

POTENTIAL AND PROBLEMS OF INTRA-REGIONAL
TRADE DEVELOPMENT IN SUB-SAHARAN AFRICA

(Outline)

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In so far as intra-African trade expansion - which is meant to constitute the mainstay for the present strategy is concerned, the following measures are recommended: (i) Reduction or elimination of trade barriers;...(ii) Mechanisms and measures for the facilitation and development of trade;...(iii) Establishment of African multinational production corporations and joint ventures;...(iv) Establishment of an African Common Market. The above measures, including those for the establishment of sub-regional arrangements and the strengthening of existing ones, are meant to converge on the establishment of an African Common Market.

-OAU, Lagos plan of action
for the economic
development of
Africa 1980-2000

We believe there is room for substantial increases in trade among ourselves. To this end existing payment systems and customs instruments will be studied in order to build up a regional trade system based on bilaterally negotiated annual trade targets and product lists.

- Lusaka Declaration,
Southern African
Development Coordination
Conference

I. Introduction

A. Long History Integration/Coordination Efforts SSA

- i. Colonial (EAHC, AEF, AOF, CAF, SACUA, etc)
- ii. Post Colonial Renegotiations of i (EAC, CEAO, UDEAC, etc)
- iii. ECA Promotions (ECOWAS, PTA, etc)
- iv. Independent State Initiatives (Mano River, Kagera Basin, SADCC, etc)
- v. Lagos Plan of Action

B. Limited Record Successes

(To quote one observer/participant of 20 years experience - "To continue to believe in the prospects for economic integration in Africa requires either a soft head or a strong stomach.")

- i. Breakups (CAF, EAC, etc)
- ii. Prolonged Infancy/Inactivity (ECOWAS, PTA, Mano River, Kagera)
- iii. Low level survival (CEAO, UDEAC/CEAC)
- iv. Resource/External Attack Constraints (SADCC)
- v. Low Growth Intraregional And South-South Trade

C. Continued Interest

- i. Logic of Coordination
- ii. Lobbies (ECA, internal, external)
- iii. Perceived Limits National Strategies
- iv. Perceived Common Interests

II. Potential (Visible/Invisible Trade Expansion)

A. Short Run

- i. Greater Use Existing Capacity (20/40% capacity utilisation rates abound)
- ii. Different Ranges Manufacturing Capacity (unequal, substantial in East, Southern, Central Africa - less clear West)
- iii. Cross Import Substitution (e.g. Malawi exports of

textiles to Zimbabwe to replace RSA/Hong Kong and Zimbabwe exports of steel to Malawi to replace Japan/RSA)

- iv. Mutual Export/Import Expansion (limited by need for balance and by import content of exports)
- v. Regional Food Security (limited in 1984 by near total absence surpluses)
- vi. Transport (e.g. Zimbabwe excess cost use of RSA routes \$50 million and pileup/non development potential exports)

B. Medium Term

- i. Continuation of A
- ii. Coordination Major New Capacity Additions (manufacturing, food, transport);
 - a. avoid generalized overcapacity
 - b. broaden regional product range
 - c. provide interlocking sub sectoral development (e.g. agricultural inputs, implements, machinery projects in SADCC industrial frame)
 - d. allow efficient movement of goods (transport route development - operations - use coordination)

C. Longer Term

- i. Continuation of B
- ii. Joint Sectoral Planning;
 - a. close gaps regional production structure
 - b. increase potential trade balance
 - c. reduce regional ratio of additional imports to additional GDP (SSA 1.8 vs 1.0 - 1.4 other developing areas) to allow faster growth with any rate of (extra regional) export increase

III. Approaches To Economic Coordination/Integration

A. Free Trade

- i. Neo-Classical Model
- ii. Second Best
- iii. Trade First
- iv. Free Market/Anti-State Intervention
- v. 'Competitive'/In Practice Highly Unbalanced
- vi. Facilitative

B. Examples

- i. Full Scale/Toward Unified Markets With Limited Safeguards
 - a. ECOWAS
 - b. PTA
- ii. Full Scale/Built In Safeguards
 - a. CEAO
 - b. CECA (ex UDEAC plus Zaire, Rwanda, Burundi)

C. Strengths/Weaknesses

- i. Unified Market Variant
 - a. suitable large areas/diverse states
 - b. less managerial requirements
 - c. assumption trade not production, employment basic state goals
 - d. inconsistency regional non-intervention with national economic interventionism
 - e. tendency for some participants to be (or believe themselves to be) net losers
 - f. slow pace when starting from scratch (or anew) and tendency to break up
 - g. lack of "political sex appeal"
- ii. Built In Safeguards
 - a. requires more homogenous group
 - b. requires detailed management/negotiation
 - c. does relate trade/production
 - d. more congruity national/regional approaches

- e. less danger absolute losers
- f. tendency to plateau at "low level equilibrium"

D. Production/Knowledge Coordination (Perceived Common Interest)

- i. Eclectic Model
- ii. Perceived "Best Possible"
- iii. Selection On Common Interest Principle
- iv. Tendency Toward Transport/Knowledge/Production Emphasis (trade seen as consequential)
- v. Managed/Direct State Involvement
- vi. Causative

