Inducing Intra – Africa Trade

Through targeted trade financing and improved political will.

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Introduction

It is not news that very promising business, trade and growth opportunities abound in Africa. Businesses and nations from every continent trade profitably with African nations. However, almost paradoxically, Africa hardly trades with Africa. Africa trades very much more with the rest of the world than with itself. Intra-African trade accounts for hardly 10-12 percent of the region's total trade; this is compared to 40 percent for intra-North American trade and 60 percent for intra West European trade. The importance of drastically increasing trade between African countries cannot be over emphasized if most African countries will ever realize true and meaningful economic development in the future. Intra-African trade is a booster for the diversification and growth of the African economies and must be explored, encouraged and induced vigorously. Africa Growth Initiative (2012) agrees, as they assert that rigorously implementing intra-African trade is critical to speeding up economic growth in all African countries. With very little trade happening between African countries. African nations in all their efforts toward economic development, are not harnessing the positive combined effect, improvement and emphasis on their different qualities and capabilities, to bring about economic growth to their respective economies. All concerned in Africa will agree that very much more must be done in Africa to induce and increase intra Africa trade. Meetings have been held and many declarations have been made, however it is the author's view that the time has come for action. The volume of intra-African Trade is ultimately determined by the economic fundamentals of supply and demand. African Businesses must in increased numbers be induced to see other African markets as opportunities to export African manufactured consumer goods. However today, Africa manufactures almost nothing of what Africa massively consumes. Therefore one of the several solutions the author presents in this article, is that financing trade with a view of stimulating or inducing intra-African trade must start from financing African manufacturing with the aim of exploiting and exporting to other researched African markets. The author presents solutions that should be implemented in order to induce a significant increase in intra-African trade and therefore lead to true economic development in participating African countries at a much faster rate than is presently being experienced. However it is first important to understand the reasons why there is currently very little intra-African trade.

Why currently very little intra-Africa trade?

African Union (2014) explains that it is currently the practice for an African country to procure products and services from Asia, America or Europe, when such could have been procured more beneficially from another African country.

The Economics

Within Africa, as anywhere else, Trade will grow when African countries produce what their other African trading partners are eager to buy. However, such a scenario does not exist in Africa yet. Africa consumes what Africa does not produce. This scenario presents a very weak foundation to build any policies that aim to change things for the better.

Overlapping memberships of regional economic communities.

Adetunji and Gbadebo (2012) explain that another reason for the little intra-African trade is the overlapping memberships many African countries have with regional economic communities. Most African countries belong to two or more regional economic communities. This makes the enforcement of agreements almost impossible, for agreements across regional economic communities often conflict with one another resulting in no trade.

Too many internal borders

According to UNCTAD (2013) a major reason for little intra African trade is the multiplicity of national borders, which act as barriers to trade. There are just too many borders to deal with when endeavoring to trade within Africa. When one goes on to consider the complicated and frequently contradictory trade rules, cross-border constraints and poor roads or transport networks, it becomes no surprise that intra-Africa trade is very low.

Lack of Political Will

The author's close observations and study of regional trade agreements and communities in Africa reveals that there is arguably a lack of political will among the elite and administrations of many African nations to rigorously implement strategies and agreements that would lead to increased intra-Africa trade. This is a view shared by Trudi Hartzenberg, Executive Director at the Trade Law Centre (TRALAC) for Southern Africa, she explains that in many cases there isn't commitment to agreements based on rules, and many administrations do not take their obligations under trade agreements seriously. Much has been suggested to be the root causes for this, some of which are firstly, that the African political elite do not really have the economic development of their nations as a priority. Secondly, there could be a masked distrust and or dislike among African nations according to influences of strong cultural and or colonial ties. It surprises many to learn that for example, according to UNCTAD (2013), Ethiopian exports to Tunisia face a protection rate of 50.4% while a Tunisian exporter to Ethiopia faces a protection rate of 15%. Also a Nigerian exporting to Morocco faces an average protection rate of 17.6%, while Moroccan exports to Nigeria face an average protection rate of 65.7%. Also intriguing is the fact that an African exporter selling goods outside the continent faces an average protection rate of 2.5%. However, if the same good is exported to an African market, the exporter faces an average applied protection rate of 8.7%.

Poor intra-African media & the absence of an African wide regional financial transaction payments systems.
Another reason that is often not mentioned for poor intra-African trade is the fact that in Africa, it is simply very much easier to find and pay for goods and services from Europe, Asia or North America than it is to find and pay for the same or similar from another African country. This is because of Africa's almost exclusively mono media connection to what is available for purchase outside Africa, and not much media access to what is available in Africa, and also to the absence of an African wide regional financial transaction payments system.

