Why Should Sub-Saharan Africa Care about the Doha Development Round?

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Abstract  In recent years sub-Saharan Africa, notwithstanding the global financial crisis, has increased its share in global trade and investment flows. This has led to an appreciable improvement in development levels, albeit off a small base. However, these patterns are still dominated by commodity flows and investment, and remain marginal on the global stage. Increased trade and investment flows, particularly related to network services, would be of great benefit to the sub-continent. Yet many domestic regulatory constraints remain. Furthermore, substantial international market distortions, particularly in agricultural trade, inhibit economic diversification into more value-adding activities. The Doha development round could, if concluded, go a long way towards addressing these barriers. Ultimately it could prove more consequential to the sub-continent’s development trajectory than regional economic integration. The latter, whilst important, is shallow and too reliant on institution-intensive forms mimicking the European Union. Overall therefore this paper motivates for an African trade agenda focused on concluding the Doha round.

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### Table of Contents

ACRONYMS ............................................................................................................................ 1

1 Introduction .......................................................................................................................... 2

2 Africa’s Development Challenges and the Multilateral Trading System .......................... 2

3 Does the Doha Round’s Architecture Address African Challenges? ............................ 10

4 Does African Regionalism Provide Viable Alternatives to the WTO? .......................... 13

5 Concluding Remarks ...................................................................................................... 19

REFERENCES ....................................................................................................................... 20

### ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>A4T</td>
<td>Aid for Trade</td>
</tr>
<tr>
<td>BCAs</td>
<td>Border Carbon Adjustments</td>
</tr>
<tr>
<td>BITs</td>
<td>Bilateral Investment Treaties</td>
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<td>DDA</td>
<td>Doha Development Agenda</td>
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<tr>
<td>DFQF</td>
<td>Duty Free Quota Free</td>
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<tr>
<td>EGS</td>
<td>Environmental Goods and Services</td>
</tr>
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<td>EU</td>
<td>European Union</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>FTA</td>
<td>Free Trade Area</td>
</tr>
<tr>
<td>G20</td>
<td>Group of Twenty</td>
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<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
</tr>
<tr>
<td>HDI</td>
<td>Human Development Index</td>
</tr>
<tr>
<td>LDCs</td>
<td>Least Developed Countries</td>
</tr>
<tr>
<td>NAMA</td>
<td>Non-agricultural Market Access</td>
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<tr>
<td>ODA</td>
<td>Official Development Assistance</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<tr>
<td>PPM</td>
<td>Production Process Method</td>
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<td>SACU</td>
<td>Southern African Customs Union</td>
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<td>SDT</td>
<td>Special and Differential Treatment</td>
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<td>TBT</td>
<td>Technical Barriers to Trade</td>
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<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<td>US</td>
<td>United States</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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1 Introduction

Since the beginning of the 21st century, Sub-Saharan Africa is experiencing unprecedented growth and international attention. In line with these trends, the sub-continent has attracted more foreign investment than ever before. In addition, international trade has become more important. However, the trade performance shows weaknesses. First, it is still biased to commodities; manufactures and services lag substantially behind. Second, intra-continental trade is still rather small; the bulk of trade is centered on the West and China. Third, the continent is still subject to special and differential treatment and preferences from the West, which may be good on the one hand but provides some distorting incentives on the other hand. Finally, and not surprisingly, most Sub-Saharan African nations still suffer from trade barriers in the West, particularly in agricultural trade.

In this setting, the question of whether Sub-Saharan Africa needs the Doha Development Round to be concluded remains important. Can the original plan enhance Africa’s development further, or is the Doha Development Agenda rather detrimental to the continent’s development? What can the sub-continent gain when it is forced to open own markets to foreign competition? How does agricultural liberalisation and particularly the ban of export subsidies by Western countries affect welfare in Sub-Saharan Africa? Would a concentration on regional free trade areas and other forms of integration be more promising? Can Sub-Saharan Africa even learn from the European experience in this regard?

In this paper, we try to answer these questions tentatively. In section 2, we take a closer look at sub-Saharan Africa’s latest relationship with the multilateral trading order. Section 3 is dedicated to the potential impacts of the Doha Development Agenda on the continent. In Section 4, we discuss the chances and risks, the potential benefits and problems of deeper regional integration within Sub-Saharan Africa. Cautious conclusions round up the paper.

