External Factors, Dependency and Threats To African Regional Integration and Intra-African Trade

DOI reference: 10.1080/13673882.2024.12466435

By Dr Paul Abiero Opondo, Department of History and Political Science, Moi University, Kenya

Abstract

Daron Acemolgu and James Robinson (2012) have examined why some countries are poor while others are rich and prosperous with higher national incomes. They concluded that accepting democracy, human rights and free trade is an important characteristic for development. Today African countries trade with external partners than with themselves. With the rise of new regional blocks such as Brazil, Russia, India, China and South Africa (BRICS), African chances to trade are exponentially increasing. What are the threats to intra-African trade? What

can African leaders do to encourage nations to trade with each other? The Colonial era bequeathed less intra-African trade, which now stands at 17 per cent. The two giants, South Africa and Nigeria were reluctant to open their borders for free trade yet they do robust trade with the USA, Europe and China.

Introduction

With the application of African agency, we argue that African nations must strive to be in charge of their own trade affairs. In the spirit of political and economic integration, Africa celebrates the achievement of yet another major milestone with the launch of the African Continental Free Trade Area (AfCFTA), the continent will need to improve its infrastructure, political governance, border control measures, inequality in the sharing of African trade benefits, and put an end to non-tariffs trade barriers to reap the maximum benefits from the free trade agreement. The AfCFTA treaty which aims to create a single African market for goods and services is expected to boost intra-African trade which is currently lower than in other continents. The bigger and more developed African economies stand to reap full benefits and improve Africa’s credit ratings. Countries with larger manufacturing bases and better infrastructure such as Egypt, Nigeria, Kenya and South Africa are most likely to benefit from further integration. For other less unfortunate ones, poor infrastructure and non-tariff barriers will continue to restrict the trade sector’s development and long-term growth potential.

Underdevelopment Debate and Africa

Under-development happens when resources are not used to their full socio-economic potential, with the result that local or regional development is slowed due to lack of forward-backward linkages within the various sectors in the economy. This slow development in Africa is part of the colonial legacy. For example, transport and all other infrastructure that was built during the colonial era, was unevenly distributed in most countries, and in some cases, was not linked to the neighbouring countries making trade between African countries even more difficult. This led to regionally imbalanced growth and low trade diplomacy between African nations. Furthermore, colonialism never developed industrialization hence a retardation of technology and Science. Lastly, the concentration on the production of a few cash crops led to the neglect of food production thereby making Africans to produce what they did not consume, and consume what they do not produce, hence food shortage and Africa being reduced into suppliers of raw materials to the developed countries in Europe and China, today. Paul Collier, quoted in Moyo (2009), has classified African countries into three groups based on the resource endowment. There are those African nations, which are resource-poor but have coastlines (Kenya), then there are those that are both resource poor and landlocked (Uganda), and finally countries which are resource rich and with a coastline (DRC, Angola and South Africa). Collier notes that all these three groups have remarkably different growth patterns, for instance, historically, the Coastline resource-scarce countries performed significantly better than their resource-rich counterparts, such as DRC and Angola (Moyo, 2006, 30). This has left landlocked, resource-scarce economies as the worst performers, yet the majority of the African population is heavily concentrated around landlocked, resource-scarce countries, making economic integration and intra-African trade a mirage. To deal with this perpetual external domination of the African economy, the solution lies on increased intra-African trade and free movement of populations.

One major barrier to trade has been internal hurdles across the African borders. Writing on Africa's lost decade, Meredith, (2011) discusses how Africa's political leaders grabbed the state and institutionalized corruption, ethnicity and inefficiency in their economies leading to the total collapse of several countries in the continent. By the 1990s, many nations were forced to contend with enhanced World Bank (WB) and International Monetary Fund (IMF) policies which led to heavy debts and structural adjustment programmes as many of them accepted heavy WB conditionality requiring Africa to "devalue currencies, remove subsidies, reduce tariff barriers, raise agricultural commodity prices, cut back bloated bureaucracies, sell or close state enterprises, deregulate prices, reduce budget deficits and public borrowing and lift restrictions on foreign investments" (Meredith, 2011, 370). He asserts that generally the conditionalities aimed at getting governments to shift from consumption, so favoured by elites, to investment and trade. Faced with bankruptcy, African governments had little alternative but to accept the conditions. He quips that, "in the 1980s, 36 governments in sub-Saharan Africa, had to signs Structural Adjustment Programmes (SAPs) in conjunction with IMF and WB." As a result, foreign aid became an increasingly crucial component in African economies. Dozens of donor institutions and Western non-governmental organizations were involved, some even taking over key functions of the state (ibid, 371). Between 1982 and 1992, Africa obtained more than USD$200 billion dollars in foreign Aid, which did not change the destiny of African economies, a justification to the fact that the only redemption to African under-development lies in trade between African nations.

