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**Transformative Regionalism, Trade and  
the Challenge of Poverty Reduction in Africa**

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# **Transformative Regionalism, Trade and the Challenge of Poverty Reduction in Africa**

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## **Abstract**

Regionalism has played a vital role in fostering peace and security in Africa over the past few decades. However, fully exploiting its potential for economic development remains a challenge as evidenced, for example, by the prevalence of weak production and export structures in African countries, the increase in the number of poor people on the continent, and the low shares of regional trade in Africa's total trade. This paper argues that regionalism can be made to work for Africa but that it would require a shift in emphasis from the current trade reform-centered integration approach to an approach based on Transformative Regionalism. Against this backdrop, the paper provides a framework for Transformative Regionalism, examines how it differs from the integration frameworks and strategies of African regional economic communities, and then discusses how to foster it in Africa.

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## Note

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## Acronyms

AEC	African Economic Community
AfDB	African Development Bank
AIDA	Accelerated Industrial Development of Africa
AMU	Arab Maghreb Union
AU	African Union
CEMAC	Central African Economic and Monetary Community
CEN-SAD	Community of Sahel-Saharan States
CEPGL	Economic Community of Great Lakes Countries
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EU	European Union
GDP	Gross Domestic Product
ICA	Infrastructure Consortium for Africa
IDDA	Industrial Development Decade for Africa
IGAD	Inter-Governmental Authority on Development
IOC	Indian Ocean Commission
MRU	Mano River Union
PIDA	Programme for Infrastructure Development in Africa
RECs	Regional Economic Communities
RISDP	Regional Indicative Strategic Development Plan
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADCC	Southern African Development Coordination Conference
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organization
WAEMU	West African Economic and Monetary Union

## 1. Introduction

Fostering development through regional integration has been a major objective of African governments since most countries on the continent became independent in the 1960s. Regional integration can promote peace and security, contribute to infrastructure development, foster trade and investment, reduce vulnerability to global shocks, and enhance the quality of economic policy-making through serving as an external restraint on domestic policies. In the first two decades of the post-independence era, the focus of regional integration in Africa was, understandably, more on political cooperation rather than economic integration, as African leaders strived to rid the continent of the vestiges of colonialism. Since the 1980s efforts have been made to shift the focus of regional integration from political cooperation to economic integration as evidenced by the emphasis on economic issues in the 1980 Lagos Plan of Action and the Abuja Treaty signed in 1991.

African governments have made significant progress in using regional integration to promote peace and security. Military intervention and mediation by the Economic Community of West African States (ECOWAS) played a pivotal role in ending the civil wars in Liberia, Sierra Leone and Côte d'Ivoire. ECOWAS diplomacy also played an important role in de-escalating conflicts in Togo, Guinea and Guinea-Bissau (Omeje, 2013: 8). Despite the progress that has been made on peace and security issues, there is the recognition that not much has been achieved in terms of diversifying the structure of African economies, boosting intra-African trade and investment, building supply capacities, and achieving sustained poverty reduction. African leaders are aware of this reality and are increasingly taking bold actions to promote economic integration. For example, in January 2012, they renewed their political commitment to boosting intra-African trade and also decided to fast-track the establishment of a continental free trade area as envisaged in the Abuja Treaty. In addition, at the 21<sup>st</sup> Ordinary Session of the Assembly of Heads of State and Government of the African Union held in Addis Ababa, Ethiopia, from 19-27 May 2013, African leaders rededicated themselves to the integration agenda and to achieve the African Union's vision of an integrated, prosperous and peaceful Africa. But this is not the first time that they have renewed efforts to promote regionalism. A crucial question therefore is what should they do differently to ensure that they use regional integration effectively in support of economic development?

This paper argues that making regional integration work for Africa requires that African governments change their approach to economic integration and in particular shift emphasis from the current model of integration, which focuses mostly on trade reforms and processes and institutions of integration, to an alternative approach—Transformative Regionalism—in which regional integration promotes and also ensures progress in building productive capacities and achieving structural transformation for sustained development. The paper identifies the key elements of Transformative Regionalism, examines the extent to which the current approach to integration adopted by African regional economic communities (RECs) are consistent with transformative regionalism, and also highlights other critical elements of a credible policy package to promote regional integration in Africa. These include enhancing implementation of existing programmes and action plans, refocusing the role of the RECs on the goal of economic integration, doing away with false dichotomies that often cloud the debate on development in Africa, and recognising as well as exploiting the vital role of industrial policy and consumer behaviour in promoting regional integration.

## 2. Trade and Transformation in Africa: The Record

The main focus of regional integration in Africa so far has been on promoting regional trade and investments through liberalisation. It derives from the idea that trade has great potential for poverty reduction and so should be facilitated and promoted. In this section, some facts on the importance of trade in African economies and the contribution of intra-regional trade to Africa's total trade are presented. Also included are some facts on the structure of production in Africa with a view to highlighting one of the key challenges as well as opportunities facing Africa in the integration process, which is how to diversify the structure of production to promote regional trade.

