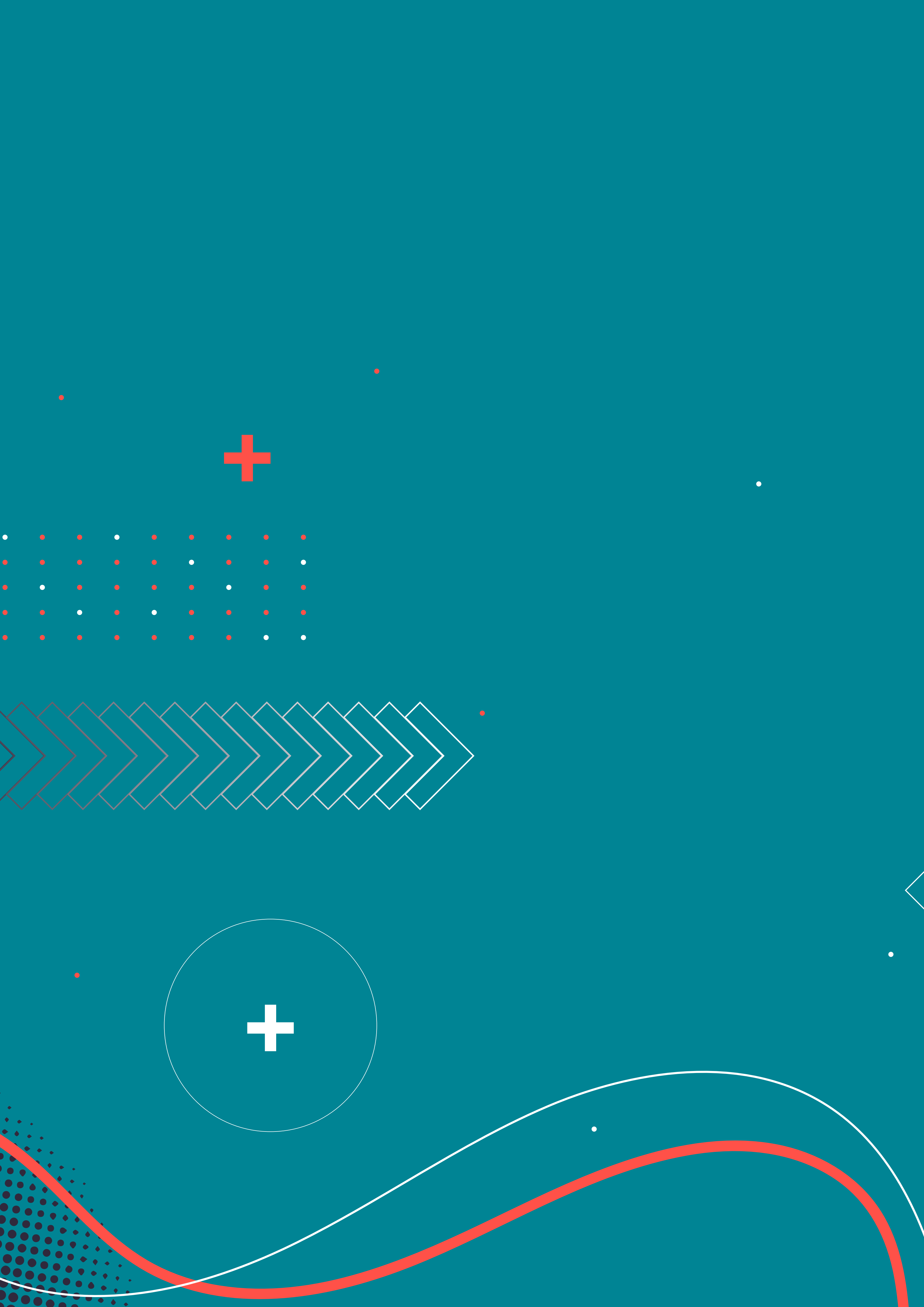
AND DEVELOPMENTAL REGIONALISM

A HANDBOOK

Faizel Ismail



THE AFRICAN CONTINENTAL FREE TRADE AREA (AfCFTA)

AND DEVELOPMENTAL REGIONALISM

A HANDBOOK

Faizel Ismail

The African Continental Free Trade Area (AfCFTA) and Developmental Regionalism: A handbook

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Published by Trade & Industrial Policy Strategies

ISBN: 978-92-9162-053-1

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ACKNOWLEDGEMENTS

This handbook has its origins in a research manuscript written for the United Nations Economic Commission for Africa (UNECA) in 2018. The original draft manuscript benefitted immensely from the comments and suggestions made by the participants at the UNECA Expert Group Meeting that was held in Nairobi on 17-19 July 2017.

The following list of participants participated actively in the two-day meeting and provided comments and guidance on the first draft document: Mr. Stephen Karingi, Adeyinka Adeyemi, Ms. Lily Sommer, Mr. Melaku Desta, Mr. Fimba Taruwhuba, Nozipho Mdawe, Daniel Osiemo, Ms. Mia Kruger Duper, Ms. Joelle Schmidt-Corsitto, H.E. Ambassador Bankole Adeoye, Mr. Olubunmi Makinwa, Mr. Adeyemi Dipeolu, Ms. Towela Jere, Prof. Olusanya Ajakaiye, Prof. Makane Moïse Mbengue, Ambassador Chiedu Osakwe, Mr. Brendan Vickers, and Mr. Saul Levin.

The draft manuscript benefitted immensely from the comments made by students at the University of Cape Town and students who participated in the Trade & Industrial Policy Strategies short courses on regional integration during the past two years.

The author thanks Dr Brendan Vickers from the Commonwealth Secretariat for sharing the work done on a similar handbook and for permission to reproduce some of the diagrams.

A special thanks must go to Saul Levin from TIPS and Janet Wilhelm for both encouraging me to redraft this handbook and providing me with the support to complete the book.

TRADE & INDUSTRIAL POLICY STRATEGIES (TIPS)

TIPS is an independent, non-profit, economic research institution based in Pretoria, South Africa. It was established in 1996 to support economic policy development. TIPS undertakes quantitative and qualitative research, project management, dialogue facilitation, capacity building and knowledge sharing with a focus on trade and industrial policy, inequality and economic inclusion, and sustainable growth.

TIPS's main objectives are to undertake in-depth economic analyses, especially at the industrial level; to provide quality research as the basis for improving industrial policy as well as broader economic development strategies; and to support an increasingly dynamic and evidence-based discourse on industrial policy and inclusive growth with academics, other researchers and stakeholders.

TIPS works with a network of expert researchers and institutional partners. Its activities are overseen by a Board of Directors comprising individuals involved in high-level policy formulation in South Africa.

FOREWORD

This handbook is a unique and invaluable resource that needs to be widely used by anyone interested in the most ambitious and potentially most transformative project embarked on by the African continent – the African Continental Free Trade Area (AfCFTA). It is a must-read for students, teachers, policymakers, analysts and commentators alike.

Accessibly written, its chapters deal with many of the most important issues that will be confronted in operationalising the AfCFTA. Critically, it explores the arguments advanced as to how the AfCFTA can become a tool for the continent to break from the apron strings of dependence on the production and export of raw materials through the creation of regional value chains capable of supporting deeper industrialisation.

The author, Professor Faizel Ismail, draws on his extensive experience as a senior government official, ambassador and now an academic to produce an encyclopaedic and insightful overview of pertinent theoretical and practical issues. The Nelson Mandela School of Government at the University of Cape Town, which he directs, is a critical component of networks of some of the continent's best thinkers on many of these issues, and this too adds weight to the content of this important work.

DR ROB DAVIES

Former Minister of Trade and Industry of South Africa

Author of *Towards a New Deal. A political economy of the times of my life* (2021) and *The Politics of Trade in the Era of Hyperglobalisation: A Southern African Perspective* (2019)

ABOUT THIS HANDBOOK

This handbook is intended to provide negotiators, policymakers and other stakeholders with an overview of the theory and implementation of the African Continental Free Trade Area (AfCFTA) and regional integration in Africa, and to raise questions that could facilitate discussion and dialogue by all stakeholders at the country, Regional Economic Community and African Union levels. It is also envisaged that this manual will become a building block and point of reference. In this context a few questions are raised after each chapter to stimulate questions for discussion and learning.

This handbook is also about ideas and values and the importance of critical thinking when considering appropriate policies for the development of the African continent. This is particularly important as African countries accelerate the process of structural transformation and industrialisation of Africa. This manual is structured as follows:

Chapter 1: The AfCFTA and the power of ideas

This chapter traces the development of the AfCFTA and reviews some of the literature that shaped the ideas of African integration.

Chapter 2: History of regional integration in Africa

This chapter provides a historical context for discussion on the AfCFTA by setting out an outline of the history of efforts to build regional integration in Africa.

Chapter 3: Mainstreaming development in the AfCFTA

This chapter looks at the relationship between trade and development and the historical debate on the benefits of free trade. It looks at the origins of the concept of special and differential treatment and how this has been used by developing countries.

Chapter 4: A developmental regionalism approach to the AfCFTA

This chapter examines how the developmental regionalism approach to regional integration is more appropriate to address the challenges in Africa. This requires that trade integration must be advanced in parallel with development integration.

Chapter 5: The AfCFTA and transformative industrialisation in Africa

This chapter focuses on the theme of structural transformation and industrialisation, looking at infant industry protection, and how industrial strategy has been implemented by developed and developing countries historically and the evolution of global value chains. It includes six case studies: cocoa and chocolate manufacturing in Côte d'Ivoire (Ivory Coast) and Ghana; Ethiopia's floriculture sector; the Nigerian film industry; Kenya's M-Pesa mobile banking sector; Rwanda's gorilla viewing sector; and South Africa's automotive sector.

Chapter 6: The AfCFTA and cross-border infrastructure

This chapter looks how cross-border infrastructure will be a value complementary pillar to the AfCFTA's trade integration programme. Together with structural transformation and industrialisation this must form part of the core effort of Africa to advance the economic development of the continent.

Chapter 7: The AfCFTA and Africa's relations with the North and South

This chapter focuses on how Africa could strengthen its trade and investment relationships with its northern and southern trading partners to complement its efforts to implement a developmental regionalism approach to regional integration in Africa.

Chapter 8: Conclusion: Advancing the AfCFTA and developmental regionalism

This chapter summarises the discussion and argument for a developmental regionalism approach to the AfCFTA. It draws a number of policy lessons from both the academic literature and experiences of African countries.

ABBREVIATIONS

ACP	African, Caribbean and Pacific
ADB	Asian Development Bank
AEC	African Economic Community
AfDB	African Development Bank
AfCFTA	African Continental Free Trade Area
AGOA	African Growth and Opportunities Act
AIDA	Accelerated Industrial Development of Africa
AIIB	Asian Infrastructure Investment Bank
AMU	Arab Maghreb Union
ANC	African National Congress
APDP	Automotive Production and Development Programme
APRM	African Peer Review Mechanism
APSA	African Peace and Security Agenda
ASEAN	Association of Southeast Asian Nations
ASF	African Standby Force
AU	African Union
BIAT	Boosting Intra-African Trade (AU Action Plan)
BRI	Belt and Road Initiative
CBI	Cross-Border Infrastructure
CEN-SAD	Community of Sahel-Saharan States
CET	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
DAA	Dakar Agenda for Action
DBSA	Development Bank of Southern Africa
DFQFMA	Duty-free and Quota-free Market Access
DRC	Democratic Republic of the Congo
EAC	East African Community
EBA	Everything But Arms
ECA	Economic Commission for Africa (also UNECA)
ECCAS	Economic Community of Central African States
ECDPM	European Centre for Development Policy Management
ECOWAS	Economic Community of West African States
EDPRS	Economic Development and Poverty Reduction Strategy (Rwanda)
EEC	European Economic Community
EPA	Economic Partnership Agreement
EPZ	Export Processing Zone
ESA	Eastern and Southern Africa
EU	European Union
FDI	Foreign Direct Investment
FOCAC	Forum on China-Africa Cooperation
FTA	Free Trade Area
GATS	General Agreement on Trade and Services
GATT	General Agreement in Tariffs and Trade
GDP	Gross Domestic Product
GSP	Generalised System of Preferences
GVC	Global Value Chain
HOS	Heckscher-Ohlin-Samuelson
HSGOC	Heads of State and Government Orientation Committee (NEPAD)
ICT	Information and communication technology
IDC	Industrial Development Corporation
IGAD	Intergovernmental Authority on Development
IGADD	Intergovernmental Authority on Drought and Development (now IGAD)
ILO	International Labour Organization
IMF	The International Monetary Fund
ITO	International Trade Organization
LDCs	Least Developed countries
LLDCs	Landlocked Developing Countries
MFN	Most Favoured Nation
MDC	Maputo Development Corridor
MDGs	Millennium Development Goals
MIDP	Motor Industry Development Programme (South Africa)
MNC	Multinational Corporation
MVA	Manufacturing Value Added

NCTTA	Northern Corridor Transit and Transport Agreement
Nedlac	National Economic Development and Labour Council
NEPAD	New Partnership for Africa's Development
OAU	Organisation of African Unity
ODA	Official Development Assistance
OEMs	Original Equipment Manufacturers
PAP	Pan-African Parliament
PDVC	Producer-Driven Value Chain
PICI	Presidential Infrastructure Champion Initiative
PIDA	Programme for Infrastructure Development in Africa
PPPC	Public Private Partnership Committee
PSC	Peace and Security Council
R&D	Research and Development
RDB	Rwanda Development Board
REC	Regional Economic Community
RTA	Regional Trade Agreement
SACU	Southern African Customs Union
S&DT	Special and Differential Treatment
SADC	Southern African Development Community
SAPs	Structural Adjustment Programmes
SEZ	Special Economic Zone
SDGs	Sustainable Development Goals
SDI	Spatial Development Initiative
SIDS	Small Island Developing States
SMART	Secondary Materials and Recycled Textiles (US)
SMEs	Small and Medium-sized Enterprises
SPS	Sanitary and Phytosanitary Standards
SVEs	Small, Vulnerable Economies
TBT	Technical Barriers to Trade
TDCA	Trade Development and Cooperation Agreement
TFA	Trade Facilitation Agreement
TFTA	Tripartite Free Trade Area
TiSA	Trade in Services Agreement
TNCs	Transnational Corporations
TPP	Trans-Pacific Partnership Agreement
TTIP	Trans-Atlantic Partnership Agreement
TVET	Technical, Vocational Education and Training
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organization
UK	United Kingdom
US	United States
USITC	United States International Trade Commission
USTR	United States Trade Representative
WAEMU	West African Economic and Monetary Union
WTO	World Trade Organization

Agenda 2063 has a vision for intra-African trade levels growing from less than 12 percent to 50 percent by 2045. It visualises a continent that will underpin its development by investing in world-class infrastructure and developing its manufacturing sector.

The Africa we Want – African Union, 2015

CHAPTER ONE

THE AfCFTA AND THE POWER OF IDEAS

The launch of the AfCFTA negotiations on 15 June 2015 was a historic event (AU, 2017). It was the first Summit of the African Union (AU) that focused solely on trade and the regional integration of the continent. It was the most ambitious expression yet of the dream of Pan-African leaders such as W.E.B. Du Bois, George Padmore, Kwame Nkrumah, Leopold Senghor and others who began the long journey towards African unity and integration after the decolonisation and independence of African States in the late 1950s (Mkandawire, 2005). It also gave momentum to the leadership of Nkrumah, seen as a champion of regional integration in Africa who, as early as 1958, called an All African People's Conference to advance the vision of regional integration in Africa (Mazrui, 2005).

Seen from the long lens of history, it was indeed a historic event. Pan-Africanism has been argued to have passed through three main phases: the first phase reflects the Pan-African Congresses held between 1900 and 1945; the second phase begins with the creation of the Organisation of African Unity (OAU) in May 1963; and the third phase started with the creation of the AU in 2002 (Mathews, 2018).

During this period, in 2015, the AU launched its own 50-year vision, on the 50th anniversary of the OAU, titled *Agenda 2063: The Africa We Want* (AU, 2015), this called for "a prosperous Africa based on inclusive growth and sustainable development" as the first of seven aspirations. Its second aspiration is an "integrated continent, politically united, based on the ideals of Pan-Africanism and the vision of Africa's Renaissance". This second aspiration is elaborated by the statement that "Africa shall be a continent where the free movement of people, capital, goods and services will result in significant increases in trade and investments among African countries…"

Agenda 2063 also called for the fast-tracking of the AfCFTA negotiations and the doubling of intra-regional trade by 2022. The decision to fast-track the adoption of the AfCFTA was taken earlier by the Heads of State in their meeting held in January 2012 (AU, 2012). Together with this decision, the leaders also adopted an Action Plan for Boosting Intra-African Trade (BIAT) with seven clusters namely trade policy, trade facilitation, productive capacity, trade-related infrastructure, trade finance, trade information and factor markets (UNECA, 2012). By adopting the Action Plan for BIAT at the same Summit as the AfCFTA, the leaders had recognised that trade integration alone will not solve Africa's development challenges. The BIAT Action Plan references and incorporates the Action Plan for Accelerated Industrial Development of Africa (AIDA) and the Programme for Infrastructure Development in Africa (PIDA). Thus African leaders envisaged that the AfCFTA would be implemented together with the BIAT, AIDA and the PIDA.

The post-2015 development agenda adopted by the United Nations (UN) aims at achieving, by 2030, a set of sustainable development goals (SDGs) encompassing social, economic and environmental dimensions. The SDGs include all eight of the Millennium Development Goals (MDGs) and expand these to cover other dimensions of development (e.g. reducing inequality, economic growth, decent jobs, industrialisation, access to energy, peace and justice, and environmental sustainability). In a contribution to the policy discussion on trade integration and development, Hoekman and Njinkeu (2016) state that trade is an important means of implementation of the SDGs. Integrating the African continent will be a powerful driver to support progress towards achieving the goals.

WEAKNESSES OF AFRICAN TRADE POLICYMAKING

To realise the ambitious intra-regional trade agenda means confronting key weaknesses of African trade policymaking, including:

- Lack of capacity of stakeholders to generate/use, screen and validate research and associated recommendations to properly inform policymaking.
- Inadequate attention to the macroeconomic dimension of trade policy.
- Weak and/or inappropriate policy and regulatory frameworks for nurturing the nexus between trade, economic growth and development.
- Inability of national and regional policy-research organisations, business groups and civil society organisations to work effectively together.
- A multiplicity of trade capacity-building programmes that often are more aligned to donor agencies' priorities or target specific aspects of the trade agenda (e.g. Economic Partnership Agreement negotiations, World Trade Organization (WTO) negotiations, and implementation of specific provisions of a trade agreement).

Hoekman and Njinkeu, 2016

The question is, how can African policymakers and leaders ensure that this phase of regional integration in Africa being advanced through the AfCFTA succeeds and does not suffer from the travails of other regional integration processes in the world? Joseph Stiglitz (2016) in his book *The Euro and its Threat to the Future of Europe* argues that ideas and values are crucial for the success of regional integration. These are not new insights. The need for the correct ideas and right values to inform our thinking and perspective on trade and development has been reflected in the academic literature.

John Maynard Keynes (1936) concluded his famous book, *The General Theory of Employment, Interest, and Money*, with the sentence: "But, soon or late, it is ideas, not vested interests, which are dangerous for good or evil." Kofi Annan, the Ghanian Secretary General of the United Nations, made a similar observation when he stated that, "Ideas are a main driving force in human progress, and ideas have been among the main contributions of the United Nations from the beginning" (Annan, 2001).

Academic literature is a source for different ideas on trade and trade integration, and it is important for trade policymakers to be aware of the controversies and different views and interests that these ideas serve. Academic writers such as Robert Cox (2013) have pointed to the inherent bias of theory. He argues that "all theories have a perspective" and that "all theories derive from a position in time and space". He offers the insightful phrase, "theory is always *for* someone and *for* some purpose". In his view, there is "no such thing as theory in itself, divorced from a standpoint in time and space" and "when any theory so represents itself, it should be examined as ideology so as to lay bare its concealed perspective". Cox adopts an approach called "critical theory" which argues that people should be concerned with history and the continuing process of historical change. It is also for this reason that this manual first provides a historical context by outlining the history of regional integration in Africa.

"America First" – the stark statement of foreign policy and trade enunciated by Donald Trump, when he was elected president of the United States (US) in 2016 – is a reminder of the mercantilist approach to trade that the US and other developed countries have always adopted (USTR, 2017). This narrow, interest-driven approach has been criticised by academic writers. John Ruggie (1994) lamented the absence of "idealism", or values and norms, in US trade policy. Instead, Ruggie argued, that "the interest driven discourse of realism and the triumphalist discourse of unilateralism" have remained dominant in US foreign policy debates and practice.

In sharp contrast to the ideas and values of Trumpism, at the dawn of South Africa's new democracy in 1993, Nelson Mandela, the African National Congress (ANC) and future South African president, argued that the new South Africa's policies should be based on the principles, approaches and lessons learnt from it and his own struggle against apartheid and oppression. Mandela argued that the new South Africa could not be indifferent to the rights of others and boldly asserted that "human rights will be the light that guides our foreign affairs". He argued that the struggle had taught that "only true democracy can guarantee rights" and that "respect for diversity" should be promoted in international institutions. He declared that South Africa's relations with the continent of Africa should be based on the "principles of equity, mutual benefit and peaceful cooperation" and he committed the new South Africa to taking responsibility for the Southern African region "not in a spirit of paternalism or dominance but mutual cooperation and respect" (Mandela, 1993).

In his first major statement on the WTO, delivered on the 50th Anniversary of the General Agreement on Trade and Tariffs (GATT), President Mandela declared his commitment to the multilateral trading system (WTO, 1998). He reminded the audience that, although South Africa had been a member of the GATT since its inception, when "the vast majority of South Africans had no vote", the new South Africa was committed to work for a "rules-based" multilateral trading system that was "just". Mandela argued for a strengthened multilateral trading system that was fair, balanced, inclusive, and development orientated.

The objective of the founding fathers of regional integration in Europe (or in Africa) was not *more trade* but increased social and economic development. Stiglitz reminds us that, "the euro was supposed to be a means to an end in itself – it was supposed to increase economic performance and political and social cohesion throughout Europe" … however, "means have become ends in themselves: the ultimate objectives have been undermined. Europe has lost its compass" (Stiglitz, 2016: p.xix).

BENEFITS FOR AFRICA

The recent experience of European integration should prompt African policymakers to ask a number of pertinent questions: How can the AfCFTA advance the development of the continent? How can the AfCFTA benefit all African countries? How can the AfCFTA lead to the transformative industrialisation of the continent? How can development be mainstreamed in the AfCFTA? How can the AfCFTA catalyse and advance the building and strengthening of democracy, good governance and peace and security in Africa?

For the AfCFTA to benefit *all* countries in Africa it will need to:

1. Advance fair trade by implementing asymmetrical market access; develop balanced trade rules; and be participatory, inclusive, and transparent.
2. Stimulate productive capacity and transformative industrialisation.
3. Build cross-border infrastructure.
4. Strengthen democratic governance and institutions of peace and security in Africa.

Stiglitz thus argues that ideas about economic theory and the policy of regional integration, and political commitment to collective action or solidarity, are important for the success of regional integration.

Stiglitz argues, as most economists understand, that "most policies have ambiguous effects: some individuals are made better off, others are worse off. With sufficient political integration, some of the gains of the winners can be transferred to the losers, so that all are made better off, or at least no one is much worse off." With sufficient political integration, those who lose on one policy reform can have the confidence that they will win in the next and thus, in the long run, all will be better off (Stiglitz, 2016: p.52).

He also argues that "When a group of countries shares a common currency, success requires more than just good institutions. For reforms to work, decisions have to be made, and those decisions will reflect the understandings and values of decision-makers. There have to be common understandings of what makes for a successful economy and a minimal level of "solidarity" or social cohesion, where countries that are in a strong position help those that are in need" (Stiglitz, 2016: p.22). This principle of "solidarity" is similar to the African concept of ubuntu ("humanity towards others") that was projected by earlier African leaders in the idealism of Pan-Africanism.

The European experience of regional integration that led to right-wing populism, with the withdrawal of the United Kingdom from Europe (Brexit) and the sceptism and suspicion of European leaders in Southern European countries (Greece, Spain, Portugal), Ireland, and Northern European countries, such as the Netherlands and France, raises a number of questions. What is required for globalisation to succeed? What are the benefits and costs, and who receives those benefits? Who bears the costs? Stiglitz argues that the successes and failures of Europe are lessons for both regional integration and globalisation. When countries become interdependent, the actions of one country have effects on others. There is thus greater need for collective action – to ensure that each does more of those things that benefit the other countries in the union and less of those things that hurt others (Stiglitz, 2016: p.51).

QUESTIONS FOR DISCUSSION

1. How has Europe confused the means and the ends in its own regional integration process and has this thinking any relevance for Africa's own regional integration?
2. Do values and norms or collective action and solidarity have any relationship with trade integration in Africa?
3. Is the vision of Nelson Mandela for a continent where countries work with each other on the basis of the "principles of equity, mutual benefit and peaceful cooperation" or "ubuntu" realistic?

The AfCFTA entered into force at the African Union Summit on 7 July 2019 in Niamy, Niger. Due to the disruptions caused by COVID-19, the scheduled implementation date of the AfCFTA of 1 July 2019 was postponed to 1 January 2021.

CHAPTER TWO

HISTORY OF REGIONAL INTEGRATION IN AFRICA

The formation of the OAU in 1964 by independent African states reasserted the vision of regional integration. However, it was only in the early 1980s that regional integration was given substantive meaning and direction by the first executive secretary of the Economic Commission of Africa, Adebayo Adedeji (Adedeji, 2014). His influential leadership led to the launch of the Lagos Charter in 1975 and the Lagos Plan of Action in 1980. The OAU Heads of State adopted the Lagos Plan of Action that called for the integration of the continent based on "self-reliance, endogenous development and industrialization" of Africa. While Adedeji's vision was based on the concept of "developmental regionalism" the Lagos Plan of Action has been criticised for not having a detailed implementation strategy (Bach, 2016).

While there were some significant successes towards regional integration after the creation of the OAU, implementation was slow and uneven across the continent due to many challenges in the 1980s and 1990s, including low levels of growth, high levels of debt, political instability and overlapping regional arrangements (Adedeji, 2002).

Adedeji points that the real per capita gross domestic project (GDP) of Africa between 1980-1989 declined by 0.4 percent and its exports in volume declined by 0.1 percent (Adedeji, 2002). He thus refers to this period as Africa's "lost decade".