2 Africa’s Development Challenges and the Multilateral Trading System

Africa, in particular Sub-Saharan Africa, has moved into the focus of the global development agenda not least due to its remarkable growth in the first decade of the 21st century. Part of this growth has been caused by a commodity boom lasting until 2008. However, part of the interest stems from domestic developments in the region, including some policy reforms and regional integration efforts.

International trade can well be a complement for these positive developments. Figure 1 shows that Sub-Saharan Africa’s exports increased since 2000 with annual average regional growth rates similar to growth rates in Asian regions and higher than the average world growth rate. While there was only an average annual
increase of 1.92 percent between 1995 and 2000, the annual growth rates had an average value of 17.33 percent and 8.70 percent from 2000 to 2005 and 2005 to 2010 respectively, approaching Asian levels.

**Figure 1: Average annual export flows growth rates (unweighted, USD)**

Nonetheless, the exports are overall still on a low level in comparison to the rest of the world (see Figure 2). Furthermore, it can be seen that the sub-continent overwhelmingly relies on primary commodities’ exports, a fact reinforced by the recent commodities boom wherein the share of manufactured goods exports in total goods exports decreased from 27 percent in 1996 to 13 percent in 2011.

A similar situation occurs with inward foreign direct investment (FDI) flows. Between 1996 (4.6 billion US Dollars) and 2011 (36.9 billion US Dollars) the inward flows increased eight times, ending up at South Asian levels – hardly a dynamic FDI region. In 1996 only 1.17 percent of the world’s total inward FDI flows went to Sub-Saharan countries, which increased slightly to 2.42 percent of the total flows in 2011. Figure 3 depicts the development in comparison to Asian and Latin American countries.

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1 The different regions include following countries. Eastern Asia: China, Hong Kong, Macao, Taiwan, Mongolia, Republic of Korea, DPR of Korea; Southern Asia: Afghanistan, Bangladesh, Bhutan, India, Iran, Maldives, Nepal, Pakistan, Sri Lanka; South-Eastern Asia: Brunei, Cambodia, Indonesia, Lao, Malaysia, Myanmar, Philippines, Singapore, Thailand, Timor-Leste, Viet Nam; Central America: Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama; South America: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Falkland Islands, Guyana, Paraguay, Peru, Suriname, Uruguay, Venezuela.
Figure 2: Primary commodities and manufactured goods exports

Source: UNCTAD (2012)

Figure 3: Inward FDI Flows

Source: UNCTAD (2012)
These economic patterns are slightly reflected in the Human Development Index (HDI). Starting with an aggregate value of 0.365 for Sub-Saharan Africa in 1980, the value increased on average by 0.77 percent per year to 0.463 in 2011 (Figure 4). Whilst this represented substantial progress it cannot hide the fact that the aggregate HDI performance of Sub-Saharan countries is the lowest worldwide.

The future growth of commercial trade and investment in Africa is linked to the Doha stalemate. More than ten years after the Doha Development Agenda (DDA) was published, there is no progress in the negotiations. Many observers have given up hopes that the Doha Round will ever be concluded. Given that an intensive participation in the global division of labour is undoubtedly one source of positive development, it is in the interest of African nations that the multilateral trade order be revitalized through concluding the Doha Round.

An important question, therefore, is whether Sub-Saharan Africa is prepared for the increase of trade and deepening of commercial integration that would follow a successful Doha outcome? First, many African countries do not perform well in the plethora of global competitiveness surveys, which is a function of poor regulatory capacities and problematic procedures governing the conduct of business. These include aspects such as Trading Across Borders in the World Bank’s Doing Business

Figure 4: HDI Value 2011

Report. According to its ranking, African countries are among those that hamper trade most by too high costs, too many documents and too much waiting time (International Financial Corporation and World Bank, 2011).

In addition most, if not all, countries in the sub-continent suffer from chronic supply-side deficiencies, essentially meaning their capacities to produce and supply goods and services into domestic, regional, and international markets are severely limited. This means that network services infrastructure (communications; energy; finance; transport) are seriously deficient in almost the entire sub-continent, with the partial exception of South Africa and its immediate neighbours in the Southern African Customs Union (SACU). But also in South Africa, things are improving slowly (Freytag, 2011). In general, competition in services, including network services, is still low in Sub-Saharan Africa. As an example, it is striking that only eleven Sub-Saharan African countries have committed themselves to liberalise telecommunication services, despite the enormous importance of telecommunication services in world trade (WTO, 2008) and the increasing relevance of mobile telecommunication for the sub-continent.2

Consequently the region’s competitiveness is severely hampered, which in turn inhibits diversification away from commodity exports, into value-added manufacturing and agricultural processing. Whereas regional markets do provide some potential for exporting value-added goods (UNCTAD, 2009), in practice such exports are dominated by a handful of regional leaders: South Africa; Kenya; and Nigeria in particular (Draper, 2010a).