Trade has and will continue to play a crucial role in African economies. It provides access to new technology and also foreign exchange needed for the import of goods not produced domestically. It also allows a country to be more efficient in production through specializing in goods in which it has comparative advantages. Over the period 1995-1999 the share of trade in Africa's gross domestic product (GDP) was 43 percent, which is comparable to the average for developing countries over the same period (table 1). More recently, there has been a significant increase in the role of trade in African economies and in other developing countries as evidenced by the fact that the trade-GDP ratio in Africa and in other developing countries was 60.3 percent and 60.9 percent respectively over the period 2008-2012. Rapid improvements in information and communication technology, which reduced transactions cost significantly, coupled with trade reforms in Africa and other developing countries are some factors that contributed to the big increase in trade ratios observed over the past two decades. In other developing countries, the increase in trade ratios went hand in hand with an increase in the growth rate of real output while in Africa, there was no significant change in the growth rate of real output due largely to the negative impact of the recent political crisis in North Africa and the fact that the financial crisis had a more significant negative impact on Africa compared to other developing country groups.

**Table 1: Trade and growth across regional groups (1995-2012)**

	Merchandise trade (% of GDP)		Real GDP growth rate (%)	
	1995-1999	2008-2012	1995-1999	2008-2012
Africa	43.4	60.3	3.5	3.3
Other developing economies	49.1	60.9	4.3	5.8
Central African Economic and Monetary Community (CEMAC)	53.0	74.7	4.1	4.5
Common Market for Eastern and Southern Africa (COMESA)	32.9	49.2	3.6	1.3
East African Community (EAC)	30.7	49.0	4.0	5.7
Economic Community of Central African States (ECCAS)	57.8	78.2	3.8	4.5
Economic Community of West African States (ECOWAS)	54.4	62.5	3.7	6.3
Southern African Development Community (SADC)	46.7	65.0	2.8	3.1
Arab Maghreb Union (AMU)	47.6	69.1	3.3	0.5

Source: computed by author based on data from UNCTAD database.

Although the role of trade in African economies has increased significantly in recent years, the share of intra-regional trade in Africa's total trade has been flat over the past few decades. Table 2 shows that the share of intra-regional exports in Africa's total exports fell marginally from 12.2 percent in the period 1995-1999 to 11.4 percent in the period 2008-2012. Regarding imports, the share of intra-regional imports in Africa's total imports rose marginally from 12.2 percent to 14 percent over the same period. These numbers are quite low compared to what is observed in other regions of the world. In Europe, Asia and Latin America for example the average share of intra-

regional exports in total exports was 68.9, 51.3 and 20.5 percent respectively in the period 2008-2012.

**Table 2: Intra-regional trade shares**

	Intra-Regional exports (% of total exports)		Intra-Regional imports (% of total imports)	
	1995-1999	2008-2012	1995-1999	2008-2012
Developing economies	41.3	54.7	39.5	57.5
Africa	12.2	11.4	12.2	14.0
Other developing economies	40.6	52.7	38.5	54.9
CEMAC	2.0	2.1	4.2	4.4
COMESA	6.1	7.4	4.4	6.3
EAC	17.0	19.4	11.5	8.5
ECCAS	1.3	1.2	2.6	2.8
ECOWAS	10.2	8.0	10.2	10.1
SADC	14.9	11.9	17.2	17.7
AMU	3.0	2.8	3.1	3.2

Source: computed by author based on data from UNCTAD database.

Lack of diversification, particularly the limited role of manufacturing in output, coupled with weak infrastructure, poor access to finance, and tariff and non-tariff barriers are some of the factors that have contributed to the weak intra-regional trade performance of Africa. Table 3 presents information on the structure of production in Africa and developing economies for the period 2005-2012. It shows that mining and utilities account for a very large share of total value added in Africa. In the period 2005-2012, the share of mining and utilities in total value added was 23.7 percent in Africa compared to the developing economies' average of 12.1 percent. It is also interesting to note that manufacturing plays a significant role in developing economies but not in Africa. The average share of manufacturing in total value added in Africa is 10 percent compared to about 21 percent for developing economies. Furthermore, the growth rate of manufacturing value-added was 2.9 percent in Africa compared to 7.3 percent for developing economies. Agriculture plays a more important role in output in Africa compared to developing countries. Its share of output was 16 percent in Africa and 9 percent in developing economies. In both groups, the service sector is the most dominant sector accounting for 45 percent of output in Africa and 52 percent of output in developing economies.

**Table 3: Structure of production in Africa and developing economies (2005-2012)**

	Africa	Developing economies
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