It took 10 more years for the OAU to address this gap in its regional integration strategy by adopting the Abuja Treaty in June 1991. The African Economic Community formed under the Abuja Treaty came into force in 1994 (Mutasa, 2018). The treaty set out a step-by-step approach to regional integration in Africa with the creation of the Regional Economic Communities (RECs) and set out a path for the creation of an African Economic Community by 2028. The treaty envisaged six stages or steps in the process of integration.

The first step in this pathway was the creation of Free Trade Areas (FTAs) in each region followed by customs unions, common markets and monetary unions.

Eight significant RECs advanced the process of regional integration within each region:

- Southern African Development Community (SADC)
- East African Community (EAC)
- Common Market for Eastern and Southern Africa (COMESA)
- Economic Community of West African States (ECOWAS)
- Economic Community of Central African States (ECCAS)
- Intergovernmental Authority on Development (IGAD)
- Arab Maghreb Union (AMU)

AFRICAN ECONOMIC INTEGRATION
TIMELINE AND MILESTONES

Year	Milestone
1963	Organisation of African Unity (OAU)
1964	African Development Bank (AfDB)
1969	Southern African Customs Union (SACU) renegotiated (established 1910)
1973	Mane River Union (MRU) (later subsumed into ECOWAS, revised in 2004)
1975	Economic Community of West African States (ECOWAS)
1980	Lagos Plan of Action for the Economic Development of Africa; Southern African Development Coordination Conference
1981	Preferential Trade Area for Eastern and Southern Africa
1983	Economic Community of Central African States (ECCAS)
1984	Indian Ocean Commission
1986	Intergovernmental Authority on Drought and Development (IGADD)
1989	Arab Maghreb Union (AMU)
1991	Treaty to Establish the African Economic Community ('Abuja Treaty')
1992	SADCC becomes Southern African Development Community (SADC)
1993	Common Market for Eastern and Southern Africa
1994	West African Economic and Monetary Union (WAEMU)
1996	Intergovernmental Authority on Development (IGAD) replaces IGADD
1998	Community of Sahel–Saharan States (CEN–SAD); Protocol on Relations between the African Economic Community (AEC) and the Regional Economic Communities
1999	East African Community (EAC); EAC Community Passport
2000	ECOWAS Passport; International Conference on the Great Lakes Region
2001	New Partnership for Africa's Development (NEPAD)
2002	African Union (AU); revised SACU Agreement
2003	African Peer Review Mechanism (APRM)
2004	Pan-African Parliament (PAP): ECCAS free trade area (FTA) launched
2005	EAC Customs Union
2008	SADC FTA launched; COMESA-EAC-SADC Tripartite Initiative; Acbon Plan for the Implementation of the Accelerated Industrial Development of Africa (AIDA)
2009	COMESA Customs Union; Chirundu One-Stop Border Post; Minimum Integration Programme
2010	EAC Common Market; Presidential Infrastructure Champion Initiative (PICI); NEPAD Planning and Coordinating Agency
2011	Programme for Infrastructure Development in Africa (PIDA)
2012	AU Action Plan for Boosting Intra-African Trade (BIAT)
2013	50th Anniversary of the OAU; AU's Agenda 2063
2015	ECOWAS Customs Union: COMESA-EAC-SADC Tripartite FTA; Continental FTA negotiations launched
2017	Morocco joins the AU, which now covers the entire continent
Projected aims of the Abuja Treaty ...	
2017	Continental FTA: regional customs unions
2019	African Customs Union
2023	African Common Market
2028	African Economic Monetary Union
2034	Latest date for AEC to be completed
2063	Agenda 2063: The Africa We Want

From Vickers, 2017

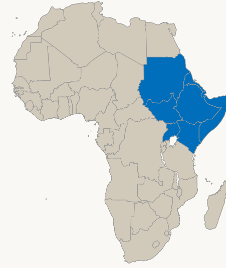
OFFICIAL REGIONAL ECONOMIC COMMUNITIES OF THE AFRICAN UNION

ARAB MAGHREB UNION (AMU)

Algeria
Libya
Mauritania
Morocco
Tunisia

EAST AFRICAN COMMUNITY (EAC)

Burundi
Kenya
Rwanda
Uganda
United Republic of Tanzania



INTERGOVERNMENTAL AUTHORITY ON DEVELOPMENT (IGAD)

Djibouti
Eritrea
Ethiopia
Kenya
Somalia
South Sudan
Sudan
Uganda

ECONOMIC COMMUNITY OF WEST AFRICAN STATES (ECOWAS)

Benin
Burkina Faso
Cape Verde
Côte d'Ivoire
Gambia
Ghana
Guinea
Guinea-Bissau
Liberia
Mali
Niger
Nigeria
Senegal
Sierra Leone
Togo

COMMUNITY OF SAHEL–SAHARAN STATES (CEN-SAD)

Benin
Burkina Faso
Cape Verde
Central African Republic
Chad
Comoros
Côte d'Ivoire
Djibouti
Egypt
Eritrea
Gambia
Ghana
Guinea
Guinea-Bissau
Kenya
Liberia
Libya
Mali
Mauritania
Morocco
Niger
Nigeria
São Tomé and Principe
Senegal
Sierra Leone
Somalia
Sudan
Togo
Tunisia

SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC)

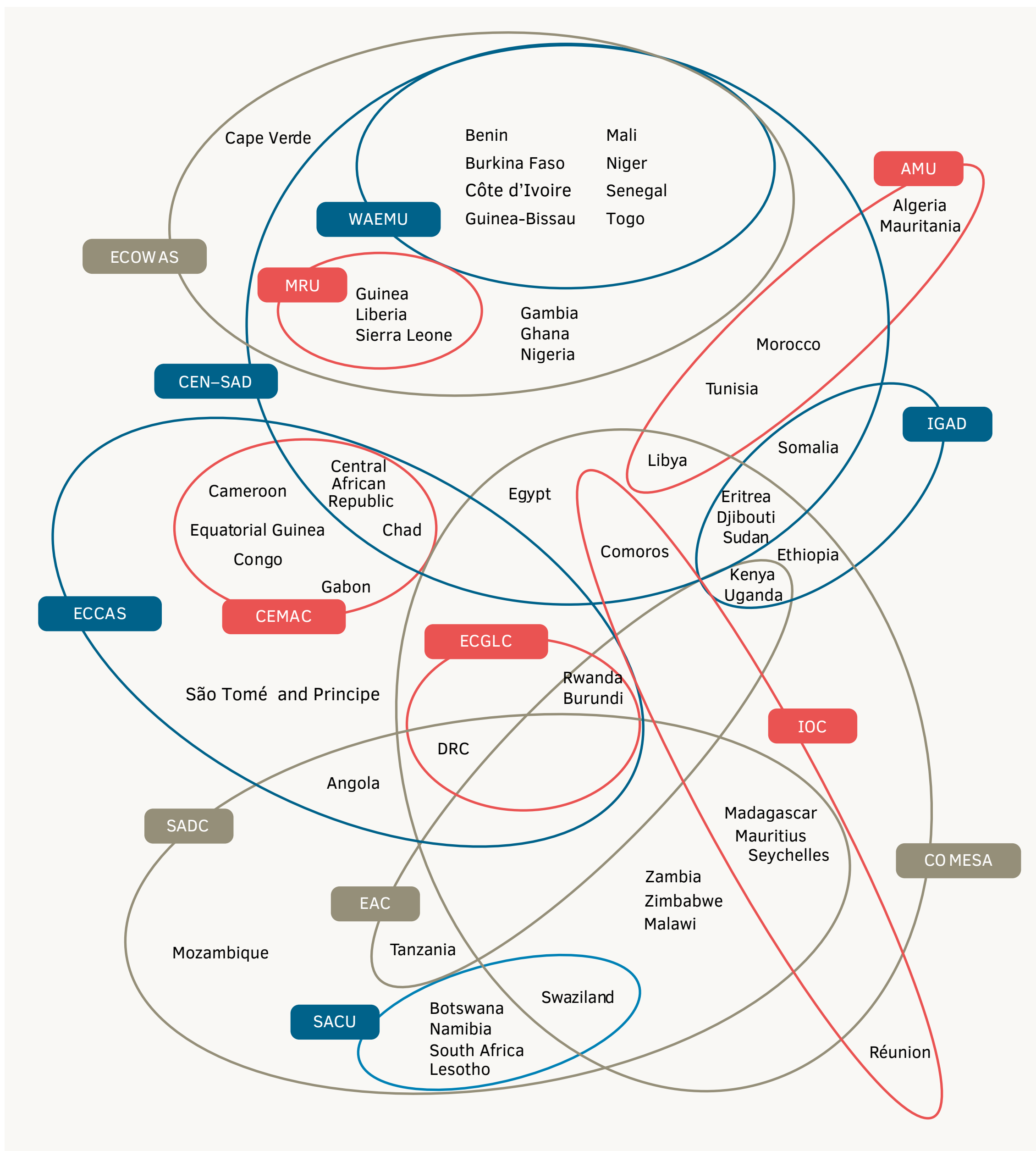
Angola
Botswana
Democratic Republic of the Congo (DRC)
Lesotho
Madagascar
Malawi
Mauritius
Mozambique
Namibia
Seychelles
South Africa
Swaziland
United Republic of Tanzania
Zambia
Zimbabwe

ECONOMIC COMMUNITY OF CENTRAL AFRICAN STATES (ECCAS)

Burundi
Cameroon
Central African Republic
Chad
Democratic Republic of the Congo
Equatorial Guinea
Gabon
Republic of the Congo
Rwanda
São Tomé and Principe

From: Vickers, 2017

By the early 2000s Africa's RECs were beginning to overlap, creating a so-called "spaghetti bowl" of overlapping regional arrangements. Some countries were members of more than one REC and had committed to joining more than one customs union – which, by definition, was impossible to achieve. For example, Eswatini, was a member of the SACU, SADC, and COMESA. SACU is a long-standing customs union and both SADC and COMESA have committed to becoming customs unions. It will not be possible for Eswatini to be a member of all three, unless all three merge into a single customs union.



THE SPAGHETTI BOWL EFFECT OF MULTIPLE REC MEMBERSHIPS IN AFRICA

From: Vickers, 2017 (ACBF, 2016)

The Tripartite Free Trade Area (TFTA) agreement among SADC, COMESA and the EAC was signed at Sharm el Sheikh, Egypt on 10 June 2015 by representatives of most of the 26 member states, representing a combined population of more than 600 million people and GDP of US$1 trillion (Vickers, 2015).

AFRICA'S TRIPARTITE FREE TRADE AREA

From: Vickers, 2017

The Sharm el Sheikh Declaration launching the TFTA reaffirmed the "developmental integration approach built on the three pillars of industrial development, infrastructure development and market integration" (Luke and Mabuza, 2016). While a legal text has been agreed on tariff liberalisation, disciplines on non-tariff barriers to trade, rules of origin, trade remedies and dispute settlement, among other issues, the negotiations on tariff offers were still ongoing at the end of May 2019, as part of the built-in agenda.

Phase II of the negotiations provides a timeframe of 24 months to conclude negotiations on competition policy, investment and intellectual property rights (Luke and Mabuza, 2016).

When the negotiations towards an African Continental Free Trade Area were launched in 2015, it was agreed they should run in parallel with the TFTA II phase negotiations. The scope of the AfCFTA negotiations was to include trade in goods, services, investment, intellectual property rights, and competition policy (Luke and Mabuza, 2016).

Negotiations began in earnest in early 2016, at the level of technical working groups, senior officials and Ministers. In July 2016, the Heads of State of the AU decided to fast-track the AfCFTA negotiations and create a High-Level Panel to oversee these.

South Africa and Nigeria were not ready to sign the agreement in Kigali, Rwanda, on the 21 March 2018 when the AfCTFA was launched. According to the press statement issued after the 31st AU Summit in Nouakchott, Mauritania (from 25 June to 2 July 2018), South Africa, Namibia, Burundi, Lesotho, and Sierra Leone signed the agreement increasing the number of signatories to 49 countries.

Phase I of the AfCFTA negotiations was mostly concluded by the time of the Mauritania Summit. The major documents agreed in this phase include an Agreement establishing the AfCFTA (referred in this paper as the "framework agreement") plus three Protocols, including the Protocol on Trade in Goods; the Protocol on Trade in Services; and the Protocol on the Rules and Procedures on the Settlement of Disputes (AU, 2019a).

THE PROTOCOL ON TRADE IN GOODS HAS NINE ANNEXES

Annex 1	Schedules of tariff concessions
Annex 2	Rules of origin
Annex 3	Customs cooperation
Annex 4	Trade facilitation
Annex 5	Non-tariff barriers
Annex 6	Technical barriers to trade
Annex 7	Sanitary and phytosanitary measures
Annex 8	Transit
Annex 9	Trade remedies

Source: Author drawn from AU 2019b

These agreements come into force after 22 of AU members have ratified the Agreement (deposited the instrument of ratification). On 30 April 2019, Moussa Faki Mahamat, the chairperson of the AU, confirmed that he had received notices of ratifications from 22 member states (Ormondi, 2019).

The AfCFTA entered into force at the AU Summit on 7 July 2019 in Niamy, Niger. At this Summit Nigeria and Benin signed the AfCFTA. Due to the disruptions caused by COVID-19 the scheduled implementation date of the AfCFTA of 1 July 2019 was postponed to 1 January 2021.

The agreements form the first phase of the negotiations. This phase includes the negotiations on the tariff phase down and the exchange of offers on services trade.

The modalities for liberalisation in the Protocol on Goods envisages a five-year liberalisation period for African countries not classified as Least Developing Countries (non-LDCs) and 10-year liberalisation phase down period for LDCs. The modalities allow for a total of 10 percent of tariff lines to be either excluded or declared as sensitive products. In the case of non-LDCs, the liberalisation period for these tariff lines is 10 years while LDCs are allowed a period of 13 years. The Mauritania Summit of the AU also adopted the five services priority sectors – Transport, Communication, Finance, Tourism and Business Services – for the member states to begin making requests and offers on as they advance on the Services negotiations.

Phase II of the AfCFTA negotiations will include the issues of Investment, Competition and Intellectual Property Rights.

Member states have started to negotiate protocols/agreements on each of these issues that will become part of the AfCFTA. By December 2020 member states were still negotiating detailed tariff reductions on trade in goods and complex issues related to the rules of origin. They will also request and submit offers to other African countries on services liberalisation. In parallel with this process of detailed technical negotiations on trade liberalisation, African countries have begun to negotiate and develop the architecture of the agreements on investment, competition and intellectual property.

QUESTIONS FOR DISCUSSION

1. Why in your view was there so little progress by African countries in implementing the Abuja Treaty in the 1990s?
2. How did African countries end up in a spaghetti bowl of trade agreements by 2010?
3. What, in your opinion, was the reason for countries such as South Africa and Nigeria being unable to sign the AfCFTA agreement at the Summit of the AU in Kigali, Rwanda on 21 March 2018?

Developmental regionalism is defined as “cooperation among countries in a broader range of areas than just trade and trade facilitation, to include – for example – investment, research and development, as well as policies aimed at accelerating regional industrial development and regional infrastructure provision, such as the building of better networks of roads and railway” .

UNCTAD, 2013

CHAPTER THREE

MAINSTREAMING DEVELOPMENT IN THE AfCFTA

The relationship between trade and development is controversial. The historical debate on the benefits of free trade has also been highly contested. While liberalisation of world trade was one of the main objectives for the creation of the GATT in 1947, the differences between the levels of development of developed and developing countries and the uneven benefits of free trade was a major point of contention at the time. This debate was to emerge in the 1990s and again during the WTO Doha Round.

The next section of this chapter briefly outlines the contours of this historical debate. This is followed by a discussion on the origins of the concept of special and differential treatment (S&DT) in the GATT/WTO and how this concept was used by developing countries in the WTO Doha Round. Developing countries, especially, the LDCs and the Small, Vulnerable Economies (SVEs) were to use the concept of S&DT as leverage to advance their interests in the WTO Doha Round.

The concept of S&DT has both strengths and weaknesses and needs to be critically examined. The concept of mainstreaming development in the WTO was introduced by developing countries in the WTO to address the weaknesses in the concept of S&DT (Ismail, 2005). For similar reasons, as African countries negotiate the AfCFTA they should also strive to mainstream development in the AfCFTA. While S&DT is an important concept to advance the interests and special concerns of many countries and economies in Africa in the AfCFTA, it is essential that development is mainstreamed in the AfCFTA. It is thus argued that providing LDCs and SVEs with S&DT in their tariff and services liberalisation commitments is insufficient. For LDCs and SVEs to also benefit from the agreement, AfCFTA members need to mainstream development.

The WTO Trade Facilitation Agreement (TFA) concluded at the Bali Ministerial Conference in December 2013 was controversial and criticised by developing country groups for being biased in favour of the developed countries. However, the Bali Agreement did result in some creative provisions on S&DT for developing countries, especially LDCs, that could have useful lessons for the WTO and member states of the AfCFTA.

The theory of regional integration is closely linked to the origins of the theory of free trade and comparative advantage. Jacob Viner, an American economist writing in the 1950s, provides useful theoretical and conceptual tools that are relevant to the discussion on the costs and benefits of regional integration in Africa. The GATT rules that were created at the time of its formation in 1947 were largely influenced by Viner's sequencing of regional integration.

THE DEBATE ABOUT FREE TRADE

The 1990s witnessed a continuation of the processes of globalisation, characterised by increased flows of trade, investment and technology in the global economy. However, these flows have continued to be uneven and inequitable, with a concentration in developed countries. While globalisation has increased opportunities for the development prospects of some developing countries, the vast majority (mainly from Africa) have failed to take advantage of these, resulting in their increased marginalisation in the world economy.

The response to these processes has been unprecedented mass action by civil society groups, as witnessed by the demonstrations seen in Seattle, Genoa and other World Bank/International Monetary Fund (IMF), G8 and WTO conferences. The civil society critique of free markets and unbridled capitalism is a continuation of the debate about the balance between markets and state. In the 1980s, the influence of Reaganomics and Thatcherism permeated the policies of the multilateral institutions, especially the World Bank and the IMF, and saw the development of "one size fits all" remedies for the problems of all developing countries. This so-called "Washington consensus" was critiqued by many who argued that this "consensus" was in stark contrast with the successful development experiences of East Asian economies including Japan, and the first and second generation newly industrialised countries. In these experiences the state played a leading role in guiding the market (Wade, 1990).

In his book, *The Roaring Nineties*, Joseph Stiglitz critiques the policies of the United States during the last decade of the 20th century and argues that in its domestic policy, the US got the balance between state and markets wrong (Stiglitz, 2003). More importantly, the US continued to advance this free market "Washington consensus" internationally, calling for free trade, deregulated financial markets and the privatisation of state enterprises. These policies were advanced both bilaterally and through its influence in the Bretton Woods institutions and the WTO. Stiglitz, who was the economic adviser to President Bill Clinton, and then Chief Economist of the World Bank during the 1990s, points to the lack of coherence in US policy when he states that while "we pushed the ideology of free market…we did not think about the impact of our policies on the poor in developing countries, but on job creation in America". In the area of trade, more specifically, he argues that "the completion of the Uruguay Round turned out to be one of our greatest failures … the US pushed other countries to open up their markets to areas of our strength … but resisted efforts to reciprocate".

While the Ricardian concept of comparative advantage and free trade has been espoused as a principle of the free market system that provides opportunities for all to benefit from globalisation, developed countries have not complied with this in their own trade policies. This incoherence could be seen in a number of the Uruguay Round Agreements. The Agriculture Agreement reflected the double standard of calling for developing countries to open their markets, while maintaining huge subsidies and high tariffs that depressed global prices and undermined the development potential of developing countries (such as with cotton). In the area of industrial products, developed countries retained high tariffs, tariff escalation and tariff peaks for labour-intensive products – precisely in the areas in which most developing countries had a comparative advantage.

THE EVOLUTION OF THE CONCEPT OF SPECIAL AND DIFFERENTIAL TREATMENT IN THE MULTILATERAL TRADING SYSTEM

The Bretton Woods Conference held in 1944 created the World Bank and the IMF and envisaged the creation of an international trade organisation. In line with this thinking, the Economic and Social Council of the United Nations began work in 1946 to draft a charter for the International Trade Organization (ITO), which was concluded in Havana in 1948. Meanwhile multilateral tariff reduction negotiations began in 1945 and concluded in 1947 with the GATT treaty.

Most Favoured Nation and Special and Differential Treatment

The GATT adopted the principle of "most favoured nation" (MFN), namely the principle of non-discrimination, or that all contracting parties should be treated equally. This was based on the traditional Westphalian concept of Sovereign equality of states. Thus, at the formation of the GATT, developed countries refused to accept the reality that developing countries were at a different stage of economic development and required to be treated differently. However, the concept that all states were economically equal and should undertake the same level of trade commitments and obligations was challenged by developing countries in the GATT as they became decolonised. Thus the principle of differentiation of obligations evolved to take into account these different levels of development. At the 1955 review session of the GATT, Article XVIII of GATT was revised to provide developing countries with additional flexibility for their obligations. In 1965, Part IV of GATT, a chapter on Trade and Development, was included, but was regarded as a "best endeavour" provision, with no legal force. In 1979 the "Enabling Clause" established an exception from Article 1 of GATT that made possible the extension of differential and more favourable treatment for developing countries, including preferences and special treatment of least-developed countries. Thus, the principle of special and differential treatment for developing countries evolved in the GATT.

The Uruguay Agreement, however, was a significant departure in the conception of S&DT from a tool for development to the provision of some adjustment tools, namely, the provision of more time for implementing new GATT commitments, best endeavour commitments to provide technical assistance aimed at ensuring compliance with the decisions from the Round, and a focus on the least developed countries. Developing countries were all, moreover, compelled to be a party to the wide range of new agreements under the single undertaking principle. These new agreements included behind the border or "within the borders" policies including trade in services, trade-related investment measures, intellectual property regimes, trade remedies such as anti-dumping and countervailing duties and customs valuation, eroding the so-called national development "policy space of developing countries" (Tortora, 2003). For many observers, the Uruguay Round witnessed a significant weakening of the S&DT concept.

One more issue from the debate in the WTO may be helpful to African countries as they negotiate and implement the AfCFTA. This relates to the issue of the differences between developing countries themselves and how they should relate to each other.

Least Developed Countries

The idea of granting duty-free and quota-free market access (DFQFMA) to LDCs was endorsed at the first WTO ministerial conference in Singapore, in December 1996. The WTO Doha Mandate made an explicit commitment "to the objective of duty-free, quota-free market access for products originating from LDCs" (WTO, 2001). In 2005, this commitment was reiterated and further clarified by Annex F of the Hong Kong Declaration, which urged developed countries, and those developing countries declaring themselves in a position to do so, to "provide duty-free and quota-free market access on a lasting basis, for all products originating from all LDCs … [or] at least 97 percent of products originating from LDCs, defined at the tariff line level, by 2008 or no later than the start of the implementation period" (WTO, 2005).

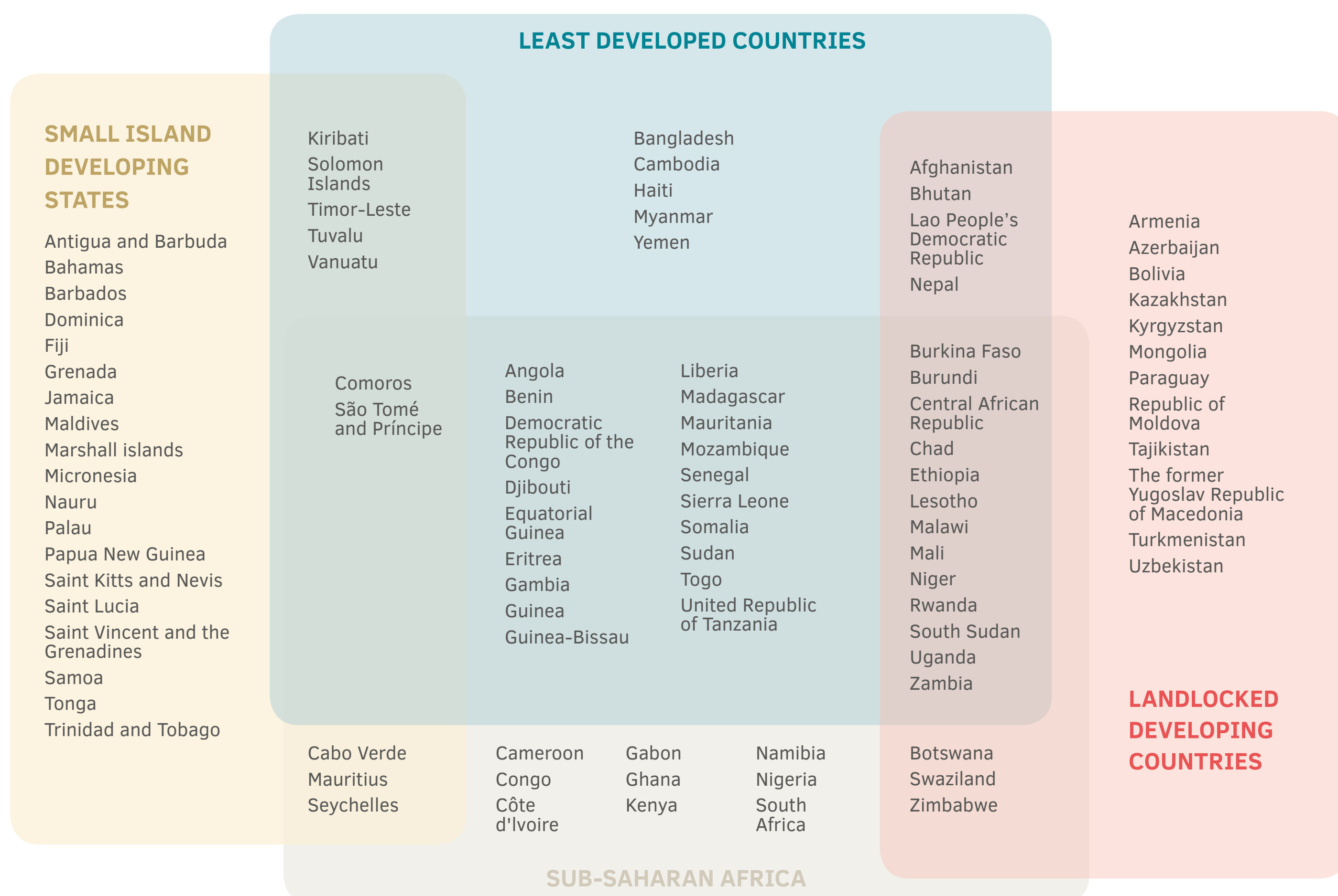
At the Ninth WTO Ministerial Conference in December 2013, to facilitate the integration of LDCs into global markets, WTO members agreed on a set of guidelines for preferential rules of origin for LDCs, which were further elaborated at the Tenth WTO Ministerial Conference in Nairobi in 2015 (WTO, 2013; WTO, 2015). These guidelines are

based only on best-endeavours clauses, and thus not legally binding. However, if fully implemented, they could represent a substantial step towards enhancing the flexibility accorded to LDCs, including by allowing up to 75 percent of value added to be imported from outside the exporting LDC, facilitating cumulation across LDCs and other beneficiaries of preferential schemes, and simplifying documentation requirements.