These aggregate patterns suggest two core issues of interest to Africa concerning the outcomes of the DDA: attracting network services FDI, and ensuring continued access for primary product exports into predominantly northern markets.

Regarding network services, the key issue is to ensure that foreign investors, and nascent domestic investors, have secure access to those markets on mutually acceptable terms. This suggests that a liberalization agenda is in order, but one balanced between host nation regulatory rights and investor obligations. These issues are covered under bilateral investment treaties (BITs), but the problem with these arrangements is that investors can play divide and rule, whereas host governments feel impelled to offer more generous concessions than their competitors. Since the sub-continent faces a renewed ‘scramble’ for resources there may therefore be merit in exploring – beyond the DDA - the possibility of negotiating multilateral rules governing investment, particularly investor obligations.

As for market access for African exports, the major concern is with agricultural goods. It seems reasonable to assume that Sub-Saharan African countries have a comparative advantage in agriculture. Therefore, they should argue for agricultural

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2 These countries are the Democratic Republic of Congo, Djibouti, Ghana, Ivory Coast, Lesotho, Mauritius, Nigeria, Senegal, South Africa, Uganda and Zimbabwe.
liberalization. However, Panagariya’s (2005) analysis of the effects of agricultural liberalization on least developed countries (LDCs) suggests the opposite. The author argues that LDCs, often being net importers of food, would suffer from an end to agricultural subsidies. He uses a theoretical argument, namely that subsidies in the OECD countries reduce prices and thus improve welfare in LDCs. Price increases due to a reduction or removal of subsidies consequently could leave LDCs worse off. Given the inability of LDCs to organize an institutional setting helpful for exporters, the new price structure would in Panangariya’s (2005, 1294) view not help them.

The data seem to support this perspective. Indeed, the number of net food importers in Sub-Saharan Africa has increased from 25 in the period 1995-1999 to 31 in the period 2005-2009, which was still valid in 2011 (Table 1). In the whole developing world, the number has increased from 74 to 89 between the two periods. The number of net food exporters in the developing world fell by the same figure (Valdez and Foster, 2012, 8).

The main problem with this view is that it is static. First, there may well be a feedback process regarding the market structure and the institutional setting. Without any chances to export, there is no pressure from farm lobbies to improve the trading environment in LDCs. By the same token, the increase in the number of net food importers may also be due to aggressive OECD export promotion. In addition, this means the incentives to reform domestic agricultural production and food processing are diminished, which in turn contributes to locking African producers into primary non-agricultural exports.

There is another problem for African countries. Paradoxically the European system of preferential market access granted to former colonies, from which African states have historically benefitted, has set the sub-continent up in a ‘Faustian bargain’ with the European Union (EU) – the major agricultural export destination. Since African states generally enjoy better market access conditions than the major agricultural exporters in the Cairns group and elsewhere, they have little incentive to see their margins eroded through an ambitious agriculture pact. Not surprisingly therefore the Africa group has advocated less ambition in EU tariff reduction commitments in the agriculture talks.

Reinforcing this trend is the global tendency to practice tariff escalation. This inhibits processed agricultural exports from Africa, and diversification into manufactures to the extent this is feasible. Furthermore, elaborate standards regimes for agricultural and industrial products in developed countries and major emerging markets constitute technical barriers to trade (TBTs) – a problem that all developing countries face.

Two other issues compromise developing country exports in general, and African exports in particular: emerging climate change regimes, and policy reactions in developed countries to the global economic crisis. The latter also reveals substantial gaps in the World Trade Organisation’s (WTO) regulatory architecture, which should be of concern to African countries.
Concerning climate change negotiations, trade and competitiveness concerns have moved to centre stage, particularly over ‘carbon-leakage’. Essentially, developed countries worry that as they implement carbon-reduction measures with teeth, thereby penalising their companies, so those companies will relocate production to developing countries that have not taken on substantial mitigation obligations. Furthermore, those developing countries generally have less punitive environmental laws, and so it may be possible to transfer older, more polluting technologies to them. The net result could be job losses in developed countries whilst carbon emissions are either not reduced or increase, and the planet “cooks” anyway. These concerns lead logically to potential trade policy remedies. Three are under discussion in various forums. First, so-called ‘border carbon adjustments’ (BCAs) would impose
taxes on imports in ‘trade exposed industries’ from countries that have not adopted substantial mitigation targets. Second, ‘production process methods’ (PPMs) have a broader applicability than the carbon mitigation discussion but are nonetheless relevant. Third, in the DDA negotiations liberalization of environmental goods and services (EGS) is on the agenda. This connects to a broader debate in the climate change negotiations over the terms under which developing countries can access advanced clean energy technologies and how such access will be financed.