However, it is apparent that in promoting trade, the state in Africa will have to play a fundamental role in enforcing the legal aspects of regional trade, setting strategic objectives more aggressively, enforcing tariff laws, regulating interest rates, the cost of power, building infrastructure, taxation, and interpreting the trends in international trade, hence African governments should support the path towards intra-African trade. Yet they seem not to have any options? According to Manasserian (2017) the most vital players in international trade and economic diplomacy include World Trade Organisation (WTO), Government Agreement Tariffs and Trade (GATT), the Great Seven Nations (G-7). Great Twenty (G-20), United Nations' (UN) Global conferences, UN General Assembly, WB, IMF, Regional banks like African Development Bank (AfDB), United Nations Development Programme (UNDP), United States Agency for International Development (USAID), all of which must go to bed with the African states (Manasserian, 2017, 3). UNCTAD's Economic Development in Africa Report 2023 examines the continent's potential to become a major participant in global supply chains for high-technology sectors like automobiles, mobile telephones, renewable energy and health care.

The major issues of concern for African trade include, African Growth Opportunities Act (AGOA), long-term trade agreements, export of primary goods, oil prices, access to foreign markets like China, intellectual property rights, migration laws, influx of Chinese goods in our nascent markets, protection of young industries among many. Eventually, time has come for Africa to open their borders for each other's goods.

Yet since the 1980s, neoliberal belief in free trade has become the orthodoxy in international economics. The orthodox approach to international trade is based on the proposition that "free trade promoted economic growth and global prosperity" (Jomo and Fine, 2006, 47). The neo-liberal resurgence in international economics raised the belief in free trade in the world as the panacea to economic stagnation yet the benefits of free trade still went to the developed nations. The belief in free trade was an essential part of the Washington Consensus (from 1990s) which was a move away from the dependence on the Bretton Woods policies. Instead of pumping capital into Africa, the Washington consensus began to propose structural adjustment policies to change Africa's economic trajectory. This orthodox position from the mid-1990s consisted of several propositions on the benefits of free trade, such as optimizing global resource allocation, maximizing consumer welfare, increasing productivity growth and promoting economic growth (ibid, 47). In contrast, government intervention was seen as bad for development. Neo-liberal theory argued that countries which adopted free trade supposedly grew faster than countries with closed trade regimes, while trade liberalization by lowering tariffs and no-tariff barriers led rapid economic development.

While attending a commonwealth heads government meeting in London in April 2018, President Uhuru Kenyatta of Kenya called for the forgiving of partnerships in Africa through the sharing of knowledge, experience, expertise and financial support for the greater prosperity of Africa. In addition, the 18th ordinary session of the Assembly of Heads of State and Government of the African Union, held in January 2012, adopted a decision to establish a continental Free Trade Area. The summit also endorsed the Action Plan on Boosting Intra-African Trade (BIAT) which identifies seven priority action clusters: trade policy, trade facilitation productive capacity, trade related infrastructure, trade finance, trade information and factor market integration. In tandem with pan-African ideals, Raila Odinga, an opposition leader in Kenya, in his address to Cambridge University in 2018, lauded the creation of the African free trade zone, which will lead to a single market with duty free access across the borders, thus spurring industrialization, infrastructural development and economic diversification across the continent (Odinga, 2018). He asserted that instead of spending a lot of time negotiating complex trade agreements with China and the developed world, Africa would be better off encouraging intra-African trade, which stands at a paltry 16 per cent of Africa's total trade in 2016, a trade that will change the narrative of Africa being simply a place where the superpower economies source non-value added raw materials. Furthermore, investing in African trade was a sure way of moving out of the moribund aid trap.

In order to achieve the objective of a binding agreement on trade, African leaders held an Extraordinary Summit on the African Continental Free Trade Area (AfCFTA) from 17-21 March 2018 in Kigali, Rwanda during which the agreement to establish the AFCFTA was presented for signature along with the Kigali Declaration and the Protocol on Free Movement of Persons, Right to

Establishment. In general, 54 African Union (AU) member states have signed the AfCFTA Agreement, with the exception of Eritrea. The last signature was on February 5, 2021, and the agreement entered into force on May 30, 2019. The AfCFTA will bring together all 55 member states of the African Union covering a market of more than 1.2 billion people, including a growing middle class, and a combined gross domestic product (GDP) of more than US$3.4 trillion. In terms of numbers of participating countries, the AfCFTA will be the World's largest free trade area since the formation of the World Trade organization. Estimates from the United Nations Economic Commission for Africa (UNECA) suggest that the AfCFTA has the potential both to boost intra-African trade by 52.3 per cent by eliminating import duties, and to double this trade if non-tariffs barriers are also reduced.