The call for DFQFMA for all LDCs and for all products was made at the UN Millennium Summit in 2000 as part of the MDGs. This commitment was reaffirmed by the September 2015 United Nations Conference on Sustainable Development Goals. It has been reiterated since then at various UN Conferences, including the UN LDC III Ministerial Conference in Brussels and the Monterrey Conference on Financing for Development in 2002, and Istanbul Conference UNCTAD XI in June 2004. This commitment for DFQFMA was reiterated at the UN LDC Ministerial Conference held in Istanbul, Turkey in July 2007.

DEFINING SMALL ECONOMIES

The Doha Declaration agreed to create a work programme to examine issues related to the trade of small economies (see Article 35 of the Doha Declaration). However, the challenge of defining "small economies" has eluded members of the WTO, given that many small economies have high per capita incomes. In addition, some of the larger developing countries argued that while their economies have been more successful in some sectors, they remain uncompetitive in many other sectors and have large numbers of people who live below the poverty line.



OTHER SMALL AND VULNERABLE ECONOMIES

WTO members have recognised that a large number of developing countries have particular needs that will need specific treatment. However, developing country WTO members have emphasised that they do not want to create any new category of developing country members. The WTO July 2004 WTO General Council Decision recognised the need to address the "particular concerns of developing countries, including relating to food security, rural development, livelihood, preferences, commodities and net food imports, as well as prior unilateral liberalisation" in the course of the ongoing negotiations, and reiterated the call not to "create a sub-category of members" (Ismail, 2007). Among this category of developing countries could be added the Landlocked Developing Countries (LLDCs) and Small Island Development States (SIDS). Africa has 34 LDCs, 6 SIDS and 16 LLDCs. Some LDCs are also SIDS and some are also LLDCs.

Drawing on the experience of developing countries in the WTO, to address the development challenges of LDCs and SVEs the AfCFTA will need to ensure that S&DT is provided to those countries in need. However, it is argued that S&DT alone will not address the fundamental challenges of lack of supply capacity and infrastructure investment. Thus to ensure that all African countries benefit from the AfCFTA and that the AfCFTA contributes to structural transformation and industrialisation of the African continent, it will be essential for Africa to adopt a developmental regionalism approach to the AfCFTA (see following section on contending theoretical approaches to regional integration).

Developmental regionalism is defined as "cooperation among countries in a broader range of areas than just trade and trade facilitation, to include – for example – investment, research and development, as well as policies aimed at accelerating regional industrial development and regional infrastructure provision, such as the building of better networks of roads and railway" (UNCTAD, 2013).

WTO TRADE FACILITATION AGREEMENT

At the WTO Bali Ministerial Conference held in December 2013, members agreed to the first fully fledged agreement on trade facilitation. The agreement amended and expanded the three existing articles in the GATT that relate to customs: Article V (freedom of transit); Article VIII (fees and formalities), and Article X (publication). On 22 February 2017, the WTO Trade Facilitation Agreement (TFA) entered into force after being ratified by two-thirds of WTO members. Trade facilitation refers to the process and procedures at the border (mainly customs rules and regulations) that make trade across borders faster, cheaper, more predicable, safer and more secure. The WTO TFA attempts to simplify and harmonise these formalities and procedures, as well as information requirements of customs agencies. The new WTO TFA provides new disciplines and rules to be implemented by national customs agencies that require increased transparency, responsiveness and accountability, predictability, a risk-based approach, modern processes and tools and cooperation with other customs agencies. The TFA is divided into two sections, with section one setting out the new enhanced customs rules and disciplines and section two providing for S&DT that allows developing and LDCs to implement the TFA provisions at a slower pace and with the provision of technical assistance and aid by the developed countries. Many of the measures were already being implemented to varying extents by WTO members, including African countries, as part of the Revised Kyoto Convention under the World Customs Organization.

It is commonly accepted by most trade and development experts that enhanced customs disciplines, and modernisation and

reform of existing practices by developing countries in particular, will increase the efficiency of trade flows, enhance growth and development and improve welfare. Karingi and Lisinge (2017) argue that "Trade facilitation is a preoccupation of Africa's trade stakeholders, who recognise that reaping the full benefits of the CFTA hinges on a diligent and steadfast implementation of trade facilitation measures".

Karingi and Lisinge go on to state that, "the TFA could stimulate regional integration by widening markets through improvements in the efficiency of customs and other border agencies in expediting cargo clearance, the ability of relevant actors to track and trace international shipments, and the timelines of shipments in reaching destination. In essence, it could help address the proximity gap observed in Africa, where in many instances it is more costly for a country to trade within its own REC than with countries in other regions of the world".

However, the main criticisms of trade experts relate to the slow progress made by the developed countries in fulfilling their promises to provide the necessary development assistance (Aid for Trade) that was promised in the WTO TFA. Critics argue that while many economic studies have lauded the positive spillovers from the WTO TFA for African countries, these have ignored the significant costs of implementing trade facilitation reforms. A recent study points out that "implementing a single window system, for example, requires substantial upfront investment in hardware and software, process re-engineering, and legislative changes, plus recurring maintenance and upgrading costs and training of personnel" (Dube and Kanyimbo, 2017). Dube and Kanyimbo point out that although the TFA contains promises of technical assistance for implementation, "these provisions are not binding and support so far has been minimal, with demand by far outweighing the resources committed. Therefore, development institutions and donors need to scale up support in order to make a dent in the trade facilitation needs of developing countries, including those in Africa".

CONTENDING THEORETICAL APPROACHES TO REGIONAL INTEGRATION

Many challenges confront Africa in the long road to its chosen path of development integration. The World Bank (World Bank, 2015a) uses the global value chains (GVCs) narrative as its analytical framework and argues that while Africa has indeed made significant progress in increasing growth, Africa's main strategy to advance its objective of reducing poverty should be to increase its role in GVCs by focusing on the production of intermediate goods; focusing on the services sector (developing a Services Hub in Southern Africa); and liberalising its tariff regime, not only to its African neighbours but also to all other third countries. The authors argue that their "practical vision for a Factory Southern Africa hinges not around factories at all, but around services" with Mauritius and Dubai as examples of successful countries that have attracted multinational corporations (MNCs) to locate their regional headquarters by adopting competitive market policies (WTO, 2015: p.ii). The World Bank paper argues that the SACU region

needs to consider "how to link regional value chains to GVCs, rather than how to replace MNC activities in the region". The argument is that African countries should not seek to divert trade from more efficient third country suppliers (MNCs) in favour of relatively uncompetitive African producers of intermediate goods. African countries should not only be opening their markets to their neighbours in Africa but also to all other countries as well in a so-called "open-regionalism" approach.

This approach to development policy saw a large number of African countries implementing Structural Adjustment programmes (SAPs) that required countries to liberalise trade, deregulate their financial markets, privatise state-owned enterprises, and reduce social expenditure (UNCTAD, 2006). The World Bank itself in a critique of this policy and its own programmes in Africa admitted that the SAPs had gone too far, resulting in deindustrialisation in a number of African countries. In an unprecedented critique of World Bank trade policies on Africa in the 1980s and 1990s, the World Bank stated that "Bank trade advice and support during the 1980s and 1990s was too narrow in focus … and was too optimistic about the benefits of trade liberalization for growth in the short run" (World Bank, 2006). The report went on to state that "the speed of import liberalization increased competitive pressures in countries that were unable to generate dynamic and sustained manufacturing growth" and thus "many African countries experienced an erosion of competitiveness in their export baskets, contributing to increased marginalization in global trade" (World Bank, 2006).

Hierarchy of Regional Trade Agreements

Preferential trade arrangement (not to be confused with trade preferences offered by rich countries to poorer ones) is the simplest form of economic integration: It requires only that participating countries grant each other preferential, but not necessarily free, access to each other's markets.

Free trade area, in which both tariffs and quantitative restrictions are abolished among member countries. However, individual members still retain their own external tariffs (on imports from outside the FTA) and so do not have harmonised trade policies. Differences in external tariff rates generally make it necessary to impose rules of origin on intra-group trade.

Customs union, in which members establish a common customs area. At a minimum this requires common external tariffs (CET) on imports from non-members and no import tariffs on trade between members. This has additional implications for the use of anti-dumping and other contingent protection measures, for rules of origin (depending on the revenue collection and distribution arrangements chosen, these may not be needed), and also for the rules governing the operation of export-processing zones and the granting of other fiscal privileges for goods shipped outside the customs area. Moreover, a country cannot belong to more than one customs union.

Common market, which is a customs union that allows the free movement of capital and labour among members and a harmonisation of trading standards and practices, together with a common trade policy towards third parties which goes beyond simply a CET.

Economic union, in which the members of a common market also harmonise their economic policies, including some coordination of monetary and fiscal policies, and also transportation and competition policies.

Political union, the ultimate stage of integration, in which members become one nation. National governments cede sovereignty over economic and social policies to a supranational authority, establishing common institutions and judicial and legislative processes – including a common parliament.

Source: Vickers, 2017, p.9

What are the WTO Rules on Regional Trade Agreements?

The General Agreement on Trade and Tariffs and the WTO allow the formation of RTAs under three sets of rules. These include: Article XXIV of the GATT; Article V of the GATS (General Agreement on Trade in Services) and the Enabling Clause.

Article XXIV of the GATT sets out the requirements for free trade areas and customs unions. Article XXIV stipulates that FTAs must eliminate duties on "substantially all trade" within a "reasonable length of time". There is no clear definition in the GATT of these concepts and there are differences of opinion among WTO experts. This lack of consensus on the meaning of "substantially all trade" has often led to examinations by the WTO of RTAs to be inconclusive.

Article V of the GATS provides for almost identical rules in the case of Services trade within a regional arrangement requiring "substantial sectoral coverage".

The **Enabling Clause** that was created in 1979 allows for more flexible rules for regional trade arrangements between developing countries. It allows for preferential trade arrangements for and among developing countries.

More recently, UNECA in its 2015 Economic Report on Africa argued that trade policy which exposes infant industries to competition can lead to deindustrialisation. (UNECA, 2015). This report explores how trade can serve as an instrument to accelerate industrialisation and structural transformation in Africa. The report finds that over 50 percent of imports and 80 percent of exports of African countries are intermediate products. However, African countries are mere exporters of raw materials and other intermediate products embodying limited value addition. In 2011 almost 50 percent of world trade took place within global value chains (up from 36 percent in 1995) (WTO, 2015). While African countries are increasingly connected to GVCs, they are mainly suppliers of raw materials and other low-value manufactures and operate at the lowest rung of the ladder in GVCs (UNECA, 2015). Thus the UNECA report argues that industrial development must be at the core of trade policy if African countries are to gain from global value chains.

In sharp contrast to the World Bank's call for "open regionalism" the UNECA study argues that the current situation in which African countries are more open and accessible to the rest of the world than to themselves is inimical to regional trade and creation and effectiveness of regional value chains. Regional Trade Agreements (RTAs) in its view can be viable building blocks of the multilateral trading system. UNECA argues that boosting intra-African trade can be achieved rapidly through the formation of an African mega-regional trade agreement such as the AfCFTA (UNECA, 2015). However, the report argues that there is evidence to support the view that the AfCFTA should be in place before other trade agreements are fully implemented by African countries or by the rest of the world. Thus, African countries are advised to carefully consider their approach to regional integration and adopt a more pragmatic "development integration approach" rather than the more ideological "open-regionalism" approach propagated by the World Bank.

CONCLUSIONS

This chapter argued that the debate on free trade has tended to be controversial as developed countries tended to support free trade when they were advancing their export interests and support protectionism to defend their domestic interests. GATT therefore tended to be imbalanced in favour of the developed countries. The GATT/WTO system incorporated the concept of special and differential treatment, partly to ameliorate this anomaly in the trading system. However, developing countries criticised the implementation of S&DT for not addressing their fundamental development concerns related to the need for structural transformation and industrialisation of their economies and argued that S&DT was insufficient and inadequate and called for development to be mainstreamed in the WTO.

This experience of developing countries in the GATT/WTO should be drawn on by African countries in the AfCFTA negotiations and implementation process. The AfCFTA will need to incorporate the needs and interests of LDCS and SVEs. However, S&DT alone will not be sufficient to ensure that LDCs and SVEs also benefit from the AfCFTA. For this reason the concept of "developmental regionalism" is proposed for policymakers and negotiators to consider as they begin implementing the AfCFTA. It was also argued that while the outcomes of the Bali Ministerial Conference are controversial, some lessons can be drawn by the AfCFTA negotiators from the creative formulation of the WTO Trade Facilitation Agreement.

This chapter has also set out the different theoretical perspectives on regional integration, arguing that the Vinerian approach of linear and sequential trade integration may not be appropriate for Africa and a more developmental approach to trade integration should be discovered by African policymakers. Developmental regionalism is therefore proposed as a more appropriate approach for regional integration in Africa.

QUESTIONS FOR DISCUSSION

1. How can development be mainstreamed in the negotiations and implementation of the AfCFTA and ensure that all countries in the AfCFTA benefit from its outcomes?
2. What lessons can we learn from the WTO Trade Facilitation Agreement for the implementation of the AfCFTA?
3. Why is the theory of regional integration proposed by Jacob Viner not appropriate for Africa?

The concept of developmental regionalism can be extended to include cooperation among African countries in a regional integration framework of four parallel and interconnected pillars: building mutually beneficial trade integration; upgrading industrial development and regional value chains; investment in cross-border infrastructure; and building democracy, good governance and peace and security.

CHAPTER FOUR

A DEVELOPMENTAL REGIONALISM APPROACH TO THE AfCFTA

Regional integration and the process of globalisation and free trade have become major topics of political debate and controversy across the world, expressed in Trump's "America First" trade policies and Britain's "Brexit". It is thus useful to revisit the basic objectives of freer trade and regional integration. This section reasserts the need for norms and values to guide the African trade negotiators, critiques the basic theory of free trade, and makes the case for a developmental regionalism approach, based on four interconnected pillars: trade integration, industrial transformation, cross-border infrastructure, and democracy, governance, peace and security.

THE DEBATE ABOUT FREE TRADE AND REGIONAL INTEGRATION

African countries have made considerable progress in increasing intra-regional trade, rising from a mere 10 percent in 1995 to 18 percent in 2014 (WTO, 2015). This remains low compared to other regions. Intra-regional trade accounts for 70 percent of the European Union's (EU) total trade. For North America, intra-regional accounted for 50 percent of its exports and in Asia just over half its exports were within Asia (52 percent) in 2014 (WTO, 2015).

Several studies predict that the AfCFTA has the potential to increase growth, raise welfare and stimulate industrial development on the continent (Karingi and Davis, 2016). However, there are also concerns that some countries, particularly the smaller and more vulnerable economies, may experience the negative impacts of premature liberalisation and fiscal revenue losses (Hoekman and Njinkeu, 2016).

The traditional approach to regional integration followed the linear approach to regional integration enunciated by David Viner in the 1950s (Viner, 1950). This approach envisaged that trade liberalisation would follow a process from "preferential trade" to "free trade", to a "customs union", to a "common market" and then a "monetary union". Viner, who was a disciple of the comparative approach of trade theorised by David Ricardo, argued that adopting an approach to trade integration that was "trade creating" and not "trade diverting" would offer greater welfare gains from trade liberalisation. He suggested a linear, sequential approach that would first see countries adopting free trade areas, then customs unions, and then common markets.

In his overview of regional integration around the world, Pascal Lamy observes that "the regional integration landscape today is extremely diverse" and does not follow the linear approach of Viner (Lamy, 2010). The linear approach has been critiqued by several writers as being inadequate and not appropriate for the development conditions of African countries (Davies, 1996; UNCTAD, 2013). Instead, Rob Davies, the former South African minister of trade and industry (1996) proposed a "development integration" approach, which argues that "development integration stressed the need for both macro- and micro- co-ordination in a multi-sectoral programme embracing production, infrastructure and trade". In addition, Davies argued that, to compensate the LDCs in a regional integration project that ensured a more equitable balance of the benefits, trade integration would need to be complemented by regional industrial development. The United Nations Conference on Trade and Development (UNCTAD) has also been a proponent of this approach and argued that African countries should adopt the developmental regionalism approach (UNCTAD, 2013).

In its 2017 *Assessment of Regional Integration Report* (ARIA VIII), the UNECA also makes the case for a comprehensive approach to implementing AfCFTA. The report argues that "at the heart of the AfCFTA is a developmental approach that recognizes the need for trade liberalization to proceed, and at the same time, address supply capacities and promote structural transformation" (UNECA, AU and AfDB, 2017: p.12).

SIX KEY FEATURES OF DEVELOPMENTAL REGIONALISM

1. A strong institutional architecture and capacity to drive the regional integration agenda.
2. A clear articulation of goals, objectives, essence, nature, and direction of the regional integration project, and the benefits of regional integration as a mechanism for facilitating regional development.
3. Ensuring peace and security as a composite and foundation of a regional integration agenda.
4. Evolving complementary and symmetrical benefits for all member states involved in the regional development project.
5. Articulation of regional public goods and development priorities necessary for facilitating economic transformation in the region including on infrastructure, trade, agriculture and food security, private sector development and industrialisation.
6. Evolving a bond of common regional citizenship and identity necessary for regional human capital mobilisation.

Adejumobi and Kreiter, 2016

It is possible to distinguish between the concept of "development integration" (Davies, 1996), which is not as comprehensive as the concept of "developmental regionalism", as conceptualised by Adejumobi and Kreiter (2016). The concept of "development integration" and "developmental regionalism" incorporate the need to adopt an approach to regional integration that is based on a heterodox economic view of the world and an idealism that incorporates values or solidarity as an essential ingredient for the success of regional integration in Africa.

The analytical framework on regional integration draws on the work of Davies (1996), UNCTAD (2013), Adejumobi and Kreiter (2016) and UNECA, AU and AfDB (2017) and extends the concept of "developmental regionalism" to include cooperation among African countries in a regional integration framework on four parallel and interconnected pillars: a) cooperation on building mutually beneficial trade integration (fair trade integration); b) cooperation on industrial development and upgrading in regional value chains (transformative industrialisation); c) cooperation on investment in cross-border infrastructure and trade facilitation; and d) cooperation on the building of democracy, good governance and peace and security.

FOUR PILLARS OF DEVELOPMENTAL REGIONALISM

Pillar one: Fair trade integration

This chapter argues that: a) building asymmetrical trade agreements in favour of small and less developed economies (such as LDCs and SVEs); and b) encouraging African firms to invest in the African region and drive the regional integration process in a way that supports the building of local capacity and development will assist in contributing to fairer outcomes of the AfCFTA and a more balanced and mutually beneficial regional integration process.

Asymmetrical trade integration

The African trade negotiators have inserted a number of principles in the framework agreement, which include the concepts of "most favoured nation", "national treatment", "reciprocity" and "flexibility" and "special and differential treatment" drawn from the GATT/WTO. The principle of MFN (or non-discrimination) in the GATT did not recognise the differences between developed and developing countries until 1964 when the GATT was amended to include an annex on Trade and Development. Since then, the principle of S&DT for developing countries has been incorporated in the WTO. While the category of LDC is formally recognised in the WTO, the concept of developing countries covers a wide range, prompting some WTO members to identify different categories of countries that may require special treatment to address their specific development needs, such as SVEs. The concept of special and differential treatment in the WTO has become associated with a) longer timeframes for tariff reduction; b) flexibility in the rules of trade; and c) the need for capacity building.

Africa's member states have a wide variety of categories of countries that may require special attention and specific treatment. Of the 55 African member states, 34 are Least Developed Countries; 16 are Landlocked Developing Countries; and six are Small Island Developing States (SIDS). Some Least Developed Countries are also Small Island States and some are also Landlocked Developing Countries.

The modalities for the Protocol on Goods already provide for different timeframes for tariff liberalisation for LDCs and for non-LDCs. The modalities also provide for 10 percent of tariff lines to be excluded or deemed to be sensitive products with different timeframes for liberalisation of these tariff lines for LDCs (13 years) and non-LDCs (10 years). The Protocol for Goods makes a commitment on behalf of the secretariat to work with member states to "secure avenues to secure resources required for "technical assistance, capacity building and cooperation" (Art 29).

The objectives of the Protocol on Services are consistent with the principles of flexibility and S&DT, incorporated in the framework agreement by stating that the members shall "progressively liberalise trade in services across the African continent on the basis of equity, balance and mutual benefit, by eliminating barriers to trade in services". A specific section of the Protocol on Services provides for "technical assistance, capacity building and cooperation" and commits the secretariat of the AfCFTA to work with member states to mobilise resources for capacity building and technical assistance (Art 27).

The role of the private sector in regional integration

The role of the private sector in driving regional integration is crucial, as the experience of Europe suggests. Only a few African countries have a significant private sector that is driving the regional integration process. These include companies from South Africa, Nigeria, Kenya and Egypt. South Africa is clearly a major player. Brendan Vickers and Richard Cawood argue that "South Africa's corporate expansion into the rest of Africa has largely been driven by the private sector, with limited direct facilitation from the government in Tshwane". The rapid expansion of South African companies into the rest of Africa has been controversial, with some analysts depicting South African firms as the "new exploiters", "hegemons" or "neo-colonialists" that displace or crowd out local businesses (Vickers and Cawood, 2018).

Other writers (World Bank, 2015a) have argued that South Africa's companies have been contributing to developing industrial capacity and infrastructure in African countries and providing services that improve the lives of people on the continent. Vickers and Cawood (2018) point out that South African companies tend to compete in African markets with state-led companies from countries such as Brazil, India and China and state-supported investments such as the US's Power Africa and Trade Africa. Many international investors also regard South Africa as a "gateway" or "springboard" into the rest of the continent (for example, Wal-Mart's acquisition of Massmart). South Africa is not alone in being part of this strategy of multinational companies. Vickers and Cawood (2018) state that Angola, Egypt, Ethiopia, Ghana, Kenya, Nigeria and Rwanda have increasingly become "gateways" into the African market.

For these reasons, some critics have argued that the major beneficiaries of the AfCFTA will be those economies with the capacity to expand their exports of goods and services into the rest of the continent. Private sector companies, such as those in South Africa, Nigeria, Kenya and Egypt, have much to gain from the AfCFTA and would need to be the major drivers of these negotiations. However, some writers, such as Dani Rodrik have expressed skepticism as to whether the dominance of the private sector from major economies in the negotiations can yield balanced and positive outcomes. Rodrik (2018) interrogated the issue of private sector participation in the process of negotiating free trade agreements. Rodrik highlights the reality that while trade agreements could result in "freer, mutually beneficial trade, through exchange of market access", and "upgrading of regulations and standards, for labour, say, or the environment" they "could also produce purely redistributive outcomes under the guise of freer trade". Thus, there is a need for governments to temper the role of major private sector firms that could skew the benefits of the AfCFTA towards a few "hegemonic" economies.

The South African government has recognised this reality and taken steps to discipline the role of its private sector. In July 2016, the government of South Africa released a document titled *Guidelines for Good Business Practice by South African Companies Operating in the Rest of Africa* (Vickers and Cawood, 2018). The guidelines are voluntary but offer an opportunity for engagement between the South African government and the major private sector firms on their role in the rest of Africa. The guideline principles include compliance with domestic legislation and fair business practices; adherence to the UN Global Compact; respect for human rights; application of fair labour practices; promotion of Good Corporate Governance – good corporate citizenship; environmental responsibility and sustainable business practices; ensuring occupational health and safety; development of regional markets and regional value chains; promotion of corporate social responsibility; employment of local labour, skills development and

technology transfer; avoiding engaging in corrupt and illegal activities; and compliance with tax laws and regulations. These principles need to be complied with, and companies that invest in the rest of the continent should be accountable to their host countries.

Inclusive decision-making and domestic consultations

Inclusive decision-making at a domestic level and greater participation by domestic stakeholders in the consultation process is needed to avoid the risk of dominant firms disproportionately influencing the outcomes of the AfCFTA negotiations. For this reason, South Africa developed an institutional framework for policymaking and development as its new democracy was born in 1994. Rob Davies explained this as follows: "In 1994 we recognised that any transformation programme on the scale we envisaged would entail significant social and economic adjustment costs. Consequently, constitutional provisions were made for cooperative governance among all tiers of government, as well as the establishment of representative policymaking institutions which would further our pursuit of socioeconomic transformation in South Africa. In this regard the National Economic Development and Labour Council (Nedlac) was established in 1995 as a statutory body drawing together government, organised labour, business, and community organisations to develop consensus around key areas of economic, trade, labour and development policymaking" (Ismail, 2012a). This consultative framework provides a great deal of discipline to the positions of government negotiators in bilateral, regional and multilateral negotiations.

Pillar two: Cooperation on transformative industrialisation and building regional value chains

This section discusses the need for transformative industrialisation or structural transformation in Africa, the opportunities provided by the emergence of GVCs and how cooperation on building regional value chains can foster both regional integration and industrial transformation, especially for the smaller economies.

Structural transformation and transformative industrialisation

Africa has made significant progress in the new millennium, with a GDP growth rate of over five percent a year on average since 2000 (excluding South Africa) (World Bank, 2013). However, high unemployment and poverty persist. Reflecting on this trend, the African Centre for Economic Transformation commented that "the continent is growing rapidly, transforming slowly". Dani Rodrik (2013) thus argues that structural transformation is essential to ensure labour-demanding employment and social inclusion.

The development economics literature has increasingly argued that while growth is essential to reduce poverty, transforming the structure of the economy is the key to raising incomes and the standard of living in less developed countries, and not growth as such (Whitfield, et al. 2015). This process of structural transformation or economic transformation[1] is now more widely referred to in the literature (UNECA, 2016).

1 The terms structural transformation and economic transformation are used interchangeably as some writers prefer one or the other.

Global value chains and Africa's economic transformation

Since the early 1990s, a globalisation of production has taken place, driven by falling transport costs, advances in information and communication technology and lower trade and investment barriers. The proliferation of GVCs has in large part been driven by transnational corporations (TNCs) purchasing more of their raw materials and intermediate inputs from abroad, either through outsourcing parts of their production to companies in the targeted country, or establishing their own production plants abroad (Chang, 2002; Milberg and Winkler, 2013).