For Sub-Saharan Africa the sector of greatest concern is agriculture, where most of the rural poor make their living. ‘Climate protectionism’ is already manifesting in new or stringent product standards and labelling for valuable exports such as fruits and vegetables. Mitigation of carbon emissions in the transportation sector is an additional source of concern for the region. To the extent they are implemented they would presumably affect all countries, but the effects could be sharpest in the developing world. Aviation measures, for example, could penalise the tourism trade, which is a significant revenue source for many countries in Southern Africa. Furthermore, road transportation is crucial to cross border trade in the region so any measures in this sector would have to be closely watched.

Regarding the global economic crisis, ‘murky protectionism’ remains an abiding concern (Baldwin and Evenett, 2009; Evenett, 2010). Ogunleye (2010) documents the contours of impact of African trading partners’ protection measures on African trade and finds substantial incidence of harm (80 percent of total measures versus 20 percent that were liberalising). Not surprisingly these mostly affected the more diversified economies, particularly South Africa (80 measures) followed by Egypt, Tunisia, Morocco, and Kenya (56, 40, 33, 31 measures respectively). This reinforces the general truism in trade protection, that those goods with the least value-added generally attract the least protection. Ogunleye (2010, 40) notes that a substantial portion of these measures are concentrated in the agricultural sector in which the WTO’s rules specifically allow for developed countries to increase payments to their farmers in times of declining global prices, including export support payments. This points to the urgency of concluding the Doha round in order to further discipline the use of agricultural subsidies.

Yet the gaps in the WTO’s regulatory regimes go much further than this, as evidenced by the wide array of crisis responses (Evenett and Hoekman, 2009). Specific problem areas from the standpoint of African countries include:

• Subsidies disciplines on finance, in light of huge bailouts to the financial sector. Whilst these were necessary in order to prevent the wholesale collapse of the Western financial system, their continued implementation raises questions about whether the recipients might use them to build market share in relatively rapidly growing emerging markets whilst restricting lending at home, thereby constituting unfair competition. A few African economies are developing their financial sectors quite rapidly now (Rand Merchant Bank, 2010) and hence have an interest in this issue.
• Policies affecting movement of workers. Ogunleye (2010, 44-45) notes that a number of European countries in particular tightened their immigration procedures, which in turn impacts on African skilled temporary migrants with attendant consequences for sending remittances back home. Many poor families in Africa rely on these remittances.

• Investment conditionalities, such as the French government prevailing on Total not to shut down its refinery at Dunkirk which in turn meant rationalization in another national jurisdiction, potentially Nigeria. This reinforces the need for multilateral rules on investment, as discussed above.

Consequently, even if the Doha round were to be completed, there is a large agenda arising from, and transcending, the economic crisis that could and should keep the WTO busy for years to come. At the very least this suggests a more focused agenda for the WTO in the future, together with reform of its decision-making dynamics (World Economic Forum, 2010; Draper, 2010b). More concretely, once the Doha round conundrum has been resolved, we advocate the membership turn to plurilateral agreements in order to modernise the WTO’s rules architecture. Meanwhile, it is important to consider the implications of a successful Doha round negotiation for African development.

3 Does the Doha Round’s Architecture Address African Challenges?

This is a complex question to answer, given the DDA’s breadth; the following brief survey is necessarily selective.

We begin with a core principle underpinning the DDA: Special and Differential Treatment (SDT) in terms of trade liberalisation obligations. Whilst no-one would argue with this principle, it is driven by a pre-occupation with market access. As noted above African countries stand to gain little in terms of the market access components of the negotiations since they supply very little into global markets; indeed they stand to lose substantially through preference erosion should serious commitments ensue.

However, the underscored side of the medal is that own trade liberalisation – despite being necessary for development but not sufficient – is required to improve productivity at home as the empirical evidence suggests. Interestingly – and relevant for Sub-Saharan Africa – this impact seems to be particularly substantial for sectors that exhibit large concentration ratios such as network industries (MacDonald, 1994). In a recent study, Thanguvalu and Gulasekaran (2004) confirmed the relationship between imports and labor productivity for developing countries.