Today, apart from the fear of losing hegemony by some nations, there are several threats to intra-African trade arising from mutual suspicions and the fear of bigger economies like South Africa, Nigeria, Egypt and Kenya. Already threats from big external trade partners like China are causing jitters and putting trade agreements into jeopardy. For instance, according to Otieno (2018), Kenya has rejected a free trade agreement that China had negotiated with EAC partner states since 2016 so as to protect Kenya's nascent manufacturing sector from being overrun by China's cheaper and more efficient producers. The proposed comprehensive free trade agreement (FTA) would see Chinese goods access the EAC market at a more favourable tariff yet China already accounts for 25 per cent for raw materials, intermediate goods and final goods respectively. Instead, Kenya has called for a preferential trade agreement with China, an AGOA type of agreement where goods from Africa are allowed to enter USA without paying taxes. Will China create its own AGOA? China is a dominant trade participant in Africa. In Kenya alone there are more than 400 Chinese firms serving in various sectors of the economy, such as real estates, finance and agriculture. Kenya on the other hand, exported goods worth KES10 billion to China in 2016 but imported goods worth KES337.4 billion from the Asian giant, leaving a trade deficit of a whooping KES317.4 billion (Otieno, 2018). Despite that, the fear of Kenya's dominant position in EAC is a cause of worry to her neighbours, for instance, Tanzania slapped a 25 per cent import duty on Kenyan firms in confectionary business, citing an alleged use of imported zero-rated industrial sugar in the goods, which goes against the spirit of pan-Africanism, enshrined in the unity of all black nations and people. Similar trade agreements have been witnessed between Kenya and Uganda over the oil pipeline with Tanzania, on migrations, and Tourism. As a result, Tanzania rejected a certificate of origin issued by the Kenya Revenue Authority, and instead opted to levy a 25 per cent import penalty on a neighbouring country's goods, thereby threating the much sort after intra-African trade. Tanzania and Uganda revenue bodies have accused Kenyan manufacturers of tilting competition in their favour by using industrial sugar, which is not produced in the EAC region, but Kenya has in turn accused the two nations of using tariff and non-tariff barriers to restrict trade with eastern Africa (Otieno, 2018). In conclusion, African regional integration is closely correlated to free movement of goods and people. Also for free trade to thrive, Africa must adopt democracy and free trade while also eliminating internal and external barriers.

References

Acemolgu, D. and Robinson, J. A. (2012). *Why Nations Fail the Origins of Power, Prosperity and Poverty*, New York, Crown Publishers.

Blomstrom, M. and Hettne, B. (1988) *Development Theory in Transition*, London, Zed Books

Chandra, R. (1992) *Industrialization and Development in Third World*, London & NY, Routledge

Claude Ake (1981) *A Political Economy of Africa*, London, Longman

Jomo, K.S & Ben Fine (2004) (ed) *The New Development Economics: After the Washington Consensus,* London, Zed Books.

Inikori, J. (1992). "The Chaining of a Continent: Export Demand for Captives and the History of Africa, South of Sahara, 1450-1870", Institute of Social and Economic research, University of West Indies, Mona, Jamaica

Juma, C. (2013). "Africa and brazil at the dawn of New Economic Diplomacy." The Belfer Centre for Science and International Affairs, Kennedy School of Government, Feb 26, 2013

http//belfercentre.ksg.havard.educ/publication/22793/

Meredith, M. (2011). The State of Africa: A History of the Continent since

Independence, London and New York, Simon and Schuster, pp. 368-377

Manasserian, T. (2017). “Economic Diplomacy: From Theory to Real Life.” MA Thesis, Yerevan State University

Moyo, D. (2009). *Why Aid Is Not Working and how there is a Better Way for Africa*, New York, Farrar, Straus and Giraux,

Nyong’o, A. (2007) *A Leap into the Future: A Vision for Kenya’s Socio-political and Economic Transformation*, Nairobi, African Research & Resource Forum.

Okwechime, I. Yang, J T and Aduloju, A.A. “Africa and the Global Economic & Financial Crisis in World Review of Political Economy Vol. 7, No. 2 (2016) pp. 208-225

Opondo, P.A. (2003) “Under-development Debate and the problem of poverty: Theories and Alternatives for Africa” in Educational Perspectives, No 1, KIE University, Rwanda.

Odinga, Raila. (2018). “Africa in Changing World”, Speech delivered at Cambridge University on 15^{th} May, 2018

Otieno, B. (2018). “Kenya Rejects China-EAC Trade Pact” in Daily Nation, 15^{th} may, 2018, Nairobi, NMG

Rodney, W. (1972). *How Europe Underdeveloped Africa*, London, Bogle-Louverture

Sachs, J and Warner, A. (1995). “Economic Reforms and the Process of Global integration”, Broking Papers on Economic Activity

Sachs, J and Warner, A. (1977). “Sources of Slow growth on African Economies” in Journal of African Economies, 6 (3), 335-376

Guy Martin “African Regional Cooperation and Integration: Achievements, Problems & Prospects” in Seidman, A. and Anang, F. (1992) Towards a New Vision of Self-Sustainable Development

China-Africa Research Initiative, See www.sais-cari.org/data/ (China. Africa research initiative) accessed on 12/04/2018

For Africa’s Trade with USA See http://ustr.gov/countries-regions/Africa.com

UNCTAD’s Economic Development in Africa Report 2023 https://unctad.org/publication/economic-development-africa-report-2023