The search for cost savings, cheap labour as well as market growth has led companies in the West to relocate large parts of their value chains to developing countries. Therefore, Foreign Direct Investment (FDI) inflows and GVC participation have seen the most explosive growth in those countries. From 1990 to 2013, FDI inflows in developing countries increased from US$35 billion to US$778 billion (from 17 percent to 54 percent of world FDI inflows). In Africa, FDI inflows have increased roughly 20-fold in the same period, from US$3 billion to US$57 billion (from 1.4 percent to four percent of world FDI inflows), with all subregions experiencing a significant increase (UNECA, 2016).

China is a good example of how to use GVCs for economic growth and development. Between 2000 and 2008, China accounted for 67 percent of the world's processing exports. Chinese exports have also begun to move up the value chain. Chinese firms are increasingly moving from simple contract assembly to "full-package" manufacturing, with Chinese firms controlling all stages from material procurement to product design. Domestic value added in China's total exported value rose from 49 percent in 2000 to 66.2 percent in 2011 (UNECA, 2016).

In 2011 almost 50 percent of world trade took place within global value chains (up from 36 percent in 1995) (WTO, 2015). While African countries are increasingly connecting to GVCs, they are mainly suppliers of raw materials and other low-value manufactures and operate at the lowest rung of the GVC ladder (UNECA, 2015). The UNECA report finds that over 50 percent of imports and 80 percent of exports of African countries are intermediate products. However, African countries are mere exporters of raw materials and other intermediate products embodying limited value addition. A study undertaken by UNCTAD indicates that African country's exports were highly commodity intensive especially to the developed countries, and to China. However, the composition of intra-African trade "was more in line with technological upgrading with slightly larger shares of technology-intensive manufactures" (UNCTAD, 2018: p48).

Regional value chains and regional integration in Africa

The special issue of the UNCTAD and United Nations Industrial Development Organization (UNIDO) *Economic Development in Africa Report* (UNCTAD, 2011) assessed Africa's industrialisation. The report argued that, "building a robust regional market is necessary in order to unlock Africa's manufacturing potential and prepare it to compete in global export markets. Regional integration can contribute to building robust regional markets through, for example, cooperation in the development of regional infrastructure, harmonization of policies, and maintenance of political stability. Given the small domestic markets of African economies, the regional market can be a force for industrial development in the region".

In addition, the report argued that developing regional value chains creates opportunities for a greater number of small and medium-sized enterprises (SMEs), and hence countries, to participate in the global industrialisation process and in so doing, spur on their own national industrial development (UNCTAD, 2011). Participation in regional and global value chains also provides SMEs with greater access to international markets and opportunities for task-based trade in foreign countries, as well as the opportunity to develop technological capabilities (UNCTAD, 2011).

Developing integrated regional value chains and inserting African firms into global value chains will facilitate increased intra-African trade and could contribute to sustainable long-term growth. They will also lead to further pressure from the private sector for governments to accelerate regional integration. However, the barriers hampering intra-regional trade and investment will be a key determinant of the success or failure of this endeavour. These include high transport and logistics costs, weak infrastructure, restrictive policies, and incoherent regulations and inefficient customs procedures (Page, 2011). Priorities for African governments include improving access to finance, reducing trade costs, improving logistics services and infrastructure development, particularly in energy, transport and telecommunications (UNCTAD, 2011).

Pillar three: Cooperation on cross-border infrastructure investment (and trade facilitation)

Africa is divided into 55 states, including many landlocked (16) and least developed countries (34). The landlocked countries face specific challenges. Botswana, Burkina Faso, Burundi, Chad, Central African Republic, Ethiopia, Lesotho, Malawi, Mali, the Niger, Rwanda, South Sudan, Swaziland, Uganda, Zambia and Zimbabwe all lack maritime access, are isolated from the world markets, and suffer high transit costs, which seriously constrain their overall socioeconomic development. With the exception of Botswana, Uganda and Swaziland (which are middle-income countries), these countries are classified as LDCs. According to UNECA estimates, landlocked developing countries spend almost two times more of their export earnings on transport and insurance services, on average, than developing countries, and three times more than developed economies (UNECA, 2010).

In the preface to the UNECA/New Partnership for Africa's Development (NEPAD) flagship publication on PIDA, Lopes and Mayaki state that: "Industrialization is at the core of Africa's structural transformation and infrastructure is its catalyst" (UNECA and NEPAD Agency, 2016). The authors remind us that several AU and UN documents have underlined the importance of industrialisation and infrastructure for Africa's structural transformation and economic development.

Hoekman and Njinque (2016) emphasise the role that infrastructure and trade facilitation play in reducing trade costs. They argue that trade costs for the continent are high, partly as a result of the large existing infrastructure deficit. They argue that the Africa Infrastructure Country Diagnostic studies find deficits across all the core areas of infrastructure, including transport, telecommunications and energy.

They also refer to a study that finds that improved road connectivity in sub-Saharan Africa could expand overland trade by up to US$250 billion over 15 years.

The study estimates that this initial investment cost required would be of the order of US$20 billion, with an additional US$1 billion annually for maintenance. Thus, the investment costs would be offset by the associated trade gains. Another study they discuss concludes that increasing sub-Saharan Africa's logistics performance by one percent would involve an up-front investment of about US$18 billion, but that this would generate a welfare gain of about US$70 billion (Hoekman and Njinque, 2016).

African countries that are members of the WTO have all signed onto the WTO Trade Facilitation Agreement. The AfCFTA has annexes on "customs cooperation" (Annex 3), "trade facilitation" (Annex 4) and on "transit" (Annex 8). All three of these are covered in the WTO Agreement on Trade Facilitation. African countries need to co-ordinate their commitments to each other in the AfCFTA, and their commitments made to the larger membership of the WTO, when implementing trade facilitation reforms.

Pillar four: Cooperation on democracy, governance and peace and security

It has become evident that peace and security, democracy and governance are essential conditions for socioeconomic development and economic transformation (Brown, et al, 2007). Sustainable development, some writers have argued, requires good governance, "including respect for the rule of law and basic human rights, and effective, responsive and incorrupt democratic institutions" (Brown, et al, 2007: p.3). For these reasons African leaders who adopted the NEPAD Declaration on Democracy, Political and Economic Governance, in Lusaka, Zambia in July 2001, stated in their declaration that, "we believe that poverty can only be effectively tackled through the promotion of democracy, good governance, peace and security" (NEPAD, 2001). This section sets out the progress that Africa is making in advancing this pillar of regional integration.

Matlosa argues that three architectures have been developed by the AU to drive Africa's integration agenda:

- African Governance Architecture.
- African Peer Review Mechanism (APRM), which was spawned by NEPAD.
- African Peace and Security Agenda (APSA).

All four pillars of the developmental regionalism approach need to gain traction across Africa to reinforce each other. This approach has great potential to accelerate a virtuous circle of regional trade integration, transformative industrialisation, cross-border infrastructure, and democracy, good governance, peace and security across the continent. Policymakers need to make the necessary linkages both conceptually and in practice through the many programmes of work undertaken on each pillar at the national, subregional and regional levels.

African Governance Architecture

The AU, at its February 2010 Summit, endorsed the theme of "shared values" and adopted the Pan-African Architecture on Governance. The same Summit also adopted a decision on "Prevention of Unconstitutional Changes of Government and Strengthening of the Capacity of the African Union to manage such Situations" (Matlosa, 2018: p.90). At its January 2011 Summit, the AU reaffirmed the need to implement all shared values instruments, including the APRM. The declaration also reiterated the importance of strengthening the African governance platform "as a basis for facilitating harmonization of instruments and coordination of initiatives in governance and democracy" (Matlosa, 2018: p.91).

A political sea-change has been underway in Africa since the end of the Cold War (in the late 1980s and early 1990s) (Matlosa, 2018). Khabele Matlosa argues that most African states have begun accepting multi-party systems of governance in the new millennium. Multi-party elections have begun to replace military coups. He argues that most African countries have embraced a culture of constitutionalism, rule of law and human rights. The African Union, he argues, has made "a paradigm shift from the old doctrine of non-interference to the new doctrine of non-indifference to human rights abuses, mass atrocities and crimes against humanity within its member states" (Matlosa, 2018).

African Peer Review Mechanism

During the AU Summit in Durban, South Africa in 2002, the NEPAD Declaration on Democracy, Political, Economic and Corporate Governance was adopted. The declaration committed African countries to work together in pursuit of the following objectives: democracy and good political governance; economic and corporate governance; socioeconomic governance; and the APRM. The APRM is a voluntary platform for self-assessment and peer review of governance policies, procedures and institutions by African Union member states aimed at institutionalising and consolidating democratic governance (Matlosa, 2018: p.100).

The APRM is an instrument that is voluntarily acceded to by AU member states. It is a self-monitoring mechanism intended to foster the adoption of policies, standards and practices that lead to political stability, high economic growth, sustainable development and accelerated subregional and continental economic integration of successful best practices, including identifying deficiencies and assessing the needs for capacity building. Countries voluntarily subject themselves to being examined in governance areas within established guidelines. Teams of African governance experts led by a Panel of Eminent Persons assess and critique a country's performance based on key indicators in the four thematic areas. The Panel of Eminent Persons is nominated by the Head of State and Government of the member states of the APRM. The APRM is supported by a secretariat and based in Midrand, South Africa. The APRM covers simultaneous evaluations around four distinct pillars: democracy and good political governance, economic governance and management, corporate governance, and socioeconomic development (Sawyer and Jerome, 2018: p.140). As at December 2020, the APRM had 37 members with Namibia and The Gambia being the most recent members to accede and 21 of its members having already undertaken a first country review.

The APRM is unique in both scope and breadth, with the review process extending to all levels of government, parliamentary and judiciary as well as the private sector and civil society organisations (Sawyer and Jerome, 2018: p.140). These writers argue that the APRM is a truly indigenous, locally owned initiative designed by Africans for Africans.

African Peace and Security Architecture

Aspiration 4 of Agenda 2063 envisions a "peaceful and secure Africa". This is the key objective of the APSA. A flagship project of the AU's Agenda 2063 is "ending all wars and silencing guns in Africa by the year 2020". The AU provides the bureaucratic support for APSA. The powers of the Peace and Security Council (PSC) include "anticipating and preventing disputes and conflicts, as well as policies that may lead to genocide and crimes against humanity; undertaking peacemaking, peacebuilding and peace support missions; and recommending intervention in member states in respect of grave circumstances, such as war crimes, genocide and crimes against humanity" (Apuuli, 2018). The RECs are the basic building blocks of the PSC protocol and part of the overall architecture of the AU.

It took a great deal of negotiating and engagement with the member states of the UN for Africa to develop its own African Standby Force (ASF) that became fully operational by January 2016 (Apuuli, 2018: p.169). The ASF, which is to serve as a rapid reaction force comprising 15 000 troops drawn from Africa's Standby Forces, has been declared to be in a state of readiness with a Rapid Deployment Capability to intervene within 14 days in cases of genocide and gross human rights abuses.

African countries have also made operational progress in the area of peace and security. ARIA VIII documented some examples of African cooperation:

- ECOWAS member states prevailed on the outgoing president of The Gambia to leave office, in 2017;
- The AU has its own military mission in Somalia to destroy Al-Shabaab strongholds in central Somalia and cut off its supply routes; and
- African countries contribute 38 071 personnel across the nine United Nations peacekeeping missions in Africa (UNECA, 2017: p.23).

This bodes well for Africa and for its developmental regionalism vision.

QUESTIONS FOR DISCUSSION

1. What in your view are the main reasons for the crisis of globalisation and free trade in the world today?
2. How in your view can the AfCFTA result in more mutually beneficial outcomes for all the members of the AU?
3. Why is it necessary for African countries to also strengthen democratic governance in Africa?

Industrial development has to be at the core of Africa's development strategy and Africa's trade policy must be guided by its industrial policy objectives. The increasing trend of regional value chains should be used as an opportunity for African countries to pursue industrial and strategic trade policies that enable them to upgrade and transform their productive capabilities.

CHAPTER FIVE

THE AfCFTA AND TRANSFORMATIVE INDUSTRIALISATION IN AFRICA

This chapter continues to interrogate how the outcomes of the AfCFTA negotiations can benefit all its members. It is particularly concerned with the question: How can regional integration boost the building of productive capacity that advances Africa's industrialisation and transformation? The academic and historical evidence indicates that all countries that developed and improved their welfare (such as in East Asia) adopted an activist industrial policy. Industrial development has to be at the core Africa's development strategy and Africa's trade policy must be guided by its industrial policy objectives. The increasing trend of regional value chains should be used as an opportunity for African countries to pursue industrial and strategic trade policies that enable them to upgrade and transform their productive capabilities.

Regional value chains, including Export Processing Zones (EPZs), can harness Africa's comparative advantages and strengthen its capacity to compete in the global economy. The new fourth industrial revolution technologies should be drawn on to assist Africa to leapfrog its development – move up the value chain – and increase the value it derives from participation in its productive sectors, including agriculture, manufacturing and services. These concepts of industrial policy are discussed in this chapter with reference to six African case studies, from several parts of the continent, with a view to gaining insights for the further development of Africa's structural transformation and guidance for the implementation of the AfCFTA.

AfCFTA should thus be seen as an opportunity to facilitate the expansion of the regional market to develop productive capacity, regional value chains and cross-border infrastructure. Industrial capacity building and infrastructure development are essential for the structural transformation of Africa. All three – trade, productive sector development and cross-border infrastructure – should become the motor that drives Africa's structural transformation.

Theory of comparative advantage

The first most significant attempt to develop a theory of trade can be traced to the work of David Ricardo. He was one of the most famous British political economists of this time, after Adam Smith. His most famous work is *On the Principles of political economy and taxation* (1817). Ricardo's theory of comparative advantage argues that trade is beneficial for all countries. Ricardo argued that a nation should specialise in the economic activity in which it is less inefficient. He used the imaginary example of England and Portugal to prove his theory of comparative advantage. In this theory both England and Portugal can produce wine and cloth. However, Ricardo argued that since Portugal is more productive in making wine and England is more productive in making cloth – both countries would enhance their welfare by specialising in one product and trading with each other. The theory of comparative advantage was critically examined in Chapter 3 of this handbook in the discussion on the debate on free trade in which several writers had criticised Ricardo's theory on historical, theoretical and ethical grounds (Chang, 2002; Stiglitz and Charlton, 2005; Reinert, 2007).

Ricardo's classical theory of comparative advantage has been developed further by neo-classical economists. Paul Samuelson developed the Hecksher-Olin-Samuelson (HOS) theory in papers written in the 1950s (UNECA, 2016). The UNECA report states that while the HOS theory assumes there is one best-practice technology (defined in terms of the combination of capital and labour used) for each product, the classical comparative advantage theory assumed that the basis of comparative advantage lies in productive capabilities (or

technological differences). Moreover it is assumed that all countries have the same productive capabilities.

In the HOS version the source of comparative advantage is in the differences in the endowments of the factors of production across countries (capital and labour – sometimes land). The UNECA report argues that in this version of the theory a country like Ethiopia does not produce cars such as the Japanese Lexus, not because it cannot but because it should not, as the technology used for producing Lexus is highly capital-intensive. It is assumed that while Ethiopia has (in relative terms) a lot of labour and very little capital, Ethiopia does not have comparative advantage in producing Lexus and therefore would be worse off specialising in it, even though it may be perfectly capable of producing it (UNECA, 2016).

The theory of infant industry promotion offers a different vision of economic development from the one offered by the theory of comparative advantage. In this theory, the poverty of productive capabilities is seen as the main cause of underdevelopment and the development of such capabilities is seen as the essence of economic development (UNECA, 2016; Toye and Toye, 2004).

The theory of infant industry protection argues that what makes poor countries poor is their poor productive capabilities. Even in the industries in which they are supposed to have comparative advantage (such as garments, textiles and shoes), producers in poor countries struggle to establish themselves because they lack the necessary technological and organisational capabilities to organise the production and sell the products.

The UNECA report argues the main challenge for developing countries is to find a way to deliberately change those capabilities – through an appropriate combination of private sector efforts (to increase productive capabilities through investments in physical equipment, worker training, the development of management skills, research and development (R&D), and so on) and public policy intervention (especially industrial policy but also more horizontal investments to improve physical infrastructure, economic institutions, education, basic R&D, and so on).

Nevertheless, the UNECA (2016) report argues that the theory of comparative advantage should not be discarded but should be used like a compass. While it is helpful in telling you where you are at the moment – it does not tell you where you should be going! The report explains that in the case of South Korea in the 1970s and 1980s even while it was building its comparative advantage – defining industries such as steel, automobile, shipbuilding, or semiconductors – the South Korean government made sure that it encouraged comparative-advantage conforming industries like textiles, garments and shoes. The South Korean government, however, had to provide those industries with export subsidies, export marketing support, subsidies for investment in technology upgrading and incentives for FDI in the EPZs designated for those industries.

Infant industry protection

The theory of infant industry protection, unlike Ricardo's classical theory of comparative advantage, argues that although countries have different productive capabilities, these capabilities can be – and should be – enhanced over time through deliberate policy intervention. Chang (2002) argues that almost all of today's rich countries used the theory of infant industry promotion to develop their economies. They refused to accept that they should stick to their comparative advantage and actively promoted industries in which they had no business of specialising (according to the theory of comparative advantage).

Both the United Kingdom and the United States only adopted the policy of free

trade when they were the most competitive countries in the world. Prior to the adoption of the idea of free trade by the British government in the mid-to-late 19th century, Britain had been a pioneer in applying policies of state intervention and trade protectionism to develop its industries itself, according to the 19th century German economist Friedrich List (1789-1946). He is commonly known as the father of the infant industry argument that in the presence of more developed countries, backward-countries cannot develop new industries without state intervention, especially tariff protection (Chang, 2002: p.3). The big change in England was to come only when the repeal of its Corn Laws in 1846 led to freer trade in corn. This was regarded as the launch of free trade policies in Europe (Chang, 2002). A radical member of parliament, Richard Cobden, led the campaign for free trade in Britain on behalf of a coalition of merchants, manufacturers, workingmen and journalists.

The United States too, like Britain, was to adopt policies based on the idea of free trade only when it became globally competitive and needed to open global markets in the mid- to-late 1930s. Prior to this it was regarded as "the bastion of protectionism" (Chang, 2002: p.24). It was Alexander Hamilton, the first US secretary of the Treasury (1789-1795), who first systematically set out the infant industry argument (Jolly et al, 2004: p.25). He argued that competition from abroad would mean that new industries would not be started in the US unless their initial losses were guaranteed by government aid, through import duties and even prohibition on imports (Chang, 2002: p.25). He called for an extensive system of infant industry protection and subsidies. After the US war with Britain in 1812 all tariffs were doubled, and the average US tariff for all manufactured products in 1820 was around 40 percent (Chang, 2002: p.26). Thus, the US not only followed the policies of Alexander Hamilton but also was to remain for a century and a half, until the Second World War, the world's most heavily protected economy (Jolly et al, 2004: p.26).

The United States was to become an ardent proponent of free trade policies internationally in the post-Second World War period (Kock, 1969; Wilcox, 1949). Why did the US become such an ardent supporter of free trade policies? The main rationale for this can be found in the growing economic prowess of the United States, which, according to Wilcox (1949), at the end of the Second World War accounted for a third of the world's production and for more than half of its output of manufactured goods.

Structural transformation and industrial policies in Africa

African countries have begun to develop and adopt transformative industrialisation policies in the new millennium just as their economies have begun to grow; investment in domestic and cross-border infrastructure has increased; and the processes of regional trade integration has begun to gain renewed momentum and dynamism.

A long paper on Africa's industrialisation provides an insightful assessment of African countries efforts at industrialisation in the past two decades with a structural transformation lens (Lopes and Te Velde, 2021). It debunks some myths and narratives about Africa's transformation in the mainstream academic literature. The paper argues against the narrative of deindustrialisation. While acknowledging that many African countries have begun to increase their services sectors before being able to advance their manufacturing sectors, and appear to run out of possibilities for industrialisation, the authors argue that the narrative of deindustrialisation is inappropriate for Africa. Recent evidence suggests and make a strong case for Africa to take active steps to pursue transformative industrialisation to increase growth and raise its low levels of welfare (while Africa's manufacturing value addition declined between 2000-2017 its per capita contribution increased

significantly). The authors also point out that while most African countries are committed to industrialisation, with policies and laws reflecting this, their practice of industrialisation remains lacking and requires stronger leadership, clarity of purpose and pragmatism.

As Africa continues to encourage regional economic integration as an essential component of its collective development and transformation strategy, various initiatives and areas for cooperation have emerged, through which a developmental regionalism agenda can be pursued. These include the use of industrial policy at a national and regional level. African countries have also begun to integrate their economies into regional and global value chains to help expand their productive capacity and boost intra-African trade. Increasingly, African countries have begun to adopt an approach of development integration using tools such as development corridors to attract investment in infrastructure and productive capacity. To this end some countries have also begun to develop special economic zones.

In their path-breaking report, *Fostering Industrial Development in Africa in the New Global Environment*, UNCTAD and UNIDO argue that to be successful, industrial policies need to be tailored to the needs and challenges facing each country (UNCTAD and UNIDO, 2011). The report states that there is no "one size fits all" approach to industrial policy. African countries need to have flexible, strategic and dynamic industrial policies that build on the initial conditions prevailing in each economy. These policies should deliberately target the specific economic constraints that act as obstacles to a sustained industrial growth path.

The report calls for decisions about the sectors and activities to be supported through industrial policy to be made in a transparent manner, based on research and consultation with all the relevant domestic stakeholders to ensure public legitimacy and reduce the risk of political capture. Active engagement between the state and the private sector will also ensure that policymakers have a clear understanding of the constraints facing local businesses and entrepreneurs. The implementation of industrial policies should have benchmarks and criteria for judging success or failure and clear monitoring and independent evaluation of these implementation strategies must be put in place.

The report calls for the creation of linkages in the domestic economy to ensure positive spillover in other sectors (UNCTAD and UNIDO, 2011). It also argues that, as the fortunes of national economies are inextricably linked, individual governments have an interest in promoting higher levels of industrialisation, not only to promote structural transformation within their local economies but also to facilitate industrial development across the wider region. National industrial policies should be complemented by regional industrial policies to harness the market potential offered by larger, regionally integrated areas. The objective would be to facilitate access to infrastructure and services for each country and to develop regional industrial value chains.

Regional economic communities such as SADC, EAC, COMESA and ECOWAS now have a regional industrial development policy. Many African countries have since the joint UNCTAD/UNIDO report developed their national industrial policies and begun to participate in regional value chains. The global context for Africa's industrial revival is the new environment provided by the emergence and proliferation of global value chains in the new millennium.

Global value chains

Globalisation of production has taken place since the early 1990s, driven by falling transport costs, advances in information and communication technology and lower trade and investment barriers. The proliferation of GVCs has in large part been driven by TNCs purchasing more of their raw materials and intermediate inputs from abroad, either through outsourcing parts of their production to companies in the targeted country, or establishing their own production plant abroad to trade within the confines of their own corporation (Chang, 2002; Milberg and Winkler, 2013).

Global value chains have existed since the 1950s, however the intensity of segmentation within value chains has increased massively. An example is the Apple iPod in 2013, which shows how the production, assembly and retail had become fragmented and globally dispersed. The hard drive was made by the Japanese company Toshiba, which offshores its hard drive production to companies in the Philippines and China; the display module was made in Japan, by Toshiba-Matsushita; the multimedia processor chip was made by the US company Broadcom, which offshores most of its production to Taiwan; the central processing unit was produced by the US company PortalPlayer; the Taiwanese company Inventec carried out the final insertion, test, and assembly in China; and Apple earned its profit through overseeing distribution and retail (Milberg and Winkler, 2013: 34).

The search for cost savings and cheap labour as well as market growth has led companies in the West relocating large parts of their value chains to developing countries. Therefore, FDI inflows and GVC participation have seen the most explosive growth in those countries. From 1990 to 2013, FDI inflows in developing countries increased from US$35 billion to US$778 billion (from 17 percent to 54 percent of world FDI inflows). In Africa, FDI inflows have increased roughly 20-fold in the same period, from US$3 billion to US$57 billion (from 1.4 percent to four percent of world FDI inflows), with all subregions experiencing a significant increase (UNECA, 2016).

This trend of increasing FDI flows, accompanied by the increasing proliferation of fragmentation of global production, offers opportunities for African countries to industrialise and transform their economies. The UNECA report (2016) sets out at least four significant opportunities for African countries.

FOUR OPPORTUNITIES FOR AFRICAN COUNTRIES

Attracting FDI can also result in technological upgrading, as TNCs generally bring superior technology (machines, production methods and marketing and management practices) with them that can spill over to domestic firms.

The expansion of global value chains makes it relatively easier for developing countries to specialise in particular links in a GVC without having all the upstream capabilities in place. For example, it is not necessary to have an auto assembly plant to enter the auto industry – it is possible to become a specialised supplier of certain parts and components. This has begun in Lesotho, where at least two manufacturers of leather seats for car manufacturers in South Africa have located.

The expansion of markets arising from trade may enable firms to take advantage of economies of scale that cannot be achieved when sales are limited to the domestic market.

With growing product differentiation and increased consumer awareness of social and environmental concerns, quality standards set by lead firms for their suppliers are a key mechanism by which they govern value chains. These standards can induce firms to improve the quality of their products and upgrade production management.

China is a good example of how to use GVCs for economic growth and development. Between 2000 and 2008, China accounted for 67 percent of the world's processing exports. Chinese exports have also begun to move up the value chain. Chinese firms are increasingly moving from simple contract assembly to full-package manufacturing, with Chinese firms controlling all stages from material procurement to product design. The UNECA report (2016) states domestic value added in China's total exported value rose from 49 percent in 2000 to 66.2 percent in 2011.

UNECA (2016) distinguishes between two types of GVCs – Buyer-Driven Value Chains and Supplier-Driven Value Chains. In Buyer-Driven Value Chains product specifications are usually designed by the buyers and branded companies, and then production is carried out in independent factories located in developing countries. This type of GVC has become dominant in labour-intensive consumer goods industries, such as garments, footwear, toys, consumer electronics and furniture. Large retailers and brand name merchandisers, such as Wal-Mart, Tesco, Nike and Reebok, are examples of lead firms.

Producer-Driven Value Chains (PDVCs) typify industries in which large industrial enterprises play a central role in controlling the production system. PDVCs are most characteristic of capital- and technology-intensive industries, like automobiles, aircraft, and electrical machinery. International subcontracting is common, especially for the most labour-intensive production processes.

From industrial policy to productive sector policy

This trend of deepening global value chains in different product markets has created new opportunities for services trade and has also an increased role for services suppliers in manufacturing production. This increased role of services in production has been observed since the onset of the global financial crisis in 2008/9 and the work of the Swedish Board of Trade on the role of services in manufacturing in 2010. This new role of services in manufacturing has been termed "servicification" (Low, 2017). According to Patrick Low, the term refers to the intensified use of services following the fragmentation of production, both domestically and internationally. He argues that the term can also be used to refer production in global value chains.