So can the WTO facilitate development and not just adjustment to WTO rules as SDT currently does (Garcia, 2004)? One angle on this is Aid for Trade (A4T). Maximising the benefits of A4T assistance requires the identification of national priorities, which
should be embedded in a national development plan or strategy (Stiglitz, 2001; Keck and Low, 2004). This is particularly important because trade policy is part of a development policy package and not an end in itself. Most of the major questions about the A4T agenda were resolved by the report of the task force on aid for trade. The focus is now on mobilising additional funding for economic official development assistance (ODA) using traditional channels of disbursement, both multilateral and bilateral, with the WTO using its convening power to raise support for the segment of ODA that addresses economic infrastructure and capacity building. This speaks directly to African development priorities. However, A4T is not part of the DDA package, but is rather a complement to the DDA. This means that any agreements on A4T will not be subject to binding dispute settlement. Furthermore, the history of donor delivery on ODA commitments is chequered, while the funding environment has deteriorated significantly in the wake of the financial crisis. Therefore African countries should rely on external subsidies to ‘deliver development’ from above. Instead, they have to redouble their own efforts and work out how best to leverage the DDA towards this end.

In this light, we turn to the regulatory agenda. African countries were closely involved in rejecting three of the four Singapore issues (investment, transparency in government procurement, and competition policy) at the Cancun Ministerial in 2003. This was primarily a rejection of standards designed in and for developed countries from being applied to developing countries. It was also a reflection of the skewed nature of these trade negotiations whereby African countries lack the requisite analytical and negotiating capital (Jensen and Gibbon, 2007), and in many cases the capacity to implement negotiated outcomes. Similar caution is warranted in negotiating intellectual property rights.

These concerns are understandable and in accordance with SDT; but beyond the DDA they are possibly misplaced for some negotiating issues. Above we suggested there may be a case for reconsidering multilateral rules on investment from an African standpoint; to this we could add the importance of clarifying rules on government procurement since this was one of the main instruments of protection developed countries resorted to during the economic crisis, and in order to finance infrastructure needs procurement regimes will play a central role. But these are not DDA issues.

Trade facilitation remains one of the biggest hurdles to trade in Africa. It covers such aspects as energy, transport, logistics, finance, technology, skills transfers and bureaucratic efficiency (Alves et al, 2009). However, the pre-requisites for a development oriented trade facilitation agreement include other resources outside of the WTO’s scope and control, such as coordination of different ODA projects and cooperation with international agencies and institutions concerned with development. Such capacity to coordinate and cooperate with other institutions does not reside within the WTO. Nonetheless, this is one aspect of the DDA on which there does seem to be widespread consensus that the draft agreement is appropriately framed. And these negotiations have adopted the novel approach of
linking implementation of commitments to actual delivery of financial and technical support, or A4T.

Still on the regulatory front, the services agenda is of major importance. On the ‘defensive’ front African countries should offer greater liberalization of access to network services markets through FDI. In return, they should aim to secure commitments in mode 4 negotiations concerning temporary movement of skilled Africans to developed country markets. Since remittances are now such a large contributor to financial inflows into African economies this potential win-win situation, whilst politically complex to deliver owing to developed country concerns over immigration, should be pursued as a top priority. Ultimately the key long-term negotiating card Africans hold is the dire need for developed countries to reform their pension systems and allow temporary migration to plug skills gaps in their rapidly aging populations.

On the market access front the core issues of agricultural and non-agricultural market access (NAMA) remain of interest to African countries. Negotiations on agriculture have been aimed at improving market access for developing countries in developed country markets; the reduction and elimination of all forms of export subsidies; and the disciplining, reduction and elimination of domestic support for farmers (Scott and Wilkinson, 2010). As argued above, liberalisation of trade in agriculture and the elimination of trade distorting measures are critical to many sub-Saharan African countries’ long-term development. The lack of homogeneity among African countries and complexity of the situation with regard to the agricultural negotiations also presents a development challenge. This is best captured in the cotton issue, which has become the litmus test for African countries regarding whether the DDA can deliver on development for Africa. Furthermore, the liberalisation of agricultural trade may negatively affect net food importing countries that have benefited from the deflated prices of farm commodities, whilst disciplining food aid (a form of export subsidy) may also threaten those countries that depend on it, at least in the short-term. Notwithstanding these threats, the overall aim should be to incentivise African farmers to produce more, whilst minimising short-term damage to fragile home nations arising from the vulnerabilities outlined here. In this sense the DDA seems to be appropriately balanced.

