COVID-19: Africa’s Chance to take Advantage of Regional Production

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Africa’s integration history dates back to the 1960s when most countries gained their independence. The not so pleasing experiments with import substitution policies at the country level have resulted in a shift in emphasis in recent years to a neo-liberal regional integration agenda to overcome Africa’s small and fragmented market. Several initiatives such as New Partnership for Africa’s Development (NEPAD), Programme for Infrastructure Development in Africa (PIDA), Minimum Integration Programme (MIP), Boosting Intra-African Trade (BIAT) and now the Africa Continental Free Trade Area (AfCFTA) has been initiated to improve the economic development of the continent and significantly enhance intra-African trade.

Despite having this long history of regional integration on the continent, intra-African trade (IAT) remains low in comparison to other regions across the world. According to the African Union (AU), most of Africa’s trade is with countries which are outside the continent whilst only about 10-12% of Africa’s trade takes place amongst African states (Achiume and Landau, 2015).

With the advent of COVID-19, this skewed nature of Africa's trade relationships comes to the fore because most of the continent's trading partners like China, EU and the US have been hard hit by the COVID-19 pandemic, thereby jeopardizing Africa's economic status.

In response to COVID-19, most African countries have resorted to lockdowns which *inter alia* include the stoppage of non-essential economic activities, observation of social distancing, flight and travel bans as well as the closure of schools. With these measures come socio-economic challenges which have exposed the precarious state of the continent's social safety nets and health systems.

From a trade point of view, what lessons can Africa learn from the COVID-19 pandemic? With our biggest trading partners having disrupted industrial processes, how can the continent forge on? This is the time that Africa should take advantage of enhancing intra-regional trade. This is the time for Africa to buttress the significance of the AfCFTA. But, how can the continent survive after being "cut off" from aid, multilateral trade? This article looks at regional integration in Africa in the wake of the COVID-19 global pandemic by examining the obstacles that hinder IAT and proffering recommendations to improve the situation.

The BIAT action plan, as well as the AfCFTA, aim to tackle the constraints to IAT. The challenges that IAT is facing range from poor infrastructure, complex rules of origin, cumbersome customs procedures and lack of product complementarity amongst a host of others.

Most African countries trade in primary goods, thus acting as the raw material hub of the manufacturing world. Lack of value addition and beneficiation inhibits IAT due to lack of product complementarity as most countries produce similar goods (Edwards, 2011). The primary commodities that the continent exports globally are highly susceptible to global price shocks, thus making the continent lag behind in terms of development.

Non-tariff barriers mostly in the form of cumbersome customs procedures, corruption, roadblocks, multiple border agencies and restrictive rules of origin as well as lack of harmony in regional policies act as a hindrance to intra-regional trade in Africa. For example, SADC's restrictive rules of origin on clothing and textile (double transformation) reduces the ability of countries to benefit from the trade agreement (Mbekeani, 2013). This leads to low trade as importers prefer buying from suppliers who furnish them with certificates of origin to benefit from preferential tariffs. There is still little use of ICT in customs administrations, thereby making the trade process lengthy in Africa compared to other countries outside the continent. This then results in more trade taking place outside the continent since it will be less costly.

Lack of product and market diversification also works against Africa. Some countries depend mostly on one or a few commodities in their export baskets. For example, Zambia's major export is copper, while Nigeria mostly exports unrefined oil. Most of Africa's trade partners are in China and the EU. If these trading partners' economies are in shock, then Africa is also badly affected by the ripple effects, the same way it is being affected by the COVID-19 pandemic.

Costs associated with transport are a major determinant of the overall competitiveness of firms (Buyonge and Kireeva, 2001). The World Bank estimates that transport costs in Africa are more than 60% higher than the average in developed countries owing to poor infrastructure. Studies show that high transport costs can isolate markets, lower economies of scale and consequently discourage trade. A study by ADB (2013) 'revealed that it costs an average of $100 to $300 per tonne to move goods along Africa's major trading corridors' (Chihaka N.D: 26). Due to Africa's predominantly agrarian economies, where smallholder farmers dominate production, the extent of intra-regional trade depends critically on the transport network.