Raphael Kaplinsky argues that value chains can be broadly divided into vertically specialised GVCs and additive GVCs (Kaplinsky, 2017). Vertically specialised value chains reflect the lead firms specialising in their core competence with the non-core activities being outsourced – and usually globally dispersed as these activities can take place simultaneously. This is the case of the automotive industry or the cellphone sector. Additive value chains sequentially add value in each stage of the value chain – such as in the resources sector (such as agricultural products – cocoa, cut flowers. or mining products).

Kaplinsky uses the well-known example of the Apple iPhone 4 to illustrate the working of the vertically integrated global value chain. Each device retailed at just under US$500 in the US while the phones were exported from China (made in China) at a unit price of US$179. However, the value added in China was only US$6.50, with the balance made up of imported components and service payments to Apple in the US. The example of the iPhone reflects a production chain in which parts are sourced from all over the world, assembled under Apple's supervision in China, and then branded and marketed in the US and other global markets (Kaplinsky, 2017)

Kaplinsky points out that services can also be produced through a range of assembled activities and fragmentation of production. In the case of call centres, for example, distribution and after-sales support is fracturing and global dispersion of services is also increasingly evidenced in

higher-knowledge content activities such as in the legal, architectural and health sectors (Kaplinsky, 2017).

A primary rationale for industrialisation is that it is closely associated with increases in per capita incomes and that it benefits from favourable terms of trade for commodities (the Prebisch-Singer hypothesis). However, the current global economy in the era of Chinese dominance of labour-intensive production has increased competition in these sectors and reduced the opportunities for African countries that seek to industrialise by producing labour intensive manufactures.

Kaplinsky argues that in an era of GVCs African countries need to also consider producing niche products or in segments of the value chain in non-industrial sectors as well. He argues that "contrary to received wisdom, many non-industrial sectors – including agriculture and services – are characterised by a variety of economic rent-rich niches" (Kaplinsky, 2017). For these reasons Kaplinsky argues that the focus of policy must shift from industrial policy, which has historically been associated with manufacturing, to productive sector policy. He argues that there may be as many opportunities for sustained income growth in agriculture and services as there are in manufacturing. It is partly for this reason that the case studies discussed in this report span a range of sectors – some clearly in manufacturing, and others in agro-processing and services. The other reason for choosing these sectors is opportunistic as this study is keen to illustrate the emerging success stories in African industrialisation and productive development. The growth of global value chains has also created the tendency for the fragmentation of production within a regional space such as in East Asia. The increasing trend towards regional value chains create a new opportunity for African countries to deepen regional integration and transform their productive capabilities.

Regional value chains

The special issue of the UNCTAD and UNIDO *Economic Development in Africa Report* (2011) focused on an assessment of Africa's industrialisation. The report argued that, "building a robust regional market is necessary in order to unlock Africa's manufacturing potential and prepare it to compete in global export markets. Regional integration can contribute to building robust regional markets through, for example, cooperation in the development of regional infrastructure, harmonization of policies, and maintenance of political stability. Given the small domestic markets of African economies, the regional market can be a force for industrial development in the region".

Developing regional value chains creates opportunities for a greater number of SMEs, and hence countries, to participate in the global industrialisation process, and in so doing spur on their own national industrial development. Participation in regional and global value chains also provides SMEs with greater access to international markets and opportunities for task-based trade in foreign countries, as well as the opportunity to develop technological capabilities (UNCTAD and UNIDO, 2011).

The development of integrated regional value chains and the insertion of African firms into global value chains will facilitate increased intra-African trade and could contribute to sustainable long-term growth. However, the barriers hampering intra-regional trade and investment will be a key determinant of the success or failure of this endeavour. Such challenges, as discussed in the preceding chapters of this report, include high transport and logistics costs, weak infrastructure, restrictive policies and incoherent regulations and inefficient customs procedures (Page, 2011). Priorities for African governments need to include improving access to finance, reducing trade costs, improving logistics services and infrastructure development, particularly in energy, transport and telecommunications

(UNCTAD and UNIDO, 2011). Regional value chains can also be enhanced and accelerated with the creation of special economic zones and industrial parks.

Special economic zones and industrial parks

The 2013 UNCTAD *Economic Devcelopment Report* observes that, many developing countries, particularly in East Asia and Latin America, have opened special economic zones (SEZs) over the past few decades as a means of enhancing industrial competitiveness, attracting FDI, developing and diversifying exports, and piloting new policies and approaches to industrial development. SEZs have been described by the World Bank as "geographically demarcated areas within the national boundaries of a country, where the rules of business are different — generally more liberal — from those that prevail in the national territory and are aimed at attracting export-oriented investment" (UNCTAD, 2013).

Most SEZs offer export-oriented investors three main advantages relative to the domestic investment environment:

- A special customs regime, including expedited customs and administrative procedures and (usually) access to imported inputs free of tariffs and duties.
- Infrastructure (including serviced land, factory shells and utilities) that is more easily accessible and reliable than is normally available in the domestic economy.
- A range of special incentives, including corporate tax holidays and reductions, along with an improved administrative environment.

SEZs can take different forms, depending on their intended purpose, including export processing zones, free trade zones, enterprise zones, and free ports. Since the mid-1980s, the number of newly established zones has grown rapidly in almost all regions, although they have had a mixed record of success.

UNCTAD (2013) argues that while remarkable achievements have been made with opening SEZs in some countries, including China, the Dominican Republic, India and Malaysia, many in Africa have failed to deliver on their intended objectives and have been criticised on grounds of rent transfer, failure to contribute to building local economies, low competitiveness, high capital intensity and various social and labour complaints.

The reasons for this lack of significant achievement relative to that of Asia is partly that African countries in general have been late adopters of special economic zones, with most programmes only being initiated in the late 1990s and 2000s. In addition, African countries have faced a more competitive environment in the past two decades resulting from the emergence and entrenchment of "factory Asia" (the network of regional value chains in Asia supplying world markets), the expansion of regional trading arrangements, and slowing demand in traditional export markets.

In this changing context, the nature of the design, implementation and management of current and future African SEZs is thus likely to prove crucial in determining whether they are able to promote employment and economic growth on the continent.

The 2013 UNCTAD report argues that linking regional SEZs to key trade infrastructure investments (such as ports, roads, power projects), as well as domestic industry clusters and local labour markets, to create economic and development corridors may be a powerful new route to enhanced competitiveness and improved growth. Regional integration initiatives combined with SEZs thus have the potential to generate significant synergies by lowering barriers to intra-regional trade and facilitating the potential for realising scale economies in regional production. By offering an improved regulatory environment, SEZs lower the cost and risk to firms in undertaking such investments, while the provision of sector-specific public

goods, such as warehousing and logistics platforms, shared processing facilities, serviced land and infrastructure increases the competitiveness of wider industry clusters in the region. The 2013 UNCTAD report argues that these potential benefits suggest that greater emphasis should be placed on the supportive role SEZs can play in the regional integration agenda in Africa.

In a paper written for an UNCTAD and International Labour Organization (ILO) book on industrialisation, Milberg et al. (2014) argue that for industrial policy to be effective in an era of GVCs, developing countries must be aware of three major policy issues: First, industrial policy must shift its focus from developing “industry”, where “industry” can be understood as the fully integrated production structure, to various ways of upgrading in GVCs (finding niche activities/stages/ tasks). Second, developing countries must be aware that protecting intermediate goods that are inputs into their manufacturing production can increase production costs and reduce their competitiveness. A careful balance must be struck between the short-run need to use intermediate inputs of highest quality, which are necessary for exporting, and the long-run need to develop national capabilities in the production of those inputs, which are essential for creating a solid basis for economic development. Third, industrial policy must study the behavior of lead firms and their corporate strategies, focusing on connecting and bargaining with them.

This is especially important for Africa, where most export-oriented manufacturing and services are controlled by TNCs from the West or high-middle income countries. In this process of connecting with TNCs, UNECA (2016) suggests at least three important policy imperatives for industrial policymakers.

First, industrial policymakers need to induce foreign firms to create linkages with the domestic economy. They should create incentives for those firms to strengthen links with domestic suppliers.

Second, industrial policymakers should pay attention to the possibility of upgrading not just through the development of capabilities to physically produce goods but also through the development of producer services, such as design, marketing, and branding.

Third, if developing countries are to capture larger shares of profits, they need to upgrade within GVCs and eventually create and control their own GVCs (as Korea did with automobiles and electronics). This, in turn, requires intelligent industrial policy, as indeed shown by the experiences of the East Asian countries – not just Korea and Taiwan, which engaged with TNCs in quite selective ways, but also the more TNC-friendly China and Singapore. Unless it is done as a part of a well-designed industrial policy strategy, GVC participation can actually harm developing country economies. For example, in many Latin American countries, neoliberal reforms in the late 1980s and the 1990s attracted a number of TNCs but this led to the decline of domestic intermediate inputs producers, as the TNCs chose to import most of their inputs. A discussion on industrial policy and transformation of Africa’s productive sectors also has to consider the rapid pace and increasing role of new technological innovations that are transforming existing forms of production and services around the world. This new wave of technological development is being called the fourth industrial revolution.

The fourth industrial revolution: Opportunity for Africa to leapfrog?

What is the fourth industrial revolution and what are its implications for Africa's industrial development?

A briefing note by the British parliament traces the origins of the term "fourth industrial revolution" to the idea of "Industrie 4.0" first used at the 2011 Hanover Fair in Germany and then by the German Government in its High-Tech Strategy 2020 Action Plan published in March 2012 (House of Commons Library, 2016).

Subsequently, in a path-breaking series of presentations at the World Economic Forum, Klaus Schwab argued that the fourth industrial revolution is already upon us and is going to change the nature of production and have significant impacts on business, governments and consumers. It is worth quoting him in full:

> *"We stand on the brink of a technological revolution that will fundamentally alter the way we live, work, and relate to one another. In its scale, scope, and complexity, the transformation will be unlike anything humankind has experienced before. We do not yet know just how it will unfold, but one thing is clear: the response to it must be integrated and comprehensive, involving all stakeholders of the global polity, from the public and private sectors to academia and civil society"*
>
> ***Schwab, 2016***

Klaus Schwab identifies three distinct preceding industrial revolutions to the fourth industrial revolution:

1. The First Industrial Revolution – spanning from the 1760s to the 1840s and characterised by the use of water and steam power to mechanise production.
2. The Second Industrial Revolution – spanning from the 1870s to the 1910s, characterised by the use of electrical power to create mass production.
3. The Third Industrial Revolution – beginning in the 1960s, this digital revolution has been characterised by a shift away from mechanical and analogue electronic technologies to digital electronics, as well as further automation of industrial production.
4. The Fourth Industrial Revolution – this new era has been described as "the second machine age"….beginning at the turn of the century, driven by automation and connectivity and characterised by "a more ubiquitous and mobile internet, artificial intelligence and machine learning" and that "is characterised by a fusion of technologies that is blurring the lines between the physical, digital, and biological spheres" (Schwab, 2016).

The fourth industrial revolution brings with it many new risks and opportunities for African countries. Some of these include a) potential job losses as a result of further automation of low-skill jobs and growth of new jobs spurred by technological developments; b) disruption to traditional industries and increased technological innovation combined with the enhancement of products and services with digital capabilities; and c) developing economies facing challenges following the decline in value of low-skill labour (House of Commons Library, 2016).

In a report entitled *Industry 4.0. Is Africa ready for Digital Transformation*, the consulting company Deloitte argues that "great potential exists for African manufacturing companies to directly adopt specific industry 4.0 applications, develop unique local high-tech products and services and even leapfrog global competitors in the future". However, the report indicates that "new investments in infrastructure (including telecommunications and energy), and new technology are required for greater development and adoption of industry 4.0 applications". In addition, the report argues

that "an extensive need exists to (re-)train the existing workforce and/or upskill labour to understand and operate new and smart technologies" (Deloitte, 2016).

The challenge for African countries is to learn how to use this opportunity to leapfrog from low value-added producers of commodities to higher value-added producers up the value chain of production. Africa will have to ensure that these new technologies do not accentuate their marginalisation in the global economy and global value chains but are used as a springboard to enhance their technological capacity and economic development.

Finally, the use of trade policy as an instrument to advance industrial policy or strategies for structural transformation of productive capacity in Africa is referred to as "strategic trade policy". Trade negotiators in the AfCFTA and trade policy implemention in national domestic institutions should be mindful of the role that trade policy can play in advancing industrialisation and be used as a tool for structural transformation and industrialisation.

Strategic trade policy

While African countries have continued to grow, notwithstanding the impact of the 2008/09 global financial crisis – high unemployment and poverty have persisted. Dani Rodrik (2013) quotes the African Centre for Economic Transformation in Africa, based in Ghana, to reflect his concern: "the continent is growing rapidly, growing slowly". Rodrik argues that structural transformation is essential to ensure labour-demanding employment and social inclusion. Industrialisation thus holds the promise of stimulating economic diversification, inclusive growth, efficient use of abundant physical, mineral, agricultural and human resources, and structurally transforming African economics and eliminating poverty.

Strategic trade policy must be designed to integrate African economies into regional and global value chains – upgrading their production and increasing their value-added and share of profits. The UNECA 2015 Report on *Industrializing through Trade* argued that trade and industrialisation are two sides of the same coin: industrialisation facilitates trade and trade facilitates industrialisation. Strategic trade policy can make trade an instrument of accelerated industrialisation and structural transformation in Africa (UNECA, 2015).

Africa is marginalised in world trade. The continent's share in global exports increased marginally from five percent in 1970 to six percent in 1980 and then declined, reaching 3.3 percent in 2010 and in 2013. For effective trade-induced industrialisation in Africa, structural transformation of industrial production and trade is a basic prerequisite. African countries need to increase their production and trade in intermediate goods and upgrade along national, regional and global value chains and increase their role in services (UNECA, 2015).

Key recommendations of the UNECA 2015 report include the following:

1. Industrial development must be the core objective of trade policy. Industrial policy must thus guide trade policy and must precede trade policy.
2. The current situation in which African countries are more open to the outside world than to themselves is inimical to regional trade and regional value chains – thus intra-regional trade barriers need to be removed. However, there needs to be a sequencing of removal of barriers with those between African countries taking priority before multilateral liberalisation.
3. Trade policy alone cannot deliver structural transformation. Trade policy needs to be mainstreamed into the development strategy of the country. Trade policy is an instrument of industrial and development strategies. Other complementary policies are necessary to support industrial development such as trade facilitation and cross-border

infrastructure such as roads, railways, ports, energy and information and communication technology (ICT).

4. Policy initiatives such as development corridors are critical for Africa's structural transformation and industrialisation. For example, the Maputo Development Corridor has provided road, rail and port infrastructure to support industrial development such as the Mozal Aluminium Smelter in Maputo.
5. SEZs that are linked to the domestic economy and build technological capacity and industrial clusters can be a valuable base to spread to neighboring countries.
6. Focusing on sectors such as agriculture can upgrade the economic sector and also upgrade social infrastructure.

The question this chapter set out to discuss is two-fold: a) how can the outcomes of the AfCFTA negotiations benefit all its members; and b) how can regional integration boost the building of productive capacity that advances Africa's industrialisation and transformation? The discussion on the history of free trade and infant industry protection indicates that all countries that succeeded in developing their economies and improving the welfare of their populations adopted an activist industrial policy. Thus, it is argued that industrial development has to be at the core of Africa's development strategy. The discussion in this chapter also indicates that Africa's trade policy must be guided by its industrial policy objectives. The new trends of global value chains and the new technologies that are emerging from the fourth industrial revolution should be drawn on to assist Africa to leapfrog its development and increase the value it derives from participation in global value chains in different productive sectors, including agriculture, manufacturing and services.

With a view to gaining insights for the further development of Africa's structural transformation and guidance for the implementation of the AfCFTA, the following section uses six African case studies to look at how regional value chains, SEZs and industrial parks can be useful tools to harness Africa's comparative advantages and strengthen its capacity to compete in the global economy. The six case studies include cocoa and chocolate manufacturing in Côte d'Ivoire and Ghana; Ethiopia's floriculture sector; the Nigerian entertainment sector and film industry; Kenya's M-Pesa mobile banking sector; Rwanda's gorilla viewing sector; and South Africa's automotive sector.

STRUCTURAL TRANSFORMATION AND INDUSTRIAL POLICY:

Experiences of selected productive sectors in Côte d'Ivoire and Ghana, Ethiopia, Rwanda, Kenya, Nigeria and South Africa

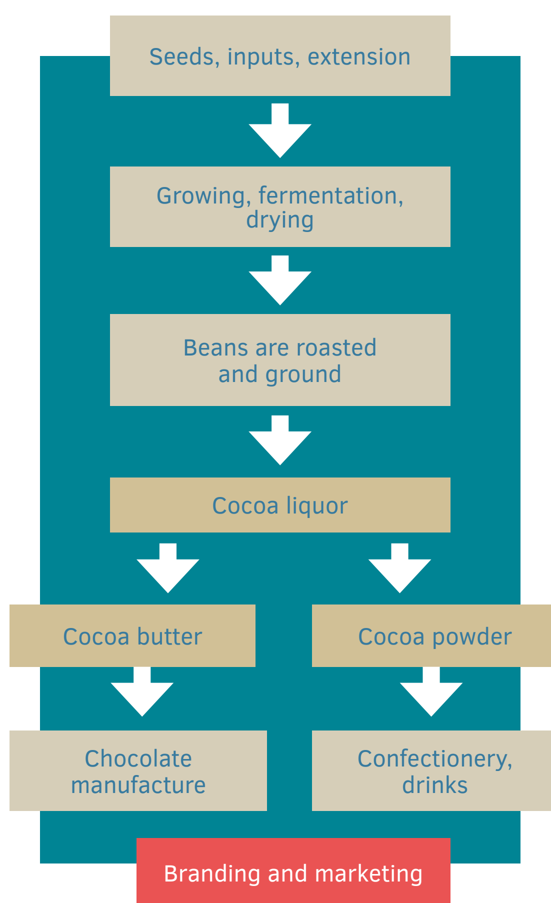
Côte d'Ivoire (Ivory Coast) and Ghana – Transforming cocoa into chocolate manufacturing

Producers of commodity products have long suffered from "declining terms of trade"; that is, the global prices of their exported products have declined in comparison with the global prices of their imports of manufactures (Kaplinsky, 2005). The experience of cocoa growers in Côte d'Ivoire and Ghana is an excellent example of the challenges facing commodity growers. A few West African countries have traditionally been the world's major suppliers of high-quality cocoa beans. However, from the 1980s the cocoa sector has suffered from the twin challenges of declining world prices and deteriorating quality (UNECA, 2013). The first stems from the entry of new producing countries, especially in Asia (Malaysia, India and Indonesia) and the second stems from the removal of national marketing boards recommended by structural adjustment programmes (UNECA, 2013).

Africa Quartz magazine reported that, "over 2 million small-scale farms in Côte d'Ivoire and Ghana produce nearly 60 percent of the world's supply of cocoa. But despite exporting almost three million tons to support the multimillion-dollar industry, farmers earn an average of 67 cents per day – just 6.6 percent of the final price" (Quartz Africa, 2017).

Notwithstanding the many challenges suffered by commodity producers, the case of both Côte d'Ivoire and Ghana suggest that African countries are starting to overcome these challenges, by investing in technology, skilling their workforce, attracting foreign investment and adding more value to their commodities.

On his three-day visit to Ghana in August 2017, AfDB President Akinwumi Adesina pointed out that while Côte d'Ivoire produced 54 percent of the world's cocoa it plays no role in controlling the market (AfDB, 2017). Adesina urged Ghana to work closely with Côte d'Ivoire to move up the value chain by processing and adding value to its cocoa. This sentiment was echoed by the Minister of Finance of Ghana, Ken Ofori-Atta, who stated that Côte d'Ivoire and Ghana controlled 60 percent to 70 percent of cocoa in the world but remained price-takers. He stated that, "we are now working together to transform this industry" (AfDB, 2017).



THE COCOA ADDITIVE VALUE CHAIN

Source: Kaplinsky, 2017

In Ghana, cocoa is cultivated mainly by smallholder farmers with an average of two hectares per farm with only 10 percent of the estimated 800 000 hectares under cultivation by large-scale farmers (AfDB, 2017). The grinding of cocoa to produce the primary cocoa product used for confectionaries and manufacturing is done outside the country, aside from small-scale domestic grinding, including the Cocoa Processing Company, a subsidiary of the Ghana Cocoa Board (AfDB, 2017).

In Côte d'Ivoire, it is estimated that about six million people are dependent on the earnings from cocoa – more than a quarter of the entire population. Cocoa constitutes about a quarter of total exports and around 15 percent of state revenues (BBC, 2017).

However, a drive towards investment in large commercial cocoa production and increased domestic processing of cocoa and manufacturing of chocolate is underway in both Côte d'Ivoire and Ghana.

In October 2016, Bloomberg reported that in central and eastern Côte d'Ivoire, a cocoa plantation that will be Africa's biggest, spanning an area equal to about 3 000 soccer fields, was taking shape (Bloomberg, 2016). The report indicated that the company, Solea (a subsidiary of Brussels-based KKO International) was developing about 2 000 hectares of land (with an additional 1 000 hectares to be purchased). Solea was to plant about four million cocoa trees on 3 000 hectares by the end of 2018 with a target to produce 15 000 metric tons of beans annually and a yield of five tons a hectare. Small farmers in Côte d'Ivoire produced a yield of about 500 kg of beans per hectare. Solea set up a micro-irrigation system that supplies each of Kotokonou's trees with drip irrigation. Solea's head of finance stated that drip irrigation was used already in Europe about 40 years ago and has never been applied to Africa's cocoa production (Bloomberg, 2016).

In the next step of the value chain too – the grinding of the cocoa bean – new investors have begun to arrive in Côte d'Ivoire. In 2015, Olam International, the third largest grinder, opened a US$75 million factory in San Pedro, the nation's second largest port (Quartz Africa, 2017). With a production capacity of 75 000 tons, the factory has helped to catapult Côte d'Ivoire to the top as the world's largest processor.

Africa consumes fewer than four percent of chocolate sold globally – but the regions consumption pattern is changing due to the rising middle class. This has assisted the governments to also support the efforts of local graders of cocoa and producers of chocolate. In Côte d'Ivoire a small local artisanal chocolate company, Instant Chocolate, grew from selling 3.5 tons of chocolate a month to about 50 tons a month in 2016. It was reported that the company produces chocolates in the range called Made in Ivory Coast, selling bars of chocolate and pralines to individuals and corporate clients such as Air France. In Ghana, locally produced chocolate brands are branding themselves as "Ghanaian Luxury" (Quartz Africa, 2017). Local chocolatiers, like Midunu Chocolates, the brainchild of Ghanaian chef Selassie Atadika, are aiming to attract the native born and returnee Ghanaian middle class as well as expatriates and tourists (Quartz Africa, 2017).

Foreign investors in the chocolate manufacturing sector are beginning to take an interest in production in Africa. French chocolatier Cemoi opened its first major chocolate factory in 2015 in Côte d'Ivoire, with a capacity to produce over 10 000 tons of chocolate a year (Quartz Africa, 2017).

The largest producers of chocolate in the world still produce outside of Africa and will need to be persuaded by policymakers to locate their chocolate-making facilities in Africa. These companies include Mars Inc (US); Mondelez International (US); Ferrero Group (Luxembourg/Italy); Meiji Co. Ltd (Japan); Nestlé S.A. (Switzerland); Hershey Co (US); Pladis (United Kingdom); Chocoladenfabriken Lindt and Sprungli AG (Switzerland); Ezaki Glico Ltd (Japan) and Arcor (Argentina) (ICCO, 2017).

Ethiopia's floriculture: From zero to second in Africa!

The UNECA report on *Transformative Industrial Policy in Africa* (2016) states that except for Rwanda, Ethiopia is the only country in Africa whose GDP growth has been consistently high for over a decade without relying on a natural resource boom. The other high-growing African economies, such as Angola, Mozambique and Nigeria, have relied heavily on natural resources. The UNECA report states that between 2004 and 2013, per capita GDP growth in Ethiopia was 8.1 percent per annum, the highest on the continent during this period and very high by any standard. Also during this period Manufacturing Value Added (MVA) grew at a rate of 11 percent a year, by far outperforming Rwanda. Manufacturing exports have grown more than 11-fold, from US$21 million to US$237 million, largely thanks to the increasing export earnings of the leather and textile and apparel industries. This represents more than a doubling of manufactured exports' share in total merchandise exports, which itself more than quintupled during the period, from US$922 million to US$4 786 million. Nevertheless, MVA as a share of GDP in Ethiopia remains five percent, well below the African average of 10 percent (UNECA, 2016).

ECA (2015) points out that 80 percent of Ethiopia's population is dependent on

agriculture for their livelihoods so naturally industrial policy in Ethiopia has focused heavily on promoting manufacturing industries that provide linkages to the agricultural sector. Both the leather products sector and the textile and garments sector have been designated as top-priority manufacturing industries in the five-year development plan that covers 2015 to 2020 (The Growth and Transformation Plan 2). This is not only because they have strong linkages with the agricultural sector (they use inputs from the livestock and the cotton sectors) but also as they both are labour-intensive (thus absorbing labour from the agricultural sector), have major export potential, and low entry barriers.

To become internationally competitive in these two sectors, the Ethiopian government has invited foreign investors to provide much needed investment capital and technological capabilities. A slew of incentives have been created to induce these firms (as well as domestic ones that can meet international standards) to export, including: subsidised land rent in industrial zones; generous credit schemes; 100 percent exemption from the payment of duties on import of all capital goods and raw materials that cannot be provided domestically but are necessary for the production of export goods; and five-year tax holidays on profits (UNECA, 2016).

The UNCTAD-UNIDO *Economic Development Report on Africa* (2011) highlights the floriculture sector of Ethiopia as an example of successful industrial policy in Africa. Floriculture was almost non-existent in Ethiopia before 2004. The report ascribes much of the reason for the success of this sector in Ethiopia to state activism.

Cut flower exports grew from three tons in 2003-2004 to more than 50 000 tons in 2011-2012 with an average annual growth rate of 400 percent! (Oqubay, 2015). Between 2004 and 2012, floriculture generated close to US$1 billion in export earnings, making Ethiopia a global player.

The success of the floriculture sector reduced Ethiopia's dependence on coffee exports, which declined from 60 percent in 1998 to 26 percent in 2011.

In his book, *Made in Africa: Industrial policy in Ethiopia*, Arkebe Oqubay provides detailed information from interviews with a range of players in the sector including 62 of the 69 firms in the floriculture sector in Ethiopia. He states that the success of the sector can be seen in the employment figures with 40 000 workers employed directly in the sector, more than the combined number for cement and the leather sectors (the other two case studies he has undertaken). The floriculture sector has also been a springboard into other new export sectors, such as vegetables and fruits and herbs.