The NAMA negotiations are another area of critical development potential for developing countries. Liberalisation of trade in industrial goods in major markets (developed and developing) will theoretically allow African countries to move away from their reliance on commodity exports and allow them to export value-added goods. Their own liberalization will also encourage imports of many products critical to consumption and production. However, in keeping with SDT LDCs – 33 of which are to be found in sub-Saharan Africa – will not be expected to reduce their tariff rates, although they will be expected to bind them. They may also receive duty free quota free (DFQF) access to 97 percent of developed country markets at the conclusion of the Round. In a replay of the agricultural ‘Faustian bargain’ this DFQF access has been constructed to exclude products of broader (ie non-African) LDC export interest, a good example being that of clothing exports from Bangladesh.
(Meyn, 2008; Scott and Wilkinson, 2010). Hence, on the DFQF front as in the agriculture talks, the DDA is protecting margins on products of export interest to African countries and as such is appropriately specified.

However, the principle problem is not that African countries need new markets, since they already have preferential access into the major markets and export commodities face low barriers. Rather, they face constraints in trying to expand their exports to markets that already exist. Furthermore, they need improved rules of origin, and support to deal with non-tariff barriers such as sanitary and phytosanitary standards and TBTs. Unfortunately the DDA is not a good forum for addressing such concerns since these regulatory frameworks remain inherently unilateral in their application; sensitive to domestic consumer lobbies in developed country markets; out of the control of governments in the case of the plethora of private standards; and controlled by developed country multinational corporations through international standards setting bodies. Consequently, it will be very difficult for African negotiators to penetrate this web of institutionally-embedded interests.

4 Does African Regionalism Provide Viable Alternatives to the WTO?

Partly because the Doha round is stalled, Africans are very keen to build regional economic integration arrangements. But as we discuss next, such arrangements are best seen as complements to integration into the global economy and WTO disciplines, not substitutes.3

Following the example of European integration, African countries aim at integrating the different economies into a common market by 2028 (Draper, 2010a, Langhammer 2009). Table 2 gives information on the member states and the level of integration in the principle economic communities in sub-Saharan Africa.

Figure 5a (export values) and 5b (export shares) depict the fact that, on average across the sub-continent, intra-group exports are of much less importance in comparison to exports to the rest of the world. In 2011 goods worth only 53 billion US Dollars were traded within the region versus total goods exports of 391 billion US Dollars to countries beyond the sub-continent. Thus, intra-group exports made up only 12 percent of total Sub-Saharan exports - underlining the need to foster integration into the global trade system rather than just regional integration efforts. Undoubtedly this is driven by commodity exports, which accounts for the fact that intra-African exports have declined in recent years as a percentage of total exports.

3 A recent paper by Baldwin (2011) makes the point that regional integration is more than preferences. Empirical evidence suggests that the debate about trade diversion and trade creation is no longer central: instead, since goods and services are complements to FDI, regional integration only rarely hurts outside countries.
Table 2: African Regional Integration with Member States and Level of Integration

<table>
<thead>
<tr>
<th>Member States</th>
<th>Level of Integration</th>
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<tbody>
<tr>
<td><strong>COMESA (Common Market for Eastern and Southern Africa)</strong></td>
<td></td>
</tr>
<tr>
<td>Libya, Egypt, Sudan, Eritrea, Djibouti, Ethiopia, Kenya, Uganda, Rwanda, Burundi, DR Congo, Zambia, Malawi, Zimbabwe, Swaziland, Seychelles, Comoros, Madagascar, Mauritius</td>
<td>Common Market</td>
</tr>
<tr>
<td><strong>EAC (East African Community)</strong></td>
<td></td>
</tr>
<tr>
<td>Republic of Kenya, Uganda, the United Republic of Tanzania, Republic of Burundi and Republic of Rwanda</td>
<td>Customs Union (2005); Common Market (2010); Monetary Union (2012); Political Union (goal)</td>
</tr>
<tr>
<td><strong>ECCAS (Economic Community of Central African States)</strong></td>
<td></td>
</tr>
<tr>
<td>Angola, Burundi, Cameroon, Central African Republic, Congo, DR Congo, Gabon, Equatorial Guinea, Chad, Sao Tomé and Principe</td>
<td>Common Market</td>
</tr>
<tr>
<td><strong>ECOWAS (Economic Community of West African States)</strong></td>
<td></td>
</tr>
<tr>
<td>Benin, Burkina Faso, Cape Verde, Ivory Coast, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo</td>
<td>Common Market</td>
</tr>
<tr>
<td><strong>SADC (Southern African Development Community)</strong></td>
<td></td>
</tr>
<tr>
<td>Angola, Botswana, Lesotho, DR Congo, Zambia, Malawi, Zimbabwe, Swaziland, Seychelles, Mauritius, Mozambique, Namibia, Tanzania</td>
<td>Customs Union (2010); Common Market (2015); Economic and Monetary Union (2016/2018)</td>
</tr>
</tbody>
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Figure 5a: Sub-Saharan Africa’s Intra-bloc Exports vs. Exports to the Rest of the World (Mill. US$)

