Why Intra-African Trade Matters: Working Locally to Go Global

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Economic integration efforts have a long history in Africa. The large number of preferential trade agreements signed in the past five decades has led to a "spaghetti bowl" of intertwined and overlapping regional organizations. Every African country is a party to at least one regional economic agreement, and many are members of five or more. Despite these efforts, intra-African trade remains low. Regional exports are less than 10 percent of Africa's total merchandise exports, and models estimating the trade potential between countries based on economic size, geographical distance, and other characteristics consistently find that trade among Africa's economies is below the levels predicted (World Bank 2009).

Recently, the African Union launched another effort to boost intraregional trade. The initiative is urgently needed, but not for the reasons articulated by most of Africa's leaders. With a total economic size equal to that of Canada, the African regional market can act as a complement to the global market, but it cannot substitute for it. Open regionalism—using regional agreements to integrate more fully with the global economy—can be an important tool for solving the continent's most urgent problem, lack of structural change.

Why Structural Change Matters

Structural change—the movement of workers from low productivity to high productivity employment – is a key driver of economic growth and a source of "good" jobs. For more than two decades structural change has lagged in Africa, while in Asia the movement of workers from lower to higher productivity sectors has increased the overall rate of economic growth and led to rapidly rising household incomes. In Africa, however, structural change has moved in the opposite direction. Over the past 20 years, labor has shifted from higher to lower productivity employment, reducing overall growth and slowing the pace of poverty reduction. (McMillan and Rodrik 2011; Page 2011). Without major changes in economic structure, Africa cannot create enough good jobs and remains vulnerable to shocks and long run decline in commodity prices.

Africa's Competitiveness Challenge

In both economic theory and history, industry is the sector that leads the process of structural change. In Africa average manufacturing labor productivity is more than three times greater than in agriculture. But, the vast majority of Africa's economies lack globally competitive industries and services. The 1980s and 1990s were marked by a shift in manufacturing production capacity out of the continent. Africa's share of manufacturing in GDP is less than one half of the average for all developing countries and, in contrast with developing countries as a whole, it is declining. Its share of global manufacturing (excluding South Africa) fell from 0.4 percent in 1980 to 0.3 percent in 2005, and its share of world manufactured exports fell from 0.3 to 0.2 percent (UNIDO 2009). The decline in African manufacturing production and exports was also accompanied by a decline in their diversity and sophistication.

Breaking Into the Global Market

For those African economies without natural resources the global market represents the only opportunity for increased industry growth. If, as seems likely, China and India continue their rapid growth, the fundamentals of location and labor costs should favor a shift in labor-intensive manufacturing toward lower-income countries. However, this does not guarantee that it will move to Africa. The region will have to compete with low-income economies in other places.

Changes in the structure of global manufacturing may help. Since around 1980 manufacturing for many products has been broken up into "tasks", each of which can be undertaken where costs are lowest. Recent industrializers such as Vietnam have exploited this opportunity to break into global markets. Africa needs to insert itself into global task-based trade.

Working Locally to Go Global

Effective regional integration can support Africa's industrialization. Free movement of goods across borders will increase both the competitive pressure on incumbent firms in the region and create new possibilities for task-based production focused on extra-regional markets. The opportunity to export to near neighbors can help export-oriented firms learn how to enter more distant foreign markets, find foreign suppliers and customers, and build economies of scale.

The small size of Africa's economies and the fact that many are landlocked make regional approaches to infrastructure, institutional and legal frameworks in trade corridors (customs administration, competition policy, and regulation of transport) and trade related services imperative. For exporters in landlocked countries poor infrastructure in neighboring, coastal economies, incoherent customs and transport regulations as well as inefficient customs procedures and "informal" taxes in transportation corridors slow transit times to the coast and raise costs.

National governments in Africa need to rationalize the membership of regional trading blocs and empower the regional organizations to develop coherent regional development strategies and resolve collective action problems among member states. Regional implementation of power and transport investments are urgently needed. The capacity of the regional economic communities (RECs) to develop bankable projects, to carry out monitoring and evaluation and to ensure adequate financial management needs to be strengthened.

Africa's development partners have not aggressively helped regional integration, preferring to deal with individual countries rather than regional organizations and limiting financial commitments to trans-border projects. Donors should make the RECs the lead institutions in the dialogue on regional strategies and programs. They also need to make stronger efforts to harmonize their support of regional organizations, decrease the use of their own systems to channel aid flows to regional programs, and to integrate their national aid programs into their regional strategies.

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