Of the 69 firms producing and exporting cut-flowers in Ethiopia in 2012 – all were privately owned. While 63 percent of these firms were foreign-owned, 26 percent were domestically-owned and the remaining firms were owned jointly. His research also indicates that 73 percent of the firms were owner-managed and medium-sized firms.

More than 94 percent of Ethiopia's exports of cut flowers go to Europe where the Netherlands imports over 85 percent and Germany about five percent (Oqubay, 2015). Oqubay compares the development of the Ethiopia's cut-flower sector to that of Kenya, its main African competitor country. His data shows that in 2010 Kenya exported 117 000 tons of cut-flowers worth €0.5 billion while Ethiopia exported 50 000 tons worth €146 million. The major flower products exported are roses, cuttings, carnations, gypsophila, hypericum and eryngium. Oqubay states that Kenya is a vibrant exporter with more than 50 years of experience behind it. By contrast, Ethiopia has only about 10 years' experience in the floriculture sector. However, Ethiopia rose in this short period to become the fifth largest exporter in the world and the second largest in Africa.

The study of the cut-flower industry in Ethiopia provides insights into the main reasons for the success of the floriculture sector.

First, the high cost of transportation was considerably reduced by the positive role played by Ethiopian Air Lines. Oqubay states that EAL purchased/ordered 35 new aircraft, including Boeing 777s for flower transport in 2009 after interventions by the Ethiopian Horticulture Producers and Exporters Association.

Second, while the floriculture firms invested in land development, greenhouses and buildings, machinery and equipment, and vehicles, Ethiopia's state-owned bank – the Development Bank of Ethiopia – was the prime source of long-term investment financing. This bank provided financing at a subsidised interest rate without any collateral requirement and the loan covered 70 percent of the investment project (Oqubay, 2015),

Third, FDI played a key role in providing access to technology and market access. Floriculture is technology intensive requiring extensive research and development. In addition, the product is perishable and requires sophisticated cold-chain operations, attention to phyto-sanitary standards and cold-room storage at the ports.

Fourth, working visits and study tours undertaken by government officials and industry actors to Kenya, Ecuador, and the Netherlands facilitated learning and improved policy capabilities (Oqubay, 2015).

Fifth, effective institutional coordination was provided by the National Export Coordinating Council that was chaired by Meles Zenawi, the Prime Minister. The council found solutions to a range of issues including investment and export incentives, land and infrastructure, industrial financing, capacity building, and the cold chain logistics system (Oqubay, 2015).

Kenya's M-Pesa mobile banking revolution – An opportunity to leapfrog?

M-Pesa celebrated its 10th anniversary in March 2017. "Pesa" means "money" in Swahili. M-Pesa is a system for making small-value electronic payments. Its users are given a pin-secured account on their mobile phones, which transforms their phone into a mobile wallet. To access the service, customers must first register at an authorised M-Pesa retail outlet. Customers can deposit and withdraw cash to/from their accounts by exchanging cash for electronic value at a network of retail stores (often referred to as agents). Once customers have money in their accounts, they can use their phones to transfer funds to other M-Pesa users and even to non-registered users, pay bills, and purchase mobile airtime credit.

The M-Pesa concept was a brainchild of a London-based team within Vodafone led by Nick Hughes and Susie Lonie who were able to convince Safaricom, Kenya's dominant mobile phone operator, to adopt the system. The system was launched by Vodafone's Safaricom mobile operator in 2007, as a simple method of texting small payments between users. M-Pesa, which was originally conceived as a microfinance arrangement, became a useful tool to help Kenyans move money from the urban areas to their families in the rural areas. Safaricom's first

advertising campaign to promote M-Pesa centred around the simple slogan, “Send money home” (Hughes and Lonie, 2007).

A 2017 study estimated the users of the M-Pesa mobile money transfer system at about 26 million subscribers with a network of more than 127 000 agents (Yi, et al., 2017). Yi et al argue that between 31 percent and 50 percent of Kenya’s GDP is estimated to flow through this network, as over 50 percent of the population continue to be without a bank account and rely on platforms such as M-Pesa. There are more than 30 million users in 10 countries and a range of services included international transfers, loans and health provision in 2016 (CNN, 2017).

Kenya’s M-Pesa is probably the most celebrated success story of mobile banking in a developing country. What started as a mobile money transfer has become a success story of financial services development with a technological platform that makes it cost effective and safe. M-Pesa made it possible to extend financial services to millions of poor people at relatively low cost (Yi, et al. 2017).

As a developing country, Kenya is skyrocketing in internet development relative to other countries. Kenya has a nearly equivalent internet penetration rate to that of China, which has a booming internet and fintech industry (Yi, et al. 2017). This high penetration rate bodes well for the development of the fintech industry.

At least three significant factors can be attributed to the success of M-Pesa.

1. Yi et al (2017) argue that the “government has made it possible to have a legal and regulatory framework that fosters the development of public-private partnerships. The Central Bank of Kenya was proactive in that, together with the Ministry of Finance, it amended the Central Bank of Kenya Act in 2003. This enhanced its mandate whereby section 4 (A) (1) (d) mandates the Bank to “formulate and implement such policies as best to promote the establishment, regulation and supervision of efficient and effective payment, clearing and settlement systems” (Yi et al, 2017).

2. At the institutional level, the Central Bank of Kenya has undertaken various strategies to enhance the oversight capacity, effectively keeping abreast of innovation and technologically driven financial services. This has made it possible to increase access to financial services but at the same time maintain stability (Kimenyi and Njuguna, 2009).

3. A “smart” subsidy was applied to the development of M-Pesa, although this subsidy was not through the government. Vodafone applied for and obtained partial funding for the development of M-Pesa through the United Kingdom’s Department for International Development’s Financial Sector Deepening Challenge Fund. This funding enabled Safaricom to pilot test their solution with the assistance of Faulu Kenya and MicroSave, and to learn key lessons before the solution was rolled out to the wider Kenyan market (Cracknell, 2012).

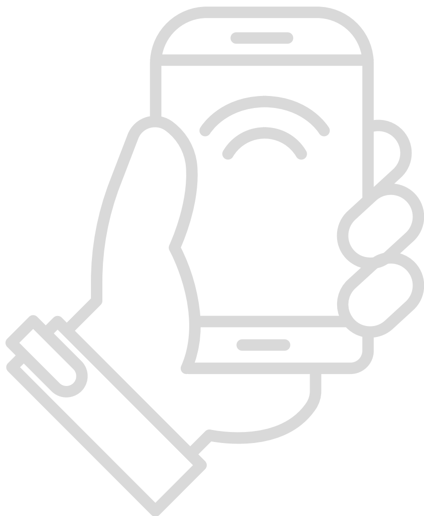
Professor Calestous Juma, a renown Kenyan Scholar based at Harvard University, argues that M-Pesa symbolises the potential that lies in technological catch-up and leapfrogging, and serves as an inspirational example of what Africa could accomplish in other sectors such as energy, education, health, transportation, and agriculture.

He argues that it is essential for Africa to become a dynamic and entrepreneurial region driven by innovation in order to transcend its reliance on commodity exports. In an article, he argues that such innovation will have to be based on industrial development – and the infrastructure and technical capacity that it enables – which cannot be leapfrogged. He argues that the mobile handsets are merely a part of the larger and more complex engineering system that made mobile

communication and further industrial diversification possible (Juma, 2017).

Juma argues that, “there is little evidence to suggest that countries industrialise by adding value to their raw materials”. “Rather, he argues, “the causality runs the other way — countries add value to raw materials because they already have local industries with the capacity to turn raw materials into products. Initial industrial development thus becomes the driver of demand for raw material and value addition rather than the other way around.” Juma asserts that, “acquiring the ability to create new technological combinations — through an emphasis on infrastructure and technical education — is the key to industrial development” (Juma, 2017).

Juma’s advice to African policymakers is to move away from their focus on “raw material exports, value addition, and consuming technology to becoming a learning economy and technology producer”. He argues that “leapfrogging particular technologies, such as landlines, may in some cases be an option. But industrialisation itself, and the innovation and development it generates, cannot be skipped over”.



Nigeria’s Nollywood – moving the world’s third largest film industry higher up the value chain?

The Nigerian entertainment sector, particularly its film sector, known as Nollywood, has grown significantly since the 1980s. It has become the third-largest film industry after Hollywood (the US film industry) and Bollywood (India’s film industry) (WTO TPR, 2017). A United States International Trade Commission (USITC) study found that although Nollywood’s revenues trail those of Bollywood or Hollywood at the global box office (US$1.6 billion and US$9.8 billion in 2012, respectively), Nollywood still generates, on average, US$600 million annually for the Nigerian economy, with most of these receipts coming from the African diaspora. The USITC estimated that over one million people are employed in the industry (excluding pirates), which makes it Nigeria’s largest employer after agriculture (USITC, 2014). According to the WTO, Nigeria’s entertainment subsector was worth around N853.9 billion (US$5.1 billion) and contributed 1.4% of GDP, in 2016 (WTO TPR, 2017).

Although Nollywood’s output by volume of about 40 films a week is higher than both Hollywood and Bollywood, most of its production is low-budget productions.

Nigerian films have a large following in Africa and among African emigrants around the world (over 30 million worldwide and growing). Demand for Nollywood films – particularly among the African diaspora – has also fueled a surge in the export of Nigerian films. They initially gained popularity during the early 1990s, when camcorders replaced 35-millimeter film cameras and digital systems replaced celluloid as recording devices. These technology changes allowed rapid, low-cost production and distribution capabilities (USITC, 2014). Most titles are recorded in English and sell over 200 000 units (the usual break-even sales point in Nigeria) (USITC, 2014). According to the British Broadcasting Corporation, producing a movie in Nigeria costs on average US$25 000-US$70 000 compared to US$250 million for a top Hollywood film (USITC, 2014).

Nollywood films have begun to attract the interest of global investors. In 2012, US-based hedge fund Tiger Global Management and the Swedish investment firm Kinnevik backed iROKOtv, the world's largest online distributor of licensed Nollywood films. iROKOtv spent US$5 million to amass the rights to 5 000 Nollywood films that have a global audience for Nollywood movies of over six million in 178 countries (USITC, 2014). Growing digitisation and increasing demand for licensed streaming video content from the US and other foreign markets are beginning to help boost Nollywood production budgets locally and improve overall film quality (USITC, 2014)

Industry challenges

According to the Nigerian authorities, the entertainment subsector has improved in quality over the years, however, it faces many challenges. These include lack of enforcement of intellectual property rights, piracy, low DVD production, distribution bottlenecks, lack of digital platforms, inadequate publicity, poor packaging and marketing, an inadequate number of cinema houses, informal operations, few copyright products, as well as the small number of Nigerian film-making schools (USITC, 2014)

Although Nollywood films are purchased and watched throughout Africa, the Caribbean, Europe, North America, and parts of Asia, almost all exports are pirated copies. The World Bank estimates that for every legitimate copy sold, nine others are pirated. Piracy prevents the industry from generating more revenue. Most films are sold as DVDs at the roadside, either at market stalls, from wheelbarrows or by hawkers at traffic lights. According to the USITC, if the industry was more actively regulated, particularly with copyright enforcement, a million more jobs could be created in the sector (USITC, 2014).

Nigerian government policy supports the growth of the industry

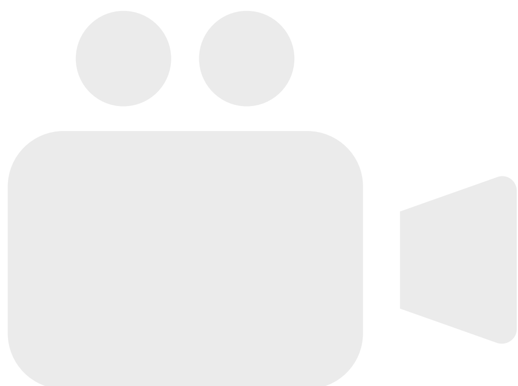
The Nigerian government has stated that it is working to ensure the stricter enforcement of the intellectual property rights regime; and in its Economic Recovery and Growth Plan prioritises the creative industry. Government proposals to create a Nigerian Film Institute would provide studio facilities; improve standards through training and capacity building; create a hub for core industry skills; and lease film equipment (WTO TPR, 2017).

In addition the government has introduced measures in its television broadcasting policy to support the local film industry. According to the National Broadcasting Act No. 38 of 1992, Nigerian television is required to air local programmes promoting Nigerian culture during specific times. At least 80 percent of its programmes are required to be produced with local content.

In recognition of the subsector's importance, the government, in 2013, announced a three billion naira cash injection to develop Nollywood and created a US$200 million Stimulation Loan Facility, which is being provided for intervention in the entertainment

industry under the Nigerian Creative and Entertainment Industry Stimulation Loan Scheme. The government has stated that the loan is intended to attract investment in the development of content and infrastructure in the media and entertainment subsector, as well as to improve production, distribution, marketing and exhibition standards. The categories eligible for funding support include production, distribution and exhibition of films, television, radio and fashion, and the creation of distribution infrastructure/ platforms. In addition to federal initiatives, various Nigerian state governments are supporting the industry by funding movies, award ceremonies, and production villages (WTO TPR, 2017).

The Nigerian film industry grew almost spontaneously during the 1980s with small film producers using modest technology and small budgets. It is now set to grow into a global industry with the potential to at least double the number of jobs and move up the value chain of production as local and global investors take a keen interest in its development. The Nigerian government is also developing policies and programmes to support the development of the industry to become a global player.



Rwanda: creating jobs in the gorilla viewing tourism sector

More than two decades after the Rwandan genocide of the Tutsi people in 1994, Rwanda has emerged as one of the fastest growing economies in East Africa – recording a growth rate of eight percent a year between 2001 and 2014 (WEF, 2016). The 2016 ECA report argues that, like Ethiopia, Rwanda has yet to experience a significant change of its productive structure and growth of incomes. GDP per capita was US$696 in 2013 and between 80 percent and 90 percent of the population was engaged in subsistence agriculture. However, also like Ethiopia, Rwanda is one of the few African countries that has a clearly defined set of national development goals and targets. Its Vision 2020 sets out to strengthen education, infrastructure, privatisation, international integration and agribusiness (MOFEP, 2000). Medium-term plans are captured in the country's Economic Development and Poverty Reduction Strategy (EDPRS) 2008-2012 and EDPRS 2013-2018. The Ministry of Trade and Industry has a well-articulated National Industrial Policy (Government of Rwanda, 2011).

This case study focuses on tourism and the significant role that gorilla viewing has had on this sector. The tourism sector has been the strongest driver of growth, ranking first in investment attraction out of

all sectors in the country. Export revenues amounted to US$293 million in 2013, making up to 30 percent of the country's total export earnings and contributing more than 135 000 jobs in 2012, or 6.4 percent of total employment. Gorilla viewing has been the most significant contributor to the surge of tourism in Rwanda. The country is home of the Virunga mountain gorilla, a highly endangered ape subspecies, with a total estimated population of only 380 in Rwanda, Democratic Republic of Congo and Uganda. Only in Rwanda and Uganda can these gorillas be visited safely. But Rwanda has an advantage over Uganda in that the gorillas can be reached in only two hours from Kigali, compared to six hours from Kampala. In addition, road infrastructure is better in Rwanda. In 2008, about 17 000 people visited the Volcanoes National Park (where most of Rwanda's gorillas reside), an impressive increase from only 417 tourists in 1999 after the reopening of the park (Nielsen and Spenceley, 2010). Aside from bringing in significant export earnings, gorilla tourism has generated plenty of jobs for guides, trackers and anti-poachers. Some private sector tour operators also offer community-based tourism activities, such as stays with a local family and village walks (Nielsen and Spenceley, 2010).

In their comprehensive report of the gorilla viewing sector in Rwanda's tourism industry, Hannah Nielson and Anna Spenceley argue that while Rwanda was more known for its violent past, this perception has changed and Rwanda is now known as one of the safest places to visit. The gorilla viewing sector has also contributed in the post-conflict society to both high-end tourism and poverty reduction by involving local communities (Nielson and Spenceley, 2010).

The tourism sector has been the strongest driver of growth, ranking first in investment attraction out of all sectors in the country (UNCTAD, 2014). According to the Rwanda Development Board (RDB), its export revenues amounted to US$293 m in 2013, making up a whopping 30 percent of the country's total export earnings. It has also been important for employment generation, contributing to more than 135 000 jobs in 2012, or 6.4 percent of total employment. Compared to other countries in the region, Rwanda has had by far the largest surge in tourist arrivals, from 12.8 per 100 000 people in 2000 to 85.4 per 100 000 people in 2011 (UNCTAD, 2014).

Several industrial policy initiatives underpin the tourism sector's success in Rwanda (ECA, 2016).

1. The government has aggressively been promoting its attractions internationally ever since the 2003 World Travel Market in London. Rwanda, whose delegation is normally led by the CEO of the RDB, has won the award of Best Exhibitor from Africa in the International Tourism Bourse in Berlin five times since 200.
2. The government has worked meticulously to develop skills of employees in the tourism sector. The Rwanda Tourism University College was established in 2006, offering bachelor's degrees in hotel and restaurant management and in travel and tourism management. The college also offers many tourism-related certificates, including tour guiding, cabin crew training, housekeeping, and exhibition and event management. In 2009, the Work Force Development Authority of Rwanda expanded on tourism courses offered in Technical, Vocational Education and Training (TVET) institutions to provide more training in culinary art, housekeeping, front desk operations, and table waiting.
3. In addition to a range of fiscal and non-fiscal incentives, investors in the tourism and the hotel industries are exempt from import duties on certain equipment. The list is long but includes machines for house maintenance (e.g. generators, air conditioning shafts, fire detectors), outdoor leisure equipment (e.g. playground equipment, tennis court equipment), and bedroom fittings (e.g. carpets, beds, televisions).

The ECA report (2016) argues that while Rwanda's industrial policy for the tourism industry has been a success, contributing in a major way to employment and foreign

exchange, it is unlikely that Rwanda can sustain its economic development without significant improvements in its manufacturing sector, which has higher productivity, greater scope for innovation, greater ability to offer high-quality jobs, and greater tradability than the service sector does. It argues that without diversifying its economy towards more manufacturing, there are limits to how much the country can develop.

South Africa: developing an African regional automotive industry?

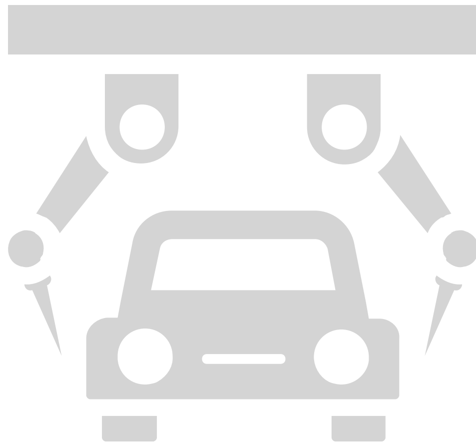
The trade and industrial policies of South Africa in the 20th century were inextricably related to its policies of segregation and apartheid. The new democratic South Africa ushered in a period of increased growth averaging about 3.3 percent between 1994 and 2012. Between 2005-2007 South Africa recorded its best economic performance of real GDP growth rates, exceeding five percent in each consecutive year (Bhorat et. al, 2014). Despite the positive growth spurt between 2005-2007 the manufacturing sector has remained stagnant, falling from 19 percent of total output in 1994 to 17 percent in 2012 (Bhorat et. al, 2014) and to 13 percent in 2014. World Bank online data for 2019 indicates that South Africa's manufacturing value added or share of GDP could have fallen to 12 percent (World Bank, 2019). The main outlier has been the motor vehicle subsector, which has a clearly targeted industrial strategy.

This case study focuses on the South African automotive industry to assess the progress in implementing industrial policy and to draw some insights for policymakers in Africa.

Barnes et al (2016) in a study of the South African automotive industry observe that the industry is one of South Africa's largest manufacturing sectors and has a long history of government support. From 1995-2012, it was subject to the Motor Industry Development Programme (MIDP) that has perhaps been the most significant industrial policy intervention since 1994, both because of the powerful incentive structure it established and because of the sheer size of the automotive sector.

The South African vehicle market grew rapidly from 1950 to the early 1980s with sales increasing tenfold over this period. The market stagnated during the 1980s as the economy entered a phase of very slow expansion with growth constrained by political instability and increasing international isolation. Gradual recovery followed and after 2002 sales grew strongly, boosted by rising incomes, a strong rand and low interest rates, reaching record levels of 714 000 units in 2006. In 2012, 540 000 vehicles were produced, of which 52.4 percent were exported. Sales plummeted in the aftermath of the global financial crisis, but recovered to 624 000 vehicles in 2012. The South African Automotive Industry Export Council reported as follows in its 2016 Annual Report:

"The automotive industry is the biggest contributor to manufacturing output and is one of the most dynamic parts of the segment. The broader automotive industry, through its well-integrated value chain from downstream to upstream activities, contributed 7.5% to the country's GDP



in 2015. The vehicle and automotive component manufacturing industries accounted for 33.5% of the country's total manufacturing output, while record automotive export earnings of R151.5 billion in 2015, up substantially by 30.9% from the R115,7 billion in 2014, comprised a significant 14,6% of South Africa's total export earnings" (AIEC, 2016).

The AIEC report records total sales for 2015 as amounting to 617 749 units compared to the 644 259 units retailed in 2014. Light commercial vehicles and more affordable cars dominated South Africa's new vehicle market in 2015. Nine of 2015's top 10 selling passenger car and light commercial vehicle models were manufactured locally. The top 10 most popular models sold in 2015 included locally manufactured light commercial vehicle models, namely the Toyota Hilux, Ford Ranger, Nissan NP200, Chevrolet Utility and the Isuzu KB, and four locally manufactured passenger cars, namely the VW Polo Vivo, VW Polo, Toyota Corolla/Corolla Quest and the Mercedes-Benz C-Class, with the budget Toyota Etios, imported from India, being the only exception (AIEC, 2016).

Barnes et al (2016) observe that there has been a significant increase in foreign ownership with all assemblers now wholly owned by multinational firms. This was not the case in the early 1990s, when most assemblers were under majority local ownership. There has also been growing foreign ownership in the component sector, which number about 350 firms.

What are some of the policy lessons to be gained from the experience of the South African automotive industry? To assess the impact of the MIDP and provide long-term policy certainty to the industry, the Department of Trade and Industry[2] conducted two policy reviews, in 1998 and 2002 (Barnes et al, 2016). These reviews resulted in the extension of the MIDP, first until 2007, and later until 2012. The extensions of the MIDP provided for further liberalisation which resulted in increasing foreign competition in the South African automotive industry.

Zalk (2014) notes that, under the terms of the MIDP, exporters of automotive vehicles and components earned import rebate credits that could be used to offset import duties on components and vehicles not produced in South Africa. The disciplining mechanism of the MIDP was a sharp phase-down of import tariffs on both vehicles and components. For instance, Zalk (2014) states that vehicle tariffs declined from 80 percent in 1999 to 30 percent by 2007. This drove automotive original equipment manufacturers (OEMs) to rationalise platforms and increase economies of scale. Vehicle production increased from 388 442 units in 1995 to 534 490 units in 2007, with exports increasing tenfold over the same period. However, Zalk notes that at least two of the major challenges of the MIDP remained: first, imports of both vehicles and components remained substantial, and second, domestic component production remained concentrated in fairly resource-intensive areas such as catalytic convertors and leather seat covers.

The 2007-2008 review of the MIDP led to its termination in 2012, and the

2 Now the Department of Trade, Industry and Competition, established in June 2019 by the incorporation of the Department of Economic Development into the Department of Trade and Industry.

establishment of the Automotive Production and Development Programme (APDP) in 2013. The APDP led to increases in local production and higher levels of local content (Barnes et al, 2016). In addition, the APDP stimulated increased rationalisation of production, reducing the extreme proliferation of makes and models being assembled in small, uneconomic volumes. The quality and productivity of automotive producers also improved significantly (Barnes et al, 2016).

The government of South Africa has continued to support the automotive industry by extending the APDP and developing an Automotive Masterplan which has set a target for 1.4 million vehicles to be produced in South Africa by 2035 (Davies, 2018). In a media statement the then Minister of Trade and Industry, Rob Davies outlined the extension of the APDP and the South African Automotive Masterplan. The key targets of the South African Automotive Masterplan 2035 are to increase production to one percent of global output (approximately 1.4 million units a year); increase local content from the current 39 percent to 60 percent; double employment in the value chain to about 240 000 workers; improve auto industry competitiveness levels to that of leading global competitors; achieve industry transformation across the value chain; and deepen value addition across selected commodities/technologies (Davies, 2018).

What is the potential for South Africa's automotive industry to become a hub for regional industrialisation and regional value chains in Africa? In a paper that sets the basis for the development of the auto industry across the African continent, Black and McLennan (2016) provide a convincing argument for the expansion of the automotive industry across the African continent. While the authors recognise that the rapid pace of growth of the automobile industry across the developing world (including Asia and Latin America) has not yet spread to Africa (outside of South Africa and Morocco) this is set to change in the next few decades. The relatively rapid growth of the African middle class has significantly increased the size of the passenger vehicle market and the authors predict that this could reach about 10 million units by 2030. The important question the authors raise is whether this demand will be met by increasing imports or by domestic production.

The level of industrialisation in most parts of sub-Saharan Africa is low, however a number of countries, such as Nigeria and Kenya, are putting policies in place to encourage domestic production. Some multinational companies are beginning to invest and small-scale investments in assembly are underway. African policymakers that want to take advantage of this new opportunity in the market to accelerate the process of regional integration and the production at scale must invest in skills of the workforce and in infrastructure to enable industry to become more efficient (Black and McLennan, 2016).

CONCLUSION

The six case studies in this chapter provide a rich empirical base to reflect on and draw lessons for other African countries. What are some of the lessons that can be drawn from the above case studies? This concluding section highlights five key lessons.

First, African states have the capacity to lead their countries structural transformation and industrialisation. In at least four of the case studies – Ethiopia's floriculture industry, Rwanda's gorilla viewing sector, Kenya's M-Pesa mobile banking sector and the South African automotive sector – the state has played a strong leadership role in steering the development of the sector, providing a conducive policy and regulatory framework and fiscal and tariff support.

Second, the strategic use of trade policy is essential for implementing industrial strategy. This is best illustrated by the

South Africa's automotive sector. South Africa's use of trade policy, to both create incentives for its automakers (export credit rebates) and apply pressure on its auto manufacturers by incrementally reducing tariffs on both vehicles and components, led to the increased output of vehicles, while rationalising the number of ranges. The most exciting next step in the evolution of the auto industry in Africa is an Africa-wide regional automotive value chain – with production in several African hubs and supplying the growing African market that could grow to about 10 million units by 2030.