Source: Unctad (2012)

Figure 5b: Sub-Saharan Africa’s Intra-bloc Exports vs. Exports to the Rest of the World (shares)

Source: Unctad (2012)
The political case for building regional economic integration is centered primarily on security considerations. The reference point is principally European, specifically the origins of the European Community centered on managing post World War Two Franco-German relations. The construction of an elaborate European institutional edifice aimed to mesh its constituent states into a web of economic relations; progressively deeper economic integration was an essential element with the central objectives being to manage resource competition and promote mutual wealth creation. The establishment of democratic governance in Germany was an essential prerequisite. At the global level the General Agreement on Tariffs and Trade (GATT) was constructed on similar ideological foundations, with a core of Western democracies driving the agenda. The role of strong states (the United States (US) in the GATT; France and Germany in the EU) was essential to the success of both regimes.

In both regimes member states retained domestic “policy space”\(^4\) so that the overall enterprise constituted what John Ruggie (1982) termed an “embedded liberalism” compromise. Both regimes remained fundamentally intergovernmental rather than supranational, although the EU exhibits a greater degree of supranationality with respect to regulation of the common market.

The EU’s success in managing inter-state conflict via its “liberal peace” project is understandably proffered to developing countries. This is particularly influential in the African context owing to that region’s historical and existing links to Europe via trade, investment, and development assistance.

But the “liberal peace” paradigm is a very challenging proposition for African states (Clapham, 2001, 66). Many are managed by former liberation movements or authoritarian, effectively single party governments and governance remains an abiding concern. Building viable national states is a challenging proposition. Furthermore, in light of the relative “youth” of states in the region (de-colonisation being a very recent historical process) it is not surprising to find that leaders in many countries are reluctant to really yield their prerogatives to regional institutions. Instead regional forums, particularly those comprising Heads of State, can provide both a refuge from domestic concerns and a source of external legitimacy. Therefore, it is not surprising to find gaps emerging between pronouncements made at Heads of State level and translation of those pronouncements into practical implementation requiring actual surrender of sovereignty.

So whilst UNCTAD (2009, 1) argues that regional integration can promote better institutions and intra-regional cooperation, the challenges in the sub-Saharan African context are formidable.

\(^4\) The Europeans in order to construct domestic welfare states; the US Congress in order to retain autonomy over US trade policy.
Nonetheless African states are increasingly concerned with cross-border security risks generated by their neighbours’ poor governance. Therefore, regional security communities in Africa are increasingly willing to replace “hard sovereignty” in terms of which interference in other member states’ affairs is expressly forbidden, with regimes that allow for foreign intervention under defined circumstances (Hammerstad, 2005, 10). African support, albeit subsequently qualified, for the recent Libyan intervention in the United Nations Security Council could arguably be seen in this light.

The major obstacle to economic diversification in Africa is the very low level of economic development to begin with. Integrating with neighbours that also suffer from this problem may mitigate it to some extent by promoting specialization in commodities trade, and encouraging subsistence farmers and nascent manufacturers to produce for wider markets, but does not hold nearly as much potential to overcome it as integration with dynamic and large external markets. Furthermore, proponents of the “New Economic Geography” advance strong arguments against promoting south-south economic integration schemes amongst poor developing countries (World Bank, 2000). Essentially these concern the danger of industrial concentration in particular countries, or agglomeration, which over time would generate substantial political tensions that in turn would undermine integration processes. They also raise substantial question marks concerning the limits to strong regional leadership in driving economic integration in Africa.