E. Examples

- i. Full Scale - SADCC
- ii. Specialised - Kagera Basin

F. Strength/Weaknesses

- i. Common Interest/Full State Involvement
- ii. "Political sex appeal"
- iii. Minimisation conflicts
- iv. External Interest
- v. Possibility Tangible Early Results
- vi. Resource Requirements
- vii. Danger Grandiosity (esp. Kagera)
- viii. Congruence Regional/National Approaches (both interventionist)
- ix. Difficulty Moving To Visible Trade Expansion (less true transport, energy)

IV. Trade Development Problems

- A. Absence Of Relevant Goods (True particular smaller economies more than of whole regions -)
- B. Lack Of Knowledge Of Regional Sources

- C. Inferiority Complex (Applies to national as well as regional products and not only when they are inferior)
- D. Transport/Supporting Services Gaps
- E. Higher Cost
- F. Credit (Non) Availability/Adequacy
- G. Import (and Export) Licensing
- H. Exchange Control/Payments Delays
- I. Import Duties (Not usually discriminatory against regional in favour of extra-regional)
- J. Inconvertible Currencies (Not self evidently more damaging to regional than extra-regional trade nor additional problem to H)
- K. Import Content Of Exports
- L. Imbalance In Gains/Costs And Especially States' Self Perception (Often Correct) Of Selves As Net Losers

V. And Approaches To Overcoming

- A. Widen Range Of Production/Identify Existing Potential (e.g in SADCC area substantial proportion of present extra-regional imports could - in principle - be secured within region from existing or in process capacity)
- B. Improve Knowledge/Particularly At Enterprise Level
- C. Areas Of Action
 - i. identify quality goods and promote
 - ii. promote serviceable vs amenity products (e.g. soap)

that washes clean whatever perfume/packaging)

iii. 'deprotect' brand names (e.gg. basic drugs/generic specifications lists)

D. Identify/Close Gaps (May be especially critical clearing/forwarding and insurance)

E. Areas Of Action

- i. identify goods not higher priced (e.g. those exported globally)
- ii. promote incremental cost pricing for exports
- iii. face issue of 'mutual protection' (easier in balanced or semi balanced trade agreement format)

F. Areas Of Action

- i. improve commercial 90-180 day credit
- ii. seek external finance toward longer term supplier credit facility
- iii. bid where eligible on aid contracts (e.g. EDF, IBRD/IDA, some USAID)
- iv. Use Cross Accounts At Central Banks To Reduce Payment Delay To Supplier

G. Adopt MFN (and Preferential) Licensing

H. Adopt MFN (and Preferential Remittance Policy (e.g. via F-iv)

I. Explore Preferential Tariff Possibilities

J. See H.

K. Areas Of Action

- i. where direct substitution for extraregional imports net forex gain
- ii. therefore some net trade expansion possible
- iii. seek extraregional funding import content of exports (some EEC, Nordic interest)

L. Areas Of Action

- i. Provision Clear Gains In Other Sectors To Offset Trade Losses
- ii. Emphasis Export Oriented Projects In Weaker States In Regional Frame
- iii. Joint Approach To Visible/Invisible Trade (e.g. Transport, Energy)
- iv. Use Balanced (or Target Imbalanced) Trade Agreements For Mutual Trade Expansion

VI. Practical Possibilities

A. West Africa

- i. ECOWAS Reorganisation To Action On:
 - a. food security
 - b. energy
 - c. landlocked states
 - d. balanced trade agreements
- ii. CEAO Reorientation To:
 - a. greater activity in ECOWAS (on new areas)
 - b. attempts to provide more areas for gain to weaker members to allow breaking off low plateau

B. Central Africa

- i. CEAC reorientation to areas proposed for ECOWAS
- ii. parallel action to that proposed for CEAO
- iii. consideration relationship Burundi/Rwanda which are East as much as (more than) Central African

C. East Africa (excluding PTA)

- i. limited K-T-U rebuilding coordination/probably based balanced additional trade agreements K-T, limited number joint research, training, financial institutions
- ii. rethinking Kagera Basin initiative on less resource

demanding level and adding trade aspect and closer coordination with "Central Corridor" transport grouping (same 4 states plus Zaire)

D. SADCC

- i. continuation present programme emphases - transport and communication, agriculture and food security, energy, manufacturing
- ii. addition trade development (with emphasis balance or semi-balanced bilateral annual trade agreements, joint promotion, cross accounts in Central Banks to facilitate payments, securing external supporting finance)

E. PTA

- i. achieving initial duty reductions
- ii. completing potential membership
- iii. reviewing present built in opposition to 'balanced trade agreement' (compensation trade) and overlapping coordination group membership approaches
- iv. reach amicable division of labour with SADCC (e.g's of PTA area of comparative advantage):
 - a. trade preferences covering wide areas
 - b. coordination/development East to Southern African transport/communications
 - c. unification/standardisation customs and transit traffic documentation and procedures (assuming all SADCC and Kagera members do join PTA)
 - d. coordination/development Indian Ocean shipping (Port Sudan - Port Louis - Maputo range)