Third, Africa is capable of rising to the challenge posed by the fourth industrial revolution and leapfrog using these advanced technologies. The case study of Kenya's mobile banking revolution and the recent use of drones in Rwanda to support its health system illustrates the inherent creativity and capacity to innovate in Africa. This capacity will need to be built on in several other areas that lend itself to the application of new technologies, such as solar and wind energy.

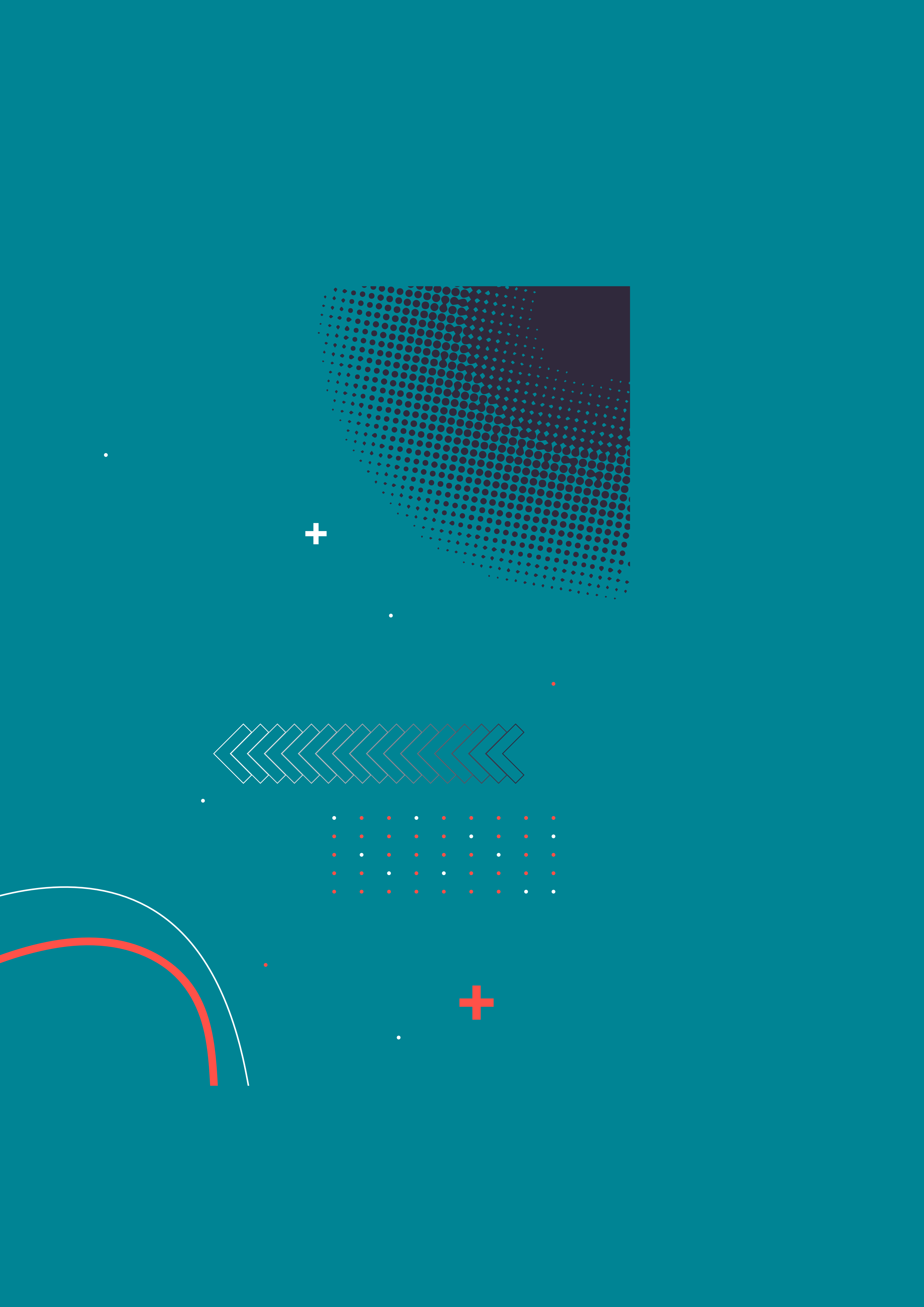
Fourth, the case study of cocoa and chocolate manufacturing in Côte d'Ivoire and Ghana is an excellent example of how Africa can make a major shift away from the low-value trap of commodity chains and transform its productive sector.

Fifth, African countries, such as Rwanda and Nigeria, are demonstrating increasing creative capacity to identify niches in the services sector where they can move up the value chain of production. The case of Rwanda's gorilla viewing tourism sector and the Nigerian film industry, Nollywood, provide interesting examples of activist government initiatives, and dynamic private entrepreneurs' efforts, to capture more value in niche services sector markets.

Carlos Lopes and Dirk Willem te Velde's paper on Africa's industrialisation calls on African policymakers to develop clearer, more active and pragmatic policies and implementation programmes that advances transformative industrialisation (Lopes and Te Velde, 2021). The authors point to the AfCFTA as a lever that could be used to facilitate this process. The AfCFTA and regional integration – following a developmental regionalism approach – could become a game changer for Africa's industrialisation.

QUESTIONS FOR DISCUSSION

1. What are the main differences of the comparative advantage approach to industrialisation and that of the infant industry approach, and which approach is more suited to Africa's conditions?
2. Do you support the idea of a strategic trade policy and what do you understand this to mean?
3. Compare and contrast the experiences of Côte d'Ivoire, Ethiopia, Kenya, Rwanda, Nigeria and South Africa in the six case studies and list the main lessons from each for other African countries to learn from?



Industrialisation is at the core of Africa's structural transformation and infrastructure is its catalyst.

– Carlos Lopes and Ibrahim Assane Mayaki in
16 Infrastructure Projects for African Integration
(UNECA, NEPAD Agency 2016)

CHAPTER SIX

THE AfCFTA AND CROSS-BORDER INFRASTRUCTURE

In the preface to the UNECA/NEPAD flagship publication on the Programme for Infrastructure Development in Africa, Carlos Lopes and Ibrahim Assane Mayaki state that: “Industrialisation is at the core of Africa’s structural transformation and infrastructure is its catalyst” (UNECA and NEPAD Agency, 2016). The authors remind us that several AU and UN documents have underlined the important role of industrialisation and infrastructure for Africa’s structural transformation and economic development. The flagship programme of the African Union – Agenda 2063 – called for the fast-tracking of the continental free trade area negotiations and the deepening of regional integration (AU, 2012). AU Leaders at the same Summit recognised that trade integration alone will not solve Africa’s development challenges and adopted the Action Plan for Boosting Intra-African Trade. This included seven clusters: trade policy, trade facilitation, productive capacity, trade-related infrastructure, trade finance, trade information and factor markets (UNECA, 2012).

In addition to the AU Action plan, the Accelerated Industrial Development of Africa initiative identifies “infrastructure development” as a priority, and Agenda 2063 anticipates that “world class integrative infrastructure” will propel intra-African trade to 50 percent by 2045 and Africa’s share of global trade from two percent to 12 percent. Also, Goal 9 of the SDGs adopted by the United Nations in September 2015, calls on countries to build “resilient infrastructure, promote sustainable industrialisation and foster innovation”. Goal 8 of the SDGs called for the promotion of “sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all”. The important role of infrastructure was also recognised by the IMF and heads of the multilateral banks when they stated emphatically that, “no country has developed without access to well-functioning infrastructure” (Kingombe, 2017).

INFRASTRUCTURE AND DEVELOPMENT

Ndulu et al., (2005) argue that there are four broad strands of empirical studies that assess the contribution of infrastructure to growth and poverty reduction:

1. The first focuses on aggregate impacts of infrastructure on long-term growth, using cross-country regressions or structural models.
2. The second assesses the impact of infrastructure on firm performance.
3. The third strand explores the relationship between infrastructure and trade.
4. The fourth strand assesses the impact of infrastructure on the delivery of services and poverty reduction.

The writers argue that infrastructure is important for creating wealth, both within households and within enterprises. For households, access to utility and infrastructure services dramatically improves living conditions and welfare. For enterprises, infrastructure reduces costs faced by enterprises and enlarges their markets. This chapter focuses on the relationship between infrastructure and trade.

Ndulu et al., (2005) argue that infrastructure problems explain the low levels of African trade. For most African countries, distance from their primary markets and the high transport costs of their products inhibit participation in the global economy. Transport costs are the biggest disadvantage and they, in turn, depend on the level of infrastructure. The burden of poor infrastructure on trade increases with geographic and sovereign fragmentation, and sub-Saharan Africa is uncharacteristically highly fragmented. Infrastructure affects trade

costs and consequently trade volumes. They argue that landlocked countries can substantially reduce transport costs by improving the quality of their infrastructure and that of transit countries.

In a more recent paper, Hoekman and Njinque (2016) also emphasise the role that infrastructure and trade facilitation play in reducing trade costs. They argue that trade costs for the continent are high partly as a result of the large infrastructure deficit. They argue that the Africa Infrastructure Country Diagnostic studies find deficits across all the core areas of infrastructure, including transport, telecommunications and energy. They argue that improved road connectivity in sub-Saharan Africa could expand overland trade by up to US$250 billion over 15 years. The study estimates that this initial investment cost required would be around $20 billion, with an additional US$1 billion annually for maintenance. Thus, the investment costs would be offset by the associated trade gains.

Economists distinguish between *hard* infrastructure and *soft* infrastructure. Christian Kingombe (2017) argues that while hard infrastructure, such as transport, energy and telecommunications, is essential for competitiveness and trade, a wide range of soft infrastructure constraints obstruct the regional integration process, including the lack of harmonisation of policies, regulations, and procedures governing both trade and infrastructure development (Kingombe, 2017). He states that it is essential to scale-up investment in efficient, seamless, and cost-effective transport, energy, water, and ICT cross-boundary networks, as well as in soft infrastructure reforms such as one-stop border posts. Hoeman and Njinque (2016) emphasise the importance of soft infrastructure, especially trade facilitation to reduce trade costs in Africa. They argue that the returns to hard infrastructure, such as transport infrastructure is highest when investments in facilities and networks – such as transport corridors – is coupled with programmes to improve the soft infrastructure needed to streamline the legal, institutional and regulatory frameworks necessary for competitive logistics services.

Hoekman and Njinque (2016) cite the example of the Abidjan-Lagos corridor, which handles more than two-thirds of West African trade, transport and transit activities. They note that there is a major ongoing project to improve the road infrastructure between Abidjan and Lagos as well as modernising the ports in Côte d'Ivoire, Ghana, Togo, Benin and Nigeria. The soft infrastructure component of the operation of the corridor includes customs operations at borders, port efficiency, and the reduction of roadblocks along the corridor. They state that while all construction programmes of the 530 km road project were on target by the end of 2014, there was only limited improvement on the various soft aspects of trade facilitation.

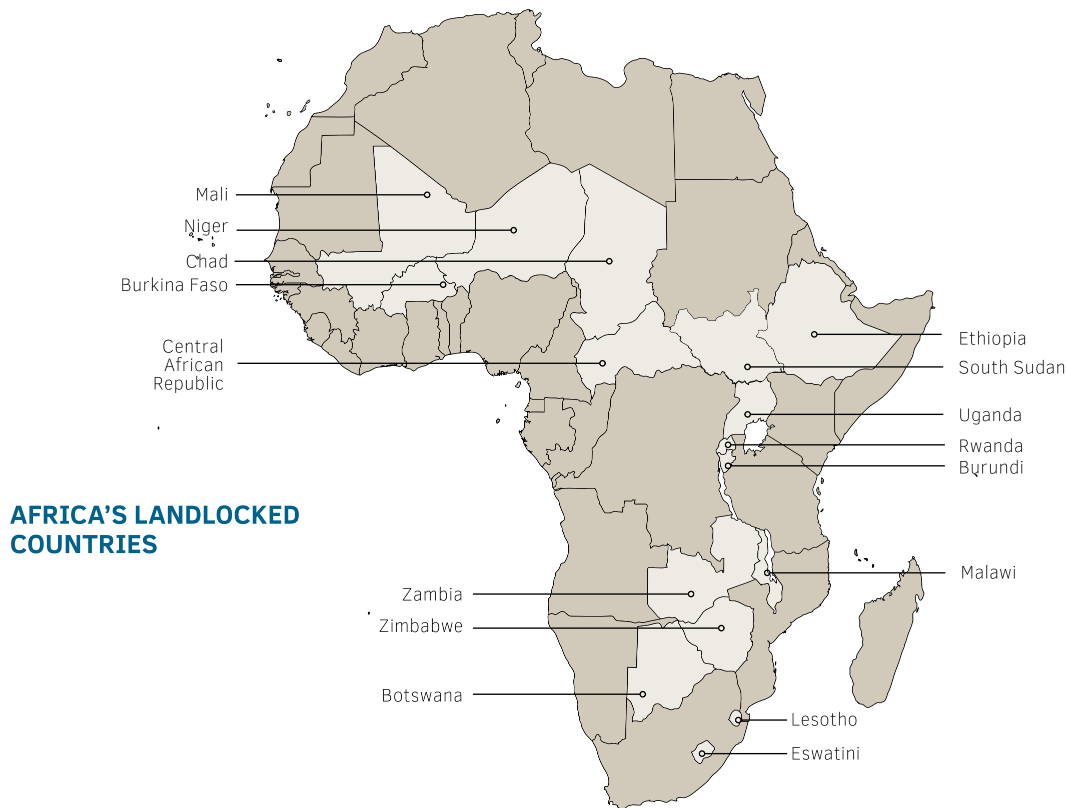
According to Stephen Karingi and William Davis (2016) Africa is making progress in implementing trade facilitation measures (see Chapter four) to improve its paperless trade, but there is still some way to go. They cite a survey by the United Nations Regional Commissions on trade facilitation and paperless trade, that finds African countries had implemented, on average, only 45 percent of the trade facilitation reforms considered in the study (published in 2015) (see Table 1).

TABLE 1: STATUS OF IMPLEMENTATION OF KEY TRANSIT AND TRANSPORT FACILITATION ISSUES BY REGIONAL ECONOMIC COMMUNITY

Issue for harmonisation	East Africa EAC and COMESA	Southern Africa SADC	Central Africa ECCAS and CEMAC	West Africa ECOWAS and WAEMU
Vehicle load and dimensions control (axle load and gross vehicle mass limits)	Yes. Axle load/GVM* Weighbridges installed	Yes. Axle load/GVM Weighbridges installed		Yes. Axle Load/GVM
Road transit charges	Harmonised between these three regional economic communities			
Carrier licence and transit plates	Currently being implemented			
Third party motor vehicle insurance schemes	Yes	Yes	Yes	Yes
Road customs transit Declaration document	Yes	Yes		Yes
Road check points	Significant reduction			ECOWAS Interstate Road Transport (ISTI Convention A/P.2/5/82)
Regional customs bond	Yes – harmonised among these three regional economic communities			Customs Agreements on Inter-State Road Transit (TRIE Convention)
Border posts operations	15 one-stop border posts envisaged; Seven under development	One-stop border post pilot; Other one-stop border post projects in the North-South Corridor (NSC)		
Information and communication technology for vehicle tracking and fleet management	Automated System for Customs Data (ASYCUDA)	ASYCUDA	ASYCUDA	ASYCUDA

From: Karingi and Davis, 2016

*GVM= gross vehicle mass



AFRICA'S LANDLOCKED COUNTRIES

LANDLOCKED COUNTRIES

Africa is divided into 54 economic spaces, including many landlocked (16) and least developed countries (34).

Landlocked countries face specific challenges. Botswana, Burkina Faso, Burundi, Chad, Central African Republic, Ethiopia, Lesotho, Malawi, Mali, the Niger, Rwanda, South Sudan, Eswatini, Uganda, Zambia and Zimbabwe all lack maritime access, are isolated from the world markets and suffer high transit costs, which seriously constrain their overall socioeconomic development. With the exception of Botswana, Uganda and Swaziland (which are middle-income countries), these countries are classified as LDCs. UNECA estimates landlocked developing countries spend almost two times more of their export earnings on transport and insurance services, on average, than developing countries, and three times more than developed economies (ECA, AU and AfDB, 2010).

To address the constraints landlocked countries face, an international ministerial conference of landlocked and transit developing countries was held in Almaty, Kazakhstan, from 25 to 29 August 2003. It was the first meeting of the international community to mobilise international support and address the specific needs of land- locked countries. At its conclusion, the conference adopted the Almaty Ministerial Declaration and the *Almaty Programme of Action: Addressing the Special Needs of Landlocked Developing Countries Within a New Global Framework for Transit Transport Cooperation for Landlocked and Transit Developing Countries.* The Almaty Programme of Action, as it is referred to, is designed to develop efficient transport systems among landlocked and transit developing countries.

Development corridors and spatial development initiatives

Niklas Malchow and Anna Waldmann (2017) argue that, to address key economic bottlenecks, a promising approach lies in the development of regional economic development corridors, which integrate hard infrastructure with soft infrastructure issues to galvanise regional economic activity, connect rural areas to market opportunities, and generate new job opportunities. A key element of regional economic development corridors are regional transport corridors, which comprise port, road, and rail infrastructure, usually spreading from a harbour to regionally integrate hinterland economies. Africa has more landlocked countries than in any other region (16), and the continent also ranks first in land border's share of total border's length (84 percent). Thus, cross-border infrastructure (CBI) and regional economic development corridors not only have the potential to generate enormous economic gains from regional integration, but are also critical in connecting landlocked economies to regional and global markets.

The writers discuss the role of CBI from the point of view of job creation (Malchow and Waldmann, 2017). They argue that regional infrastructure development is a key driver of socioeconomic development. They identify three economic effects of infrastructure development: direct employment effects, indirect employment effects, and spillover effects. They argue that the most interesting and important socioeconomic effect of CBI is that of spillovers. Direct employment effects are the jobs created in the preparation, construction, and operation and maintenance phases of an infrastructure project. For example, a construction company hires 1 000 workers to build a transmission line that runs between three countries, and a concessionaire then hires a staff of 300 workers for operation and maintenance during a 20-year contract. Indirect employment effects consist of the jobs created as a result of the goods and services inputs needed for the realisation of infrastructure projects, i.e. jobs in the supply chain. However, a transport corridor has the potential to revitalise existing regional markets, create new ones, and support the establishment of value chains through commercial and service hubs along the corridor. They point out that when a regional transport corridor becomes operational, its road, rail, and port infrastructure triggers spillover effects that can catalyse a comprehensive process of regional socioeconomic development.

In economic theory, as transportation costs decrease, traffic increases, and as a result, trade in goods and services intensifies. Due to lower trade barriers and enhanced market opportunities, new commercial and service hubs are established along the corridor. On the one hand, regional transport corridors can incentivise the creation of new businesses, and on the other hand, they can also connect existing manufacturing and agricultural clusters to new cross-border markets. Likewise, feeder roads can link agricultural areas with the manufacturing sector, similarly creating the potential for new value chains. The new corridor can thus generate substantial competitiveness and productivity gains, create new economic opportunities, and ultimately lead to an increase in national and regional GDP.

Ros Thomas (2009) argues that the chief elements of the Spatial Development Initiative (SDI) strategy include: (1) crowding in and coordination of both public and private sector investments in the SDI; (2) ensuring political support, commitment and buy-in from the highest levels of government in order to facilitate fast and focused planning; and (3) the use of well-planned and publicised opportunities (such as road shows and investor conferences) to market opportunities in the SDIs. This, however, requires that project opportunities are identified and packaged, and presented to potential investors.

Other writers, such as De Beer (2001), argue that the SDI approach puts the emphasis on developing these transportation corridors not as transportation routes linking resource-rich areas with coastal ports, or even linking a few nodes along a transportation route, but rather on simultaneously exploiting the variety of other development opportunities that arise along the route. These supplementary economic investment and development opportunities arise by virtue of locational advantages in relation to the enhanced transportation networks and more efficient and reliable transportation services. In addition, once certain lead investments have been made, a number of spin-off upstream and/or downstream investment opportunities arise.

The experience of the Greater Mekong subregion in Southeast Asia has insights for African countries.

Greater Mekong Subregion Economic Cooperation Program

The history of the Greater Mekong Subregion Economic Cooperation Program is a good example of how regional integration — and developmental regionalism in particular — can be used and adapted in the face of changing domestic and global circumstances to enhance and support economic development and transformation (UNCTAD, 2013).

In 1992, the six countries sharing the Mekong River — Cambodia, China, the Lao People's Democratic Republic, Myanmar, Thailand and Vietnam — launched a subregional programme of economic cooperation with the assistance of the Asian Development Bank (ADB) to promote development in the subregion by enhancing economic linkages across their borders. The underlying strategy of the programme was to integrate the countries of the subregion through improvements in infrastructure, with an initial focus on overcoming barriers to physical connectivity within the subregion, thereby promoting trade and investment and stimulating economic growth.

Since its inception, the programme has adopted a developmental regionalism approach to integration by focusing on infrastructural development and sectoral policy coordination in several areas (including agriculture, energy, the environment, human resource development, telecommunications, transport and tourism), as well as promoting cooperation in the cross-cutting areas of trade and investment (ADB, 2012).

Over the past two decades, the programme has contributed to the increased integration and prosperity of the subregion, which has seen a significant improvement in socioeconomic development and poverty reduction since the early 1990s. As of June 2012, projects had been implemented with a total investment of about US$15 billion. Overcoming geographical barriers, integrating regional markets, and promoting new economic opportunities have been key dimensions through which regional projects have complemented national development agendas.

The success of the Greater Mekong Subregion Economic Cooperation Program over the past 20 years has lessons for Africa. The 2021 ADB study underlines a number of important lessons that can be drawn by African policymakers from this example of developmental regionalism in practice.

1. The programme adopted a pragmatic, activity-based and results-oriented approach to the design and implementation of sector-specific subregional projects, focusing initially on improving economic linkages through infrastructure development (particularly physical infrastructure such as transport and communications networks) and on further developing the policy and institutional framework to enhance competitiveness. Thus, the project focused on both the hard and soft infrastructures.

2. By continuously updating and retuning the programme, the countries of the subregion have ensured that it remains relevant in a changing context. An important lesson is that global economic developments require a flexible approach to developmental regionalism; new approaches and policies may be required to promote development in a fast-changing global economic environment.
3. The countries of the subregion and their governments have actively encouraged participation by all stakeholders in the management and coordination of the programme, including civil society, non-governmental organisations, the private sector, academia and the donor community.
4. Crucial to the programme's success has been the ability to mobilise substantial financial resources. Securing the required financing, from ADB and other development partners, has enabled the programme to move from a general discussion of strategies and approaches to implementing specific projects, with tangible results.
5. The Greater Mekong Subregion countries have also focused on establishing the requisite institutions to provide a flexible and simple, yet effective, administrative framework for implementing the programme. Since its inception, ADB has played the role of secretariat and undertaken the monitoring and coordination of activities under the programme, as well as providing crucial technical assistance. Despite recent efforts in Africa, there is an urgent need to strengthen economic governance by building healthy institutions at the national, regional and continental levels.

As with the Greater Mekong Subregion programme, the Maputo Development Corridor (MDC) highlights the importance of an integrated approach to corridor or infrastructure development: the physical infrastructure forms the basis for the initiative but finance, regulation, a platform for resolution of challenges or disputes, and linkages to other trade facilitation endeavours, such as border management, are essential for success.

Maputo Development Corridor

Ros Thomas (2009) points out that the MDC was the first SDI in Southern Africa to be implemented at the regional level. It involved a partnership between Mozambique and South Africa and, at the time, represented an unprecedented level of economic cooperation between the two countries. First conceptualised as a transport corridor by the transport departments of the two governments, the intervention of South Africa's then Department of Trade and Industry turned it into the first of the regional SDI initiatives. Overall it has been viewed as a success (Thomas, 2009; De Beer, 2001).

De Beer (2001) argues that key achievements of initiatives like the MDC were facilitating the development of new, or expansion of existing, economic opportunities. De Beer notes that the MDC was initiated on the basis of four objectives: first to rehabilitate the core infrastructure along the corridor with minimum impact to the fiscus (road, rail, port, energy, border post); second, to maximise investment in both the inherent potential of the corridor area and in the added opportunities which the infrastructure rehabilitation created; third, to ensure that the development impact of this investment was maximised, particularly for disadvantaged communities; and fourth, to ensure sustainability by developing policy, strategies and frameworks that encompassed an holistic, participatory and integrated approach to development.

Thomas (2009) argues that the MDC has provided a demonstration effect for other corridors and SDIs in Africa. The corridor links South Africa's most industrialised, but effectively landlocked northern and eastern regions (Gauteng and Mpumalanga provinces) to the Mozambican port of Maputo, and centres on a system of road, rail, border posts, port and terminal facilities. It has created a host of industrial and commercial opportunities along the 590 km route from Johannesburg to

THE MAPUTO DEVELOPMENT CORRIDOR *Source: Author*

Maputo, which is now populated with steel mills, petrochemical plants, quarries, mines and smelters, sugar cane and forestry plantations, and manufacturing facilities.

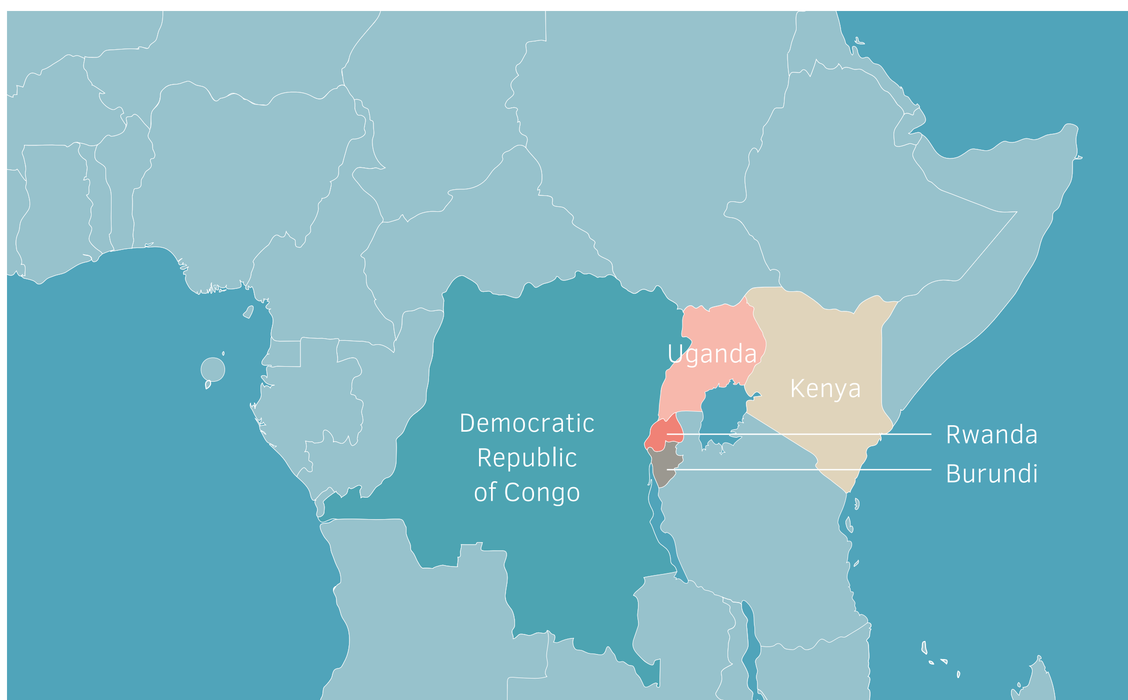
The N4 Maputo Toll Road, developed and operated via a 30-year concession contract, has become a show-piece public-private partnership in Southern Africa. The programme has been driven mainly at provincial government level with support from the then Department of Trade and Industry, the Industrial Development Corporation (IDC) and the Development Bank of Southern Africa (DBSA).

