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Friday@Noon on Regional Integration in Africa: 2018

by Johan Burger

The NTU-SBF Centre for African Studies publishes a weekly newsletter on issues relevant to Africa. This paper is based on issues addressed in the newsletter.

Regional integration has become a high profile intervention and is seen as the route to economic integration and increasing intra-African trade.

Some commentators are of the opinion that Africa must secure its own share of global economic growth and sustain the economic growth of Africa itself. The greatest opportunity for doing this, is Africa's ability to trade and do business with itself. Improvements to fiscal policies, governance and regulatory frameworks, along with a move to diversify economies away from Africa's traditional commodities-biased economies, present great opportunities to foreign investors. Africa's development must be underpinned by further regional integration and trade liberalisation. Africa's fragmented markets have long constrained growth and acted as barriers to trade. World Bank statistics put intra-African trade at just 11% of Africa's total trade between 2007 and 2011. In 2015, intra-African trade was worth just US$170 million, when the potential stood at trillions of dollars. As far as regionalisation is concerned, it is estimated that the implementation of the African Continental Free Trade Area will nearly double intra-African trade by early next decade. Any regional initiative will need to be accompanied by huge investments in cross-border infrastructure.[1]

Intra-African trade has long been a source of concern for African governments. The 11% referred to above increased to 12% by 2015, and some commentators are currently mentioning the figure of 15%. It is still way below the figure for many other parts of the world. The top region is that of the European Union at 70%. The Tri-Partite Free Trade Area (TFTA), consisting of COMESA, EAC, and SADC (26 countries), was said to have the potential to boost the intra-African trade to 30%, while the CFTA would boost that figure by 50%. The reality is that Africa must boost its intra-African trade and that regionalisation has great potential to support this. It is equally true that cross-border infrastructure investment is going to be crucial to support the benefits from regionalisation. African countries must come together to actively manage this initiative; they must set aside petty squabbles and look at the greater good. We do see various transport infrastructure in especially East Africa currently being developed.

To support regional integration, Africa had to relook its air transport situation. The AU subsequently launched its Single African Air Transport Market (SAATM) at the AU summit in Addis Ababa in 2018. This has the potential to ease the integration of African economies, trade and tourism. So far, 23 member states, including Ethiopia, Egypt, Kenya, Nigeria and South Africa, have adopted the single market, which came into full operation with immediate effect following its launch. The SAATM is a de-regulated and harmonised air space, allowing planes to fly freely, without regulatory restrictions, between AU member states who have agreed to the initiative. Competition regulations, consumer protection rules, the institutional framework and dispute resolutions for governing the entire market are already in place. Much can be gained from a de-

[1] https://www.howwemadeitinafrica.com/africas-greatest-economic-opportunity-trading/60788/

regulated single African air market: enhanced interconnectivity, reduced costs and ease of integrating their economies, trade and tourism. If more African planes are able to fly to more African countries and with greater regularity, the increased competition will significantly reduce fares and improve service for the consumers, and the sector in general will benefit. Full liberalisation of the air sector in 12 of the continent's biggest economies would add US$1.3 billion to their output.[2]

There are a number of reasons for the slow development of air transport in Africa. Amongst others, these factors include the huge differences in the economic and political size of African countries, a dependency on former colonial powers, limitations to transnational ownership and control of airlines, and poor co-operation between airlines. For instance, many states require that the designated airline must be majority or substantially owned and controlled by one or more states and their nationals. Some require the headquarters or principal place of business be located in the state. Africa has a lot to benefit from a more liberalized and integrated intra-African air transport sector. With the key drivers of growth for air transport present in Africa, there is the need to tap into this market to ensure economic development and growth. Hopefully the SAATM will address the reasons for the lack of air transport interconnectivity in Africa, e.g. lack of open skies, insufficient integration and disparity in air transport developments and economic clout. This would make a contribution to increasing economic integration in Africa and boost the flow of tourists, amongst others.