Currently independent trade payments especially from one African region to another are expensive and slow, primarily because they are Typically, settled in dollars, and routed via clearing banks in New York. The long banking process costs is passed on to the African importer and or exporter. The whole scenario certainly does not serve to promote intra-Africa trade.

Indeed identifying and offering solutions to all the reasons for the very low volume of intra Africa trade is complicated and many are puzzled over why the reasons exist in the first place. The author asserts that a primary solution is to induce in Africa through trade and or development financing, the target manufacturing of what Africa consumes, in other words, use trade and development financing in Africa to ensure that African countries produce what other African countries are consuming. This will serve as a strong foundation for other policies and strategies that provide solutions. Some of which are explained below.

Solutions towards increasing the volume of intra Africa trade.

Financing African manufacturing with the aim of exploiting and exporting to other researched African consumer markets.
The volume of intra-African Trade is ultimately determined by the economic fundamentals of supply and demand. African Businesses must in increased numbers be induced to see other African markets as opportunities to export African manufactured consumer goods. Therefore financing trade within Africa with a view of stimulating or inducing intra-African trade must start from financing African manufacturing with the aim of exploiting and exporting to other researched African consumer markets. This suggests that organizations such as the African Development Bank (ADB) , African Export – Import Bank and the likes will have to play an even more active role in private sector business market research on market opportunities and entry modes across Africa as they finance manufacturing businesses targeted to take advantage of the researched opportunities found in other African countries. By financing manufacturing in one country to meet the natural economic demand in another and vice – versa (pairing up countries) such

organizations would be making a very significant push towards increased African economic development and Intra-African trade, circumventing administrative and political bottle necks. Executing such strategy with a focus of Small and medium scale enterprises (SMEs) could achieve even more of the desired result.

Pan-Africa media networks to make Africa products more visible and accessible to other African countries

In Africa, it is simply much easier to find and pay for goods and services from Europe, Asia or North America than it is to find and pay for the same or similar from another African country. An attempt to address this problem could be through subtle agreed Africa wide media advertizing policies on local and satellite television and the Internet. Simply put, in today's information age, television and the Internet in Africa must show Africans much more of what Africa has to offer them for purchase. This is a crucial point to address in any quest for increased intra African trade, and the political will among African administrations must be found to innovatively address this problem through forming and executing the necessary policies.

An African wide regional financial transaction payments system.

Increased Intra – African trade certainly needs a payment and or pan - African banking system that means that the cost and speed for paying for goods or services within Africa is lower and faster than doing such from outside. The author notes that while certain large banks within the Economic community for West African states (ECOWAS) and the Southern African Development Community (SADC) Integrated Regional Electronic Settlement System (SIRESS) offer some solution for trades payment within their respective regions, what is crucially needed in terms of stimulating increased intra – African trade, is a Pan African payment system, independent of the cost and delay associated with routing via New York and etc. A starting point towards such a solution could be achieved via a network of the dominant banks between each of regions in Africa initiated by the ADB.

The creation of the Pan – African regional economic block

The author asserts that from the perspective of stimulating increased intra-African trade, having one trade regime across Africa is ultimately better than multiple trade rules. Certainly African companies will benefit from a single improved and harmonized trade regime in Africa. This will reduce costs by eliminating overlapping trade rules. Ultimately, Africa's goal should be to have one big African market with no internal trade barriers. The fact that this is easier imagined than achieved does not negate the fact that a one-trade regime across Africa will be a powerful stimulant towards much increased intra- Africa trade. The political will, sincerity, clarity of purpose and advantages to all are always crucial.

Political will

A fact remains that increasing the volume of intra – Africa will have to come from an increased political will among African administrations to comply with, execute, enforce agreements and strategies that lead to increased volumes of intra-Africa trade and respective economic development. There are currently as many as 14 trading blocs and economic communities in Africa, all set up to seek regional integration. However there is clearly a lack of political will to take these agreements seriously and empower these blocs. The results are that these economic communities operate with little effect towards achieving their set out goals. Overlapping memberships of trading blocs must be eliminated possibly by reducing the number of trading blocs Africa has. African nations should implement agreements. There should be a visible effort towards moving away from economic dependency on the export of commodities and instead towards manufacturing and services. Non-tariff barriers should be eliminated between African countries. There must also be a strong show of commitment among African nations towards agreeing on and implementing "on the ground" practical strategies that lead to increased intra-African trade and their respective economic development.

Intra-African trade is a booster for the diversification and growth of the African economies and must be explored, encouraged and induced vigorously. Solutions towards economic development in Africa must be innovative. Proposing that financing trade within Africa must start from financing African manufacturing with the aim of exploiting and exporting to other researched African consumer markets is not conventional. With the state of true economic development in Africa, it is clear that Africa cannot afford the luxury of conventional proposals.

References

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