The corridor had a number of notable successes by 2002. It facilitated over US$5 billion in private sector investments into regional infrastructure development, industrial development and natural resources exploitation and beneficiation. Key infrastructure investments included:

- The N4 Maputo Toll Road – a 30-year concession awarded in 1997 to the Trans African Concessions (TRAC) consortium, and estimated at R1.5 billion at the time.
- The management agreement with Liverpool's Merseyside Docks and Harbor Company to upgrade and operate the Maputo Port for an estimated US$65 million initial investment.
- Construction of two high-voltage electricity lines from Duvha (near Johannesburg) to Maputo through a South Africa-Mozambique electricity utilities Joint Venture (Motraco).
- Development of the Pande/Temane gas field in Mozambique and the construction of pipeline to South Africa (US$1.4 billion) by Sasol (South Africa) and ENH (Mozambique).

Other investments include:

- The anchor investment into the Mozal Aluminum Smelter at Maputo by South Africa's Billiton (now BHP Billiton) in a joint venture with the IDC (about US$1.5 billion for phase I and a further US$1 billion in phase II).
- A US$2 billion iron and steel complex in Matola, based on South African ore and Mozambican gas (De Beer, 2001). Since the development of the MDC, the Northern Corridor has arguably made the most progress in Africa.



MEMBER STATES OF THE NORTHERN CORRIDOR: BURUNDI, DEMOCRATIC REPUBLIC OF CONGO, KENYA, RWANDA AND UGANDA

Northern Corridor

The Northern Corridor is a multi-modal trade route linking the landlocked countries of the Great Lakes Region in East Africa with the Kenyan seaport of Mombasa.

The Northern Corridor Transit and Transport Agreement (NCTTA) is a treaty coupled with 11 Protocols signed in 1985 and revised in 2007 for regional cooperation with a view to facilitating interstate and transit trade between the member states of Burundi, Democratic Republic of Congo, Kenya, Rwanda, and Uganda. South Sudan acceded to the Agreement in 2012.

The defined 11 Protocols on strategic areas for regional cooperation are: Maritime Port Facilities, Routes and Facilities, Customs Controls and Operations, Documentation and Procedures, Transport of Goods by Rail, Transport of Goods by Road, Inland Waterways Transport of Goods, Transport by Pipeline, Multimodal Transport of Goods, Handling of Dangerous Goods and Measures of Facilitation for Transit Agencies, and Traders and Employees.

The corridor is the busiest trade corridor in the COMESA region and it has brought real prospects for economic growth and sustainable development, resulting in improved standards of living for a significant proportion of the population of the subregion.

The corridor management approach is now recognised by donors and development partners as an effective mechanism for facilitating trade.

The Northern Corridor encompasses road, rail, pipeline and inland waterways transport. The main road network runs from Mombasa Sea Port through Kenya and Uganda to Kigali in Rwanda, Bujumbura in Burundi and to Kisangani in the Democratic Republic of Congo. The road network also links Kenya and Uganda to Juba in South Sudan. The rail network runs from Mombasa Sea Port through Nairobi, Malaba, and Kampala to Kasese in Western Uganda, close to the border with the Democratic Republic of Congo. A branch line radiates

from Nakuru to Kisumu on Lake Victoria, from where rail wagon ferries link the system to Port Bell in Kampala. Another rail branch line runs from Tororo in Eastern Uganda to Pakwach in Northern Uganda, from where river steamers used to provide links with Nimule in South Sudan. The oil pipeline runs from Mombasa through Nairobi and Nakuru to Kisumu and Eldoret in western Kenya, from where the landlocked countries access their fuel imports.

Public Private Stakeholders Committee

Article 8 (d) of the Northern Corridor Transit and Transport Agreement provides for a Public Private Partnership Committee (PPPC), composed of public and private sector stakeholders dealing with matters of trade and transport along the Northern Corridor.

The PPPC was initiated by the Commissioner General Kenya Revenue Authority at the Northern Corridor Stakeholders Consultative Forum to resolve challenges at the Port of Mombasa and along the Kenya Northern Corridor transit section. The first meeting was held on 8 March 2017 in Nairobi, Kenya and ended with the election of the Democratic Republic of Congo as Chairman of the Committee, South Sudan as the Vice-Chair and the NCTTCA Permanent Secretariat as Secretary of the Committee.

Development partners

The Northern Corridor traverses the economic spheres of a number of regional economic communities, notably EAC, COMESA, IGAD and the Economic Community of the Great Lakes Region. All these RECs undertake programmes that impact on the Northern Corridor, hence the need for a collaborative approach and partnership in trade facilitation – particularly harmonisation of documentation and procedures.

Besides the RECs there are other specialised inter-governmental organisations with similar mandates with which NCTTCA has to partner to achieve certain outcomes, such as the Port Management Association of Eastern and Southern Africa and the International Conference of the Great Lakes Region. NCTTCA continues to work with diverse development partners and donors, such as the AfDB, TradeMark East Africa, EU, UNECA, the United States Agency for International Development (USAID)-funded Competitiveness and Trade Expansion (COMPETE) project, World Bank Africa Transport Policy Programme, and the World Customs Organization, among others.

Most of these organisations continue to support infrastructure development and other projects along the corridor as well as providing technical assistance to the Secretariat. NCTTCA has built smart partnerships with EAC and COMESA to implement the trade and transport facilitation instruments agreed under the tripartite arrangement:

- One-stop border posts;
- Integrated border management systems;
- Electronic single window system; and
- A regional overload control system.

NEPAD, PIDA, PICI, MOVEAFRICA AND 16 INFRASTRUCTURE PROJECTS

Inspired by the successful spatial development initiatives and development corridors such as the Maputo Development Corridor in Southern Africa and the experiences of the Mekong Delta Development Corridor, African Leaders initiated the Programme on Infrastructure Development in Africa in 2012 and prioritised 51 regional projects in energy, transportation, water and sanitation. These leaders also developed the Presidential Infrastructure Champion Initiative to fast-track the implementation of several priority transborder infrastructure projects. The NEPAD Agency together with other stakeholders launched MoveAfrica on 11 May 2016 on the margins of the World Economic Forum held in Kigali, Rwanda.

In 2014 African leaders, meeting at the Dakar Financing Summit adopted 16 infrastructure projects that could accelerate Africa's regional integration by leveraging private sector investment. The Dakar Agenda for Action (DAA) adopted at this Summit argued that, "infrastructure development remains a key driver and a critical enabler for sustainable growth in Africa" (NEPAD, 2014).

New Partnership for Africa's Development (NEPAD)

NEPAD was founded in 2001 as a response to Africa's economic marginalisation and the need for national strategic development capacity. NEPAD is based on a philosophy of ownership, leadership and partnership for the achievement of development goals. NEPAD accords special focus to regional integration as a *sine qua non* for Africa's inclusive growth and development.

To celebrate its 10th anniversary NEPAD produced a report called *NEPAD: Decade of Change*. The report outlines some of its achievements as follows:

"In its first decade, NEPAD formulated a number of continental policy frameworks, including the Comprehensive Africa Agriculture Development Plan, the Short-Term Action Plan for infrastructure and the Programme for Infrastructure Development in Africa (PIDA), the Consolidated Plan of Action in Science and Technology, the Environment Action Plan and the Capacity Development Strategic Framework, all of which are being implemented at national and regional levels. Africa has also made significant advances in promoting good governance under the umbrella of the African Peer Review Mechanism (APRM), which was established as part of the NEPAD strategy" (NEPAD, ECA and OSAA, 2012).

Programme Infrastructure Development for Africa (PIDA)

At the XVIIIth Ordinary Session of the AU held in Addis Ababa, Ethiopia, in January 2012, the AU Heads of State and Government formally adopted the Declaration on the Programme for Infrastructure Development in Africa (Doc. EX.CL/702(XX)). PIDA is a multisector programme covering transport, energy, transboundary water and telecommunications/ICT, dedicated to facilitating integration in Africa through improved regional infrastructure. Designed to support implementation of the AU Abuja Treaty and the creation of the African Economic Community, PIDA is a joint initiative of the African Union Commission, the NEPAD Planning and Coordinating Agency, and the AfDB.

PIDA sets out its objectives as follows: "PIDA provides a common framework for African stakeholders to build the infrastructure necessary for more integrated transport, energy, ICT and trans-boundary water networks to boost trade, spark growth and create jobs. Implementing it will transform the way business is done and help deliver a well-connected and prosperous Africa" (PIDA, 2012). The document stresses that PIDA infrastructure projects are implemented by countries on

whose territory they are located and by their agencies (public or private). PIDA's role is to build harmonisation between country, regional and continental policies.

The first 10 years of the PIDA programme was completed in 2020 and the second phase of the project was launched as PIDA PAP II. The second phase of the programme adopted an Integrated Corridor Approach, with all related infrastructure to link and complement each other as a critical enabler of the AfCFTA (AU, 2020).

Presidential Infrastructure Champion Initiative (PICI)

PICI is a presidential initiative to fast-track infrastructure development in Africa. PICI was born out of a proposal by then South African President Jacob Zuma to accelerate regional infrastructure development, enabled through the political championing of projects. This proposal was made during the 23rd NEPAD Heads of State and Government Orientation Committee (HSGOC) meeting in Kampala, Uganda, in July 2010. The role of the champions is to unblock bottlenecks, co-ordinate resource mobilisation and ensure project implementation. It presents the opportunity for African Heads of State and Government to be actively involved in the development and implementation of projects. During the 16th AU Summit in Addis Ababa, Ethiopia, on 30 January 2011, PICI, together with its projects and champions, was endorsed and adopted by the AU Assembly. At the AU Summit in January 2012, PIDA was endorsed by the AU Assembly as the continental framework for infrastructure development from 2012 to 2040.

Although PICI was adopted before PIDA, it is important to note that the PICI is not only a precursor to PIDA, but forms part of the overall PIDA (AUDA and NEPAD, 2011). According to NEPAD, the NEPAD Agency, acting as the secretariat and executing agency of PICI, works closely with the country focal points of the respective states, the AU Commission, the RECs, the AfDB and UNECA, to monitor the progress on the implementation of the PICI projects.

PICI had nine projects (with champions in brackets) in 2016:

1. Missing Links of the Trans-Sahara Highway (Algeria).
2. Optic Fibre Link between Algeria and Nigeria via Niger (Algeria).
3. Dakar-Ndjamena-Djibouti Road/Rail Project (Senegal).
4. Nigeria-Algeria Gas Pipeline Project (Nigeria).
5. Kinshasa-Brazzaville Bridge (Road/Rail) Project (Republic of Congo).
6. ICT Broadband and Fibre Optic Link to Neighbouring States (Rwanda).
7. North-South Corridor Road/Rail Project (South Africa).
8. Navigational Route between Lake Victoria and the Mediterranean Sea (Egypt).
9. Lamu Port–Southern Sudan-Ethiopia Transport Corridor Project (Kenya).

The champions have shown leadership by committing or mobilising financial resources, providing platforms for dialogue among countries and improving the focus of projects. Algeria, Nigeria and Egypt have committed resources for projects they are championing. South Africa has undertaken studies to identify gaps in knowledge on the North-South Corridor and, as Chair of the PICI, has organised meetings of senior officials at technical and political levels that provide updates on projects.

According to the PIDA Progress Report 2019/2020, the PICI initiative has included Sudan bringing the number of participating countries to 12 (Algeria, Benin, Cote d'Voire, Congo, Egypt, Kenya, Namibia, Nigeria, Rwanda, Senegal, South Africa and Sudan (AU, 2020).

MoveAfrica

The NEPAD Agency with Africa Investor and the Global African Investment Summit as strategic partners launched MoveAfrica on 11 May 2016 on the margins of the World Economic Forum in Kigali, Rwanda (NEPAD, 2017). More than 50 senior industry executives including partners such as Africa Investor, Daily Mail, Barclays, Coca-Cola, Shoprite, Dangote Cement, SADC, ECOWAS, DBSA, AfDB and key multilateral organisations participated in the launch.

A NEPAD Agency concept note states that the continent is plagued by poor and underdeveloped transportation infrastructure, limiting access for consumers, hampering intra-regional trade, and driving up import and export costs. It acknowledges that the lack of adequate capacity and technology, and much slower than anticipated private sector participation has hindered infrastructure development.

The concept note argues that large multinationals currently have to go to extreme lengths to keep costs down when operating in Africa. For instance, it is easier and cheaper for Coca-Cola, as a manufacturer of soft drinks in Kenya, to buy passion fruit from China, move it to Kenya, bottle and sell it in Kenya, than it is to buy directly from next-door Uganda. Reports from the automobile manufacturing industry in Africa indicate that at times they have to commission planes to transport vehicles across Africa. The Ford Motor Company for instance notes that they charter Airbus 330s to move vehicles from Johannesburg to Nairobi. Hence, the competitiveness of the African auto manufacturing industry is directly affected by Africa's transport and logistics infrastructure challenges.

To improve Africa's investment attractiveness and address the transport and logistics agenda, Africa will need to pursue a deeper engagement with the private sector on developing transport and logistics projects. To this end, the NEPAD Agency is launching a transport and logistics initiative called MoveAfrica (NEPAD, 2017).

The MoveAfrica initiative aims to address the transformation of the trans-boundary transport and logistics sector in Africa. It will seek to drive down transport costs and increase logistics efficiency for fast-moving consumer goods operators and manufacturers operating in Africa, and thus complement the workstream of the Continental Business Network (NEPAD, 2017).

16 infrastructure projects for African integration

On the 21 December 2016, NEPAD launched an investor's guidebook produced by the Economic Commission for Africa and NEPAD Agency. The handbook was produced at the request of President Macky Sall, NEPAD HSGOC Chairman. It examines the 16 projects selected at the Dakar Summit on Infrastructure, organised in June 2014, and covers the crucial issue of their financing (UNECA, 2016). The ECA Deputy Executive Secretary for Knowledge Delivery, Giovannie Biha, stated that finding investments will be key: according to projections, Africa will need about US$360 billion by 2040 for the infrastructure development programme. He underlined ECA's support for the "16-16-16" initiative (16 infrastructure projects to be carried out in at least 16 countries starting from 2016) to help implement Agendas 2063 and 2030. These 16 projects, selected by the Dakar Financing Summit, are low-hanging fruit covering strategic areas such as transport, energy, ICT or water. Most are transboundary projects and basic building blocks of Agenda 2063 (NEPAD, 2017).

Summary of the 16 infrastructure projects

1. Ruzizi III Hydropower Project

The Ruzizi III project will be a run-of-the river hydroelectric plant with installed capacity of 147 MW. The Ruzizi River forms the border between the DRC and Rwanda. This project has the potential to transform electricity supply for an estimated 107 million people living in the Great Lakes region and is expected to contribute to stabilising the region by enhancing economic cooperation between the three countries involved (Burundi, the DRC and Rwanda).

2. Dar-es-Salaam Port Expansion

The port of Dar-es-Salaam is the second most important gateway for regional trade in East Africa after Mombasa, catering for 90 percent of Tanzania's international trade and a significant part of trans-shipment trade for Zambia, Malawi, DRC, Burundi, Rwanda and Uganda. The main objectives of the port project include deepening and strengthening the berths; deepening and widening the adjacent turning area; increased capacity to handle larger sized vessels; and installation of conveyor systems and expansion of silos capacities.

3. Serenje-Nakonde Road Project

Road transport carries over 80 percent of the cargo on the Dar es Salaam Corridor and directly and indirectly serves Zambia, Tanzania, Kenya, DRC, Malawi, Zimbabwe, Botswana and Namibia. Reducing the cost of transport along the North-South and Dar es Salaam corridors is key to improving competitiveness in the eight countries served by these corridors. The project will contribute to the upgrading of the Serenje-Nakonde section of the North-South Corridor road network through rehabilitating road links.

4. Nigeria-Algeria Gas Pipeline

Nigeria has the seventh largest gas reserves in the world with the high-quality gas rich in liquids and low in sulphur. The proposed natural gas pipeline will connect to the existing Trans-Mediterranean, Maghreb-Europe, Medgas and Galsi pipelines across the Mediterranean sea. The pipeline is estimated at about 4 400 km, with over 1 000 km in Nigeria, 840 km in Asia, 2 300 km in Algeria and 220 km connecting Algeria to Spain. With this pipeline, Africa can contribute natural gas to the global market, particularly to the EU.

5. Modernisation of Dakar-Bamako Rail Line

This project is part of the Dakar-Niamey multi-modal corridor. It involves investment in new rail infrastructure (track and rolling stock) and a signaling system for the line between Dakar port and Bamako. This will result in a modern main railway line of 1 234 km between Dakar and Bamako. The new line will allow for the exploitation of iron ore and bauxite mines in Mali and Senegal. Both Mali and Senegal government have committed to creating national companies responsible for the management and financing of the new rail infrastructure investment in addition to a joint private operating company.

6. Sambangalou Hydropower Project

The Sambangalou reservoir aims to be a multi-purpose reservoir. The project involves construction of a gravity dam and four turbines of 32 MW each. It aims to provide low-cost renewable energy to Gambia, Guinea, Guinea Bissau and Senegal. A single agency (Organisation for the Development of the Gambia River) has been created to coordinate the participation of the three countries). The project has strong support from all the countries and is a Heads of State priority project.

7. Abidjan-Lagos Coastal Corridor

The Abidjan-Lagos Coastal Corridor is the most travelled West African Corridor on the African Regional Transport Infrastructure Network. This project includes the roll-out of five road-related smart corridor modules; modernising a 384 km stretch of highway; upgrading 288 km of road; and creating a 2x3 lane highway, with an associated rail link and ICT to transform the coastal transport/trade corridor into a "smart corridor". The corridor is 1 028 km. The project has the support of the five Presidents from the ECOWAS region, Nigeria, Togo, Benin, Ghana and Cote d'Ivoire. The Nigerian Minister of Works is chairman of the Project Steering Committee which includes other ministers from the five countries.

8. Lusaka-Lilongwe – ICT Terrestrial Fibre Optic

The ICT Terrestrial Connectivity project entails closing the missing links in the ICT sector to improve the continent's interconnecting infrastructure and to connect Africa with the rest of the world. It aims to ensure comprehensive continental backbone infrastructure by developing cross-border interconnection of broadband networks. The Lilongwe-Lusaka is a sub-project to install a single channel fibre line from Malawi Telecommunications Limited Technical Centre in Lilongwe to the Chipata border with Zambia.

9. Zambia-Tanzania-Kenya Transmission Line

The idea for the Zambian-Tanzania-Kenya Interconnector started as a bilateral project between Zambia and Tanzania more than two decades ago. The transmission line was meant to connect the electricity grids of Zambia and Tanzania from the town of Serenje through the Zambian provincial town of Mbeya and continue into the Tanzanian grid. The project will connect the Zambian grid to Kenya, via Tanzania, covering a distance of 2206 km. Zambia, Tanzania and Kenya have established a Project Management Unit until a transmission company is created. Each country will assign personnel to the unit, to be transferred to the transmission company once commercial operations begin.

10. North Africa Transmission Corridor

This project entails the construction of a 2 700 km transmission line with a 4 500 MW capacity from Morocco to Egypt through Algeria, Tunisia and Libya. It aims to ensure transmission of energy between Morocco, Algeria, Tunisia, Libya and Egypt. The countries will all thus be able to share the benefits of the low-cost, gas-based power generated in Algeria and Libya. COMELEC, the electricity intra-union agency of the Arab Maghreb Union serves as a project sponsor and plays a key role in co-ordinating energy policy in the AMU.

11. Abidjan Ouagadougou Road Rail Projects

The main sponsors of this project are Cote d'Ivoire and Burkina Faso. It entails the modernising the West African corridor and the roll-out of four smart corridor modules: upgrading 500 km of highway; modernising a 1 200 km stretch of existing railway line; constructing two one-stop border posts; and a railway upgrade between Abidjan and Ouagadougou (1 200 km with modern equipment, signalling and information systems).

12. Douala Bangui Ndjamena Corridor – Road Rail Project

This project is sponsored by three Central African governments: Cameroon, Central African Republic and Chad. It includes a railway and the expansion of road networks in Cameroon. It is envisaged that the construction of this bridge, road and railway line will link Cameroon, Central African Republic and Chad and speed up regional integration. ECCAS is to play a key role in implementing the project.

13. Kampala Jinja Road Upgrading

This project is sponsored by the Government of Uganda. The main lead agency is the Uganda National Roads Authority. The main aim is to improve the track capacity of Greater Kampala region. The project seeks to expand the 75 km dual carriageway to two to four lanes in each direction. It is part of the Northern Corridor project of PIDA. This road is also a vital link connecting Juba, in South Sudan with Kampala, in Uganda.

14. Juba Torit Kapoeta Nadapal Eldoret Road Project

The main sponsors of this project are the South Sudan and Kenyan governments. The project involves the upgrading of the 365 km Nadapal-Juba Road. It aims to enhance regional connectivity and is intended to contribute to the integration of South Sudan into regional markets. It is estimated that it could create up to 1.7 million jobs a year during the construction period. The improved road will also facilitate the import and export of agricultural and other products across the border between Kenya and South Sudan and the other countries of the region (DRC, Uganda, Rwanda, Uganda and Burundi).

15. Batoka Gorge Hydropower Project

This project is co-sponsored by the governments of Zambia and Zimbabwe. The main objective is to build a hydroelectric plant with an installed capacity of 1 600 MW, with the power shared equally between the two countries. The project will allow both Zimbabwe and Zambia to reduce their reliance on imported electricity and enable both countries to export of electricity into the East African Power Pool. It is estimated that it could create up to 6 000 jobs a year during the construction phase and about 1 200 jobs during the operation phase. Zambezi River Authority is the lead implementing agency.

16. Brazzaville-Kinshasa Road Rail Bridge Project and Kinshasa-Illebo Railways

This project is sponsored by the governments of the Republic of Congo, and the Democratic Republic of the Congo. The main aim is to build a combined road and rail corridor across the two countries. The railway line will be connected to the Lumbumbashi-Ilebo line. The sub-project involves only the construction of Brazzaville-Kinshasa Road/Rail Bridge across the Congo River. The project also includes the construction of a one-stop border post. The railway link between Central and Southern Africa across the DRC will facilitate regional integration between Southern Africa and Central Africa.

FINANCING AFRICA'S INFRASTRUCTURE

President Macky Sall of Senegal convened the Dakar Financing Summit for Africa's Infrastructure in June 2014. The Summit aimed to build innovative synergies between the public and private sectors for mobilising pan-African financial investments for infrastructure. The Dakar Agenda for Action, which seeks to leverage public-private partnerships for infrastructure, was the main outcome. The Summit was a follow-up to a study on mobilising domestic resources for financing Africa's development in 2013 undertaken by NEPAD Agency and UNECA with other partners. This provided several options, including infrastructure bonds and African-owned private equity funds, and establishing sovereign wealth funds and public-private partnerships. The DAA was adopted at this Summit. Then AfDB President, Donald Kaberuka, presented the Africa50 Fund, an innovative financing mechanism with the goal of mobilising domestic and external resources to finance infrastructure development.

Africa's infrastructure financing needs are estimated at US$95 billion per annum and there is a funding gap of US$50 billion per annum (Hoekman and Njenque, 2016). A more recent study estimates the continent's infrastructure needs between U$130-US$170 billion a year until 2025 with a yearly financing gap of US$67.6-US$107.5 billion (UNECA, 2020).

The AfDB jointly with 22 African countries have created Africa50 as an infrastructure investment platform designed to significantly narrow the infrastructure finance gap in Africa, primarily by shortening the time between project idea and financial close – from a current average of seven years to under three years, thereby delivering a critical mass of infrastructure in the short-to-medium term. Africa50 builds on AfDB's recent successes in overcoming early-stage bottlenecks to infrastructure projects, mobilising political support for necessary reforms, and deploying skilled experts to work along-side government. Africa50 will act as a one-stop shop providing a holistic solution to market failure at each stage of the infrastructure financing chain.

A study on how domestic resources can be mobilised to fund Africa's infrastructure priorities was mandated by NEPAD HSGOC and conducted by the NEPAD Agency, in collaboration with the UNECA (UNECA, 2017). The study, which had a continental coverage and drew on country case studies, identified instruments and measures for domestic resource mobilisation, as well as facilities and special purpose vehicles that could facilitate the implementation of specific NEPAD programmes and projects. The study found that "the fundamentals exist for the continent to raise more financial resources domestically to implement its development programmes and projects" (UNECA, 2017).

The study pointed to the following evidence to base its argument: "Africa generates more than US$520 billion annually from domestic taxes; has public pension fund assets that are growing impressively; earns more than US$168 billion annually from minerals and mineral fuels; and has more than US$400 billion in international reserves held by its Central/Reserve Banks. The continent's Diaspora remittances climbed to US$40 billion in 2012 and have the potential to raise up to US$10 billion annually through securitization. Stock Market Capitalisation in Africa rose from US$300 billion in 1996 to US$1.2 trillion in 2007. Banking revenues are estimated at about US$60 billion and there is high liquidity in the banking sector. Some ten African countries today have established Sovereign Wealth Funds. Africa's Private Equity Market is worth about US$30 billion". The study called for sustained progress in regional integration, policy, governance and institutional reforms and capacity building.

A more recent UNECA study titled, *Innovative Finance for Private Sector Development in Africa* examines the potential of innovative financial instruments, such as private banks, development banks, capital markets, sovereign bonds, green bonds, and fintech in providing finