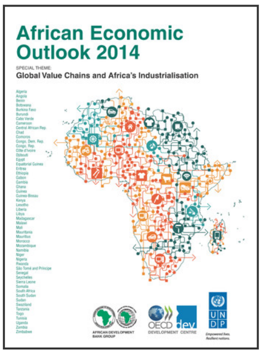

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