Regional integration is being hampered by trade spats between REC members. Kenya and Tanzania (as members of the EAC) have been at loggerheads for quite a time, with the parties unable to subordinate national interest to regional interest. Trade between the 2 of them constitutes over 45% of the entire trade within the EAC. Their combined GDP accounts for 76% of East Africa's economy. To prevent a trade war between them, the governments of Kenya and Tanzania have adopted a more proactive role in preventing and settling disputes. They would meet on a quarterly basis to improve communications. During their meeting in January 2018, they discussed issues such as resolving multiple charges on levies, lack of preferential treatment, delays at border points, the need for standardised inspection fees, and the non-payment of suppliers by Uchumi and Nakumatt supermarkets. They also recognised each other as a significant trading partner. Other issues addressed was the need for a regional policy to address challenges facing the retail industry, the need to address immigration issues and that Tanzania should undertake verification exercises on lubricants, edible oils and cement in Kenya by 31 March 2018. Private sector representatives from the two countries made presentations highlighting trade and investment opportunities in aviation, mining, petroleum and transportation, among others.[3]

The long-awaited African Continental Free Trade Area (AfCFTA), signed on Wednesday 21 March 2018 in Kigali, has been described as the next salvation for Africa because it will help Africans meet their needs by trading with each other. Despite expected losses in terms of tariff revenues for African countries, the benefits from the CFTA will exceed the losses considerably. 44 countries signed the AfCFTA – an agreement that officially made Africa an open single market

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[2] https://newafricanmagazine.com/the-single-african-aviation-transport-market-benefits-and-reality/?mc_cid=f11f4c5bd5&mc_eid=061fce3873
[3] https://www.thecitizen.co.tz/News/1840340-4289754-3qjt4fz/index.html

for all Africans. Moreover, 43 countries also signed the Kigali Declaration, while 27 countries signed the protocol of the free movement of people. However, President Muhammadu Buhari of Nigeria has cancelled his trip to Rwanda and did not sign the AfCFTA "to allow more time for input from Nigerian stakeholders." President Cyril Ramaphosa from South Africa initially only signed the Kigali Declaration on the establishment of the African Continental Free Trade Agreement, and signed the agreement itself much later.[4] [5] [6]

The CFTA has the potential to increase intra-African trade by as much as 50%. The benefits thereof cannot be denied. The practical manifestation of the CFTA will not be a short journey. The two largest economies in African did not sign the CFTA initially, which raises questions. Without Nigeria signing the CFTA, this economic community will be little more than a somewhat jazzed-up TFTA. Looking back, by July 2017 the TFTA had only been ratified by 8 of the 26 countries (although being signed on 10 June 2015), while only 20 of the 26 countries had signed the TFTA Agreement. The CFTA must be ratified by 22 members by January 2019 to come into effect. If the TFTA is anything to go by, it may seem that there is not really a sufficient sense of urgency amongst the leaders of Africa to ratify the CFTA. There is also a concern about the inability of various players to subordinate national interest to regional/continental interest. Having said that, there is no denying that the CFTA has tremendous potential for African countries. Putting the CFTA to bed, however, is going to be a difficult endeavour. Member states have yet to agree on tariffs on all goods, for instance, although on services they have successfully closed the book. In order to make a meaningful impact, the CFTA will have to improve the quality, as well as the quantity, of intra-African trade. Negotiations on important issues like intellectual property rights, tariffs for some goods, what constitutes proper competitive behaviour and so on, are still ongoing.

The AfCFTA will make Africa more integrated, united and prosperous. It will unite 1.2 billion people and create a combined GDP of over US$3.4 trillion — under a single continental market for goods and services, including free movement of business people and investments, and expansion of intra-African trade (from 15% to 25% in a decade). According to UNECA, the CFTA will make Africa the world's largest free-trade area in terms of member states. To improve the current low levels of regional trade, Africa must remove all the existing barriers on the demand and supply sides. Aligning the trade policies, regulations and institutions of the 54 countries to promote continental trade, will enhance the economies of scale, structural transformation, diversification, efficiency and productivity boosts. This will benefit producers, consumers and governments in phenomenal ways. The single market will exponentially increase Africa's annual economic growth, create wealth more inclusively and reduce poverty. A major obstacle to intra-African trade are tariff barriers, which must be removed. The CFTA therefore presents the hope for a more stable trade regime, continental market access and a huge increase in investments.[7] By the end of 2018, Nigeria had still not signed the AfCFTA. Currently 18 countries have ratified the AfCFTA, which still requires 4 members to do so in order for the AfCFTA to enter into force.