The private sector is lowly represented in national trade issues of many African countries, yet it is the engine of the productive sector (Tanyanyiwa, 2014). Instead of playing a fundamental role in trade negotiations, the private sector is usually overshadowed by senior government officials as well as politicians. When represented, the private sector is usually by Chambers of Commerce which offer inadequate advice.

Other studies also indicate that low intra-Africa trade is also due to most focus being directed to border measures at the expense of deeper integration, such as behind the border issues like investment and services. Trade facilitation measures are in most African countries directed mostly at efficient border management in the form of OSBPs, while issues like creating a conducive atmosphere for investment are neglected. Intraregional trade thus requires complementarity of on the border and behind the border measures.

Strict and cumbersome rules of origin discourage exporters from trading in Africa (Barka, 2012). Regional Trade Agreements require that only registered companies can trade under the COMESA and SADC agreements meaning that unregistered SMEs are not able to export to SADC and COMESA member states. By design, rules of origin are stricter for manufactured products than for wholly produced goods like agricultural produce and minerals. For example, in order to be registered to export refrigerators (HS code 8418 under SADC), the value of imported components should not exceed 50% of the ex-works value of the final product. However, to be registered as a minerals exporter, the mineral should be wholly produced in a specific country. This is the results in exporters preferring to export primary goods which are also produced by the other member states, making trading with the international market more sensible than with the regional market. Traders would rather export to the EU and other international countries where no strict rules of origin apply.

The emergence of China as a global manufacturing hub has led to not much manufacturing taking place in Africa. Research shows that it is cheaper to import mass-produced goods like clothing from China instead of manufacturing locally while bearing substantial overhead costs.

With the advent of COVID-19, and some countries limiting and prohibiting exports of essentials like medical goods, the African continent can sustain itself by policies like shifting of production especially in industries that can easily adapt to the current environment. For instance, companies in the textile sector can shift to production of masks. Those in the ethanol sector can shift to production of hand sanitizers. Universities’ innovation hubs can be roped into the production of health necessities, including ventilators.

Africa has several advantages which can help in increasing production, value-addition and thus trade more within itself. Such advantages include the demographic dividend, a large potential market as well as a vast endowment of raw materials.

To enhance value addition and produce complementary products, Africa needs to engage in regional value chains whereby each country specializes in the manufacture of components that they can do competitively. For example, Tanzania can specialize in the production of sugar, refining to Kenya for further processing into chocolates. In southern Africa, countries can take advantage of South Africa as the industrial hub for manufacturing and processing of minerals. Countries should take advantage of their comparative advantage as propounded by the Hecksher-Ohlin model.

There is also a need for countries to reduce border delays through automation processes and reducing bureaucracy which breeds corruption and other rent-seeking behaviour. Most borders are characterized by a multiplicity of agencies each playing their own role which may be duplicated by another agency; thus border agency cooperation and the introduction of Single Window may result in quicker clearance and movement of goods in the RTAs.

Governments need to complement infrastructure investments with trade facilitation measures. There is a need for Africa to adopt and implement trade facilitation measures as stipulated in the WTO TFA. This will lead to harmonization, simplification and standardization of trade processes and procedures. Political will and implementation are the major interventions which do not require huge investments or finances. Other measures will, however, need further financial and technical support.

Good and reliable transport infrastructure is the backbone of trade, and thus IRT cannot happen without good transport linkages. Therefore, there is a need for improvement of transport infrastructure, especially roads, railway and port facilities. These, however, require a substantial financial investment and call for public-private partnerships.

In as much as most African countries have rich mineral deposits as well as good climatic conditions favouring agriculture, there is need for the member states to diversify their export baskets to improve IRT. Mutual and beneficial trade only takes place when countries produce complementing products.

Although COVID-19 is currently making IAT difficult due to restrictions placed on the movement of people and goods, the pandemic justifies enhanced IAT. The situation helps Africa realize the benefits of IAT due to the trade restrictions put in place by our major trading partners who are mainly outside Africa. Most of all, it will help Africa appreciate the good in initiatives put in place to enhance IAT. With virtually nowhere to run to, some production of medical requisites like sanitizers, masks and ventilators which some African countries used to import from overseas is currently taking place in countries like Zimbabwe and Kenya. It is hoped that the production will become a sustainable habit which will help to improve intra-regional trade in Africa, much to the benefit of the AfCFTA agenda.

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