Summary of IGC Session – "Integrating Africa for inclusive growth"

WTO Public Forum – Geneva, 27 September 2016

Africa holds a large untapped potential to deliver poverty reductions and development gains through regional trade integration. Despite having been a long standing strategic objective, intra-regional trade throughout the continent has traditionally been very low. With only about 12% of the region's trade going to other African countries, compared to both Europe and Asia's 60% trade within their own continent, Africa trades more with Europe and America than it does with itself. As the wide range of non-tariff and regulatory barriers raise transaction costs and limits the movement of goods, services and people across borders, many challenges remain to increase trade integration and reap the benefits of closer economic ties.

To try to answer some of the questions of what the effect of increased regional integration would be for Africa and what barriers remain for this to be achieved, the IGC organised a panel discussion held during the WTO Public Forum in Geneva on the 27th of September. The panel featured key research from funded by the IGC from Professor Bernard Hoekman (European University Institute), Professor Thierry Mayer (Sciences-Po), Professor Jamie De Melo (Université de Geneva) and Marion Jansen (Chief Economist, International Trade Centre) – moderated by Richard Newfarmer (Country Director Rwanda, South Sudan and Uganda, International Growth Centre).

Looking at the most recent evidence on regional integration in East Africa, through the East African Community (EAC), the panellists discussed what the effects were of such an increase in trade, how it affects SMEs and what the role of technology has been in the process of integration. Thierry Mayer presented his recent paper, which has modelled the gains from integration through the EAC and found an increase in bilateral trade between EAC members of 213%. Moreover, Professor Mayer explained how not only trade had increased as an effect of the EAC but GDP had increased and the risk of conflict had decreased. The pacifying effect of the EAC was found to be particularly high, such that the risk of war decreased by on average 12% when joining the EAC as the opportunity costs associated with conflict increases when the trade between two nations increases. In other words, it becomes costlier to fight when you trade with each other such that, as Marion Jensen put it, "people who trade do not want war".

The benefits of EAC and other regional trade blocks, such as the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC) were moreover discussed by Professor De Melo who pointed to a large literature on the benefits of regional integration in the region. However, he also highlighted the immense challenges ahead of further integration. As the countries in East Africa are all very different and are affected by asymmetric shocks, further integration not only holds larger gains but also requires more compromises and intense policy coordination (sometimes referred to as the heterogeneity implementation conundrum). Professor Hoekman further pointed to the challenges ahead when Africa aims to integrate further, such as the issue of weak institutions and low levels of trust.

Lastly, the panel discussed the potential for the continent to increase its trade in services – and ask the question if Africa can industrialise "without smokestacks". With the rise of global value chains, services matter more today than they have ever done before – yet, service trade costs remain high and have not been declining in the same pace as the costs for goods. Professor Hoekman pointed out how the main trade costs for services arise from policy and regulation, and in some cases explicit discrimination.

In conclusion, the panel agreed there was a large benefit for Africa to integrate further, but that many questions remain to be answer to understand exactly how this integration should take place.