[4] https://ktpress.rw/2018/03/afcfta-update-emotional-moment-as-50-countries-sign-free-trade-area-deal-in-kigali/
[5] https://allafrica.com/stories/201803190036.html
[6] https://www.enca.com/money/ramaphosa-signs-historic-african-free-trade-agreement
[7] https://medium.com/world-economic-forum/how-a-single-market-would-transform-africas-economy-dc48de1a68fd

Africa's private sector has also been identified as players that could enhance African integration. According to the BCG, Dangote Group, Globacom, Nigerian Breweries and Jumia have been identified as players that could play a part in this. BCG identified 150 companies (75 Africa-based and 75 MNCs) that are driving towards a more integrated Africa. The African pioneers come from 18 countries, with 32 based in South Africa, 10 in Morocco; Kenya and Nigeria are each home to 6, 4 are from Egypt, and 2 from Côte d'Ivoire, Mauritius, Tanzania, and Tunisia. The MNCs are a global group, with France, the UK, and the USA most strongly represented. A dozen MNCs from China, India, Indonesia, Qatar, and the UAE are active across Africa. Economic integration in Africa is not only taking place, but also gathering speed. The BCG report highlights 8 factors that explain how these companies are making an impact: the active expansion of their footprint across several African countries; making significant greenfield investments; using M&A's to accelerate their expansion; building strong African brands; local innovation to adapt to the African consumer; investment in local talent and developing people; building local ecosystems; and connecting Africa by facilitating the movement of people, goods, data, and information.[8]

South African companies have expanded into Africa with enthusiasm. These include Shoprite, the largest African retailer, to name but one. A report by the AFDB makes a number of statements, including the following: 1) Africa is geographically fragmented; 2) Africa has a fragmented set of trade zones; 3) Africa is logistically fragmented; and 4) African integration is actually happening. And it is being led by African corporate entrepreneurs! Africa's 16 trade zones are a challenge to economic integration. This is why the TFTA and the CFTA are so important.

We have also seen individual countries reach out to one another to increase the level of cooperation and integration within regions. President Filipe Nyusi from Mozambique invited Botswana businesses to invest in Mozambique and make use of the potential and countless opportunities it offered. He identified investment projects in Mozambique, "particularly the development transport corridors, the generation and transmission of electricity, transport and communications, tourism, and agriculture and livestock." The projects would constitute added value for the socio-economic development of the two countries and for encouraging regional and continental integration. He urged unity between the business sectors of the two countries in order to participate actively in investment projects. President Masisi of Botswana declared Mozambique a "strategic partner" of Botswana. One area that the delegations also discussed was a deep water mineral port at Ponto Techobanine, in the southernmost district of Mozambique, that would be linked to Botswana with a new railway running across southern Zimbabwe. They encouraged the collaboration of the private sector, without which this project could not be completed.[9]

It is interesting to see Botswana and Mozambique deciding to go around South Africa and not through it. This can be to reduce any dependence on South Africa's transport system. On the one hand it is an indictment against the SA system (run by Transnet) and its challenges. On the other hand, it is a strategic move to never be too dependent on a single option. We also see, as countless times before, the call upon the private sector to collaborate with government in the

[8]https://guardian.ng/business-services/dangote-group-globacom-nb-others-identified-as-pioneers-of-african-integration/
[9] https://allafrica.com/stories/201804180090.html

development of infrastructure. They have the capital and the expertise to add significant value to the PPPs required to make a success of these infrastructure projects.

The author, Johan Burger, is the director of the NTU-SBF Centre for African Studies, a trilateral platform for government, business and academia to promote knowledge and expertise on Africa, established by Nanyang Technological University and the Singapore Business Federation. Johan can be reached at johan.burger@ntu.edu.sg.