Nonetheless, there are economic problems associated with the fragmentation of states in Africa. For example, nobody knows how much informal and unrecorded trade takes place across national borders. As Bauer (2000, Ch1) notes, substantial economic activity in poor countries happens below the radar of official statistics which, as it is not formally captured and amenable to modern policy analysis, often suffers from poorly designed policies predicated on the erroneous notion that the informal economy is unproductive. Hence, regional trade facilitation measures can help to increase the level of formality and volume of such trade at the same time (Lesser and Moisé-Leeman, 2009).

Also, regional provision of public goods (ODI, 2008) notably in the spheres of policy and/or regulatory coordination but particularly provision of network services

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5 The Kenyan and Zimbabwean political deals reached in 2008 and 2009 respectively, imperfect as they are, attest to this new paradigm.

6 This process was a substantial factor behind the unravelling of the original East African Community, as Kenya attracted manufacturing investment and relocation at the expense of Uganda and Tanzania. It also partly explains why South Africa continues to “compensate” its customs union partners for their membership of SACU.

7 North-north integration schemes will not suffer from agglomeration since intra-industry trade is a strongly established feature of such arrangements; similarly in north-south schemes inter-industry trade is the basis.
infrastructure (energy, finance, telecommunications, transport) grounded in a trade facilitation agenda has an important role to play in addressing development challenges.

Furthermore, Collier and Venables (2008) note that African markets are very small considered individually, whereas pooling markets through regional economic integration in principle affords greater economies of scale and the potential for regional production sharing, albeit it runs the twin risks of diverting trade and agglomeration. And since small markets are vulnerable to monopoly/monopsony capture, which may discourage investment in them, widening the market may minimize this problem by offering the prospect for greater competition. If supported by appropriate trade facilitation measures the productivity gains through widening regional markets could be substantial.

Overall, whilst regional economic integration in Africa could yield net benefits, it is not likely to drive economic development in the manner of European or East Asian economic growth. Rather, it must be buttressed with north-south economic integration which plays to the region’s comparative advantages, should promote income convergence, and over time should also promote knowledge transfers from developed to developing countries. Whilst this approach at first sight would seem to “condemn” African countries to the status of perennial suppliers of primary products to northern markets, that conclusion assumes comparative advantage is static – which is clearly not the case (Sally, 1998, 40-50). Rather, it is arguably through trade and commercial contact with dynamic regions of the world that developing countries grow and diversify their economies (Bauer, 2000, ch1).

These undercurrents point to a limited regional economic integration agenda, tailored to regional capacities. To summarise this agenda should comprise three essential elements: promoting productivity gains through widening regional markets by establishing free trade areas (FTAs); trade facilitation; and provision of regional public goods, especially network services infrastructure. A key question is how regional leaders can be supported and boosted, with a long-term view to pulling their regions up with them.

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8 Adherents to strategic trade theory would add that it also offers the potential to build regionally, and potentially globally, competitive industries. However, since this theory concerns industries that are global in nature, in our view it has very limited (if any) applicability to the African context. See also Freytag (2011, 16f)
5 Concluding Remarks

The intensifying integration of Sub-Saharan Africa into the global division of labor is one of the success stories of the early 21st century. Both trade and FDI have risen sharply, GDP growth is sustainable, political and economic reforms bolster that process.

In order to sustain this development, even further integration is necessary, in combination with an upgrade of the African export portfolio. Today the share of commodities in African exports is still high, bearing the risk of cyclical volatilities. Despite the fact that most African countries are net importers in agriculture, comparative advantage can be expected in substantial parts of the sub-continent in this sector, at least in the medium run. It also should be possible to slowly create a viable manufactures sector.

In principle, two avenues for further trade expansion can be taken. Apart from the multilateral track, regional integration is an option. Latest evidence suggests that both forms of integration are complements rather than substitutes. In any case, it seems obvious that Sub-Saharan Africa will not integrate as deeply as the European Union; the conditions on both continents do not match. Instead, both routes should be taken simultaneously: Africa should integrate deeper within the continent and at the same time insist on concluding the Doha Development Round.

In sum, Sub-Saharan Africa is dependent on further market integration both within the continent and with the rest of the world. Regional integration is a matter to be solved without third countries. Its success exclusively rests on the willingness and ability of governments to agree on contracts and enforce them properly. In addition, governments in Sub-Saharan Africa should insist on further steps within the WTO. Given the current weakness of the West, it seems appropriate to use the Group of Twenty (G20) and other fora to take the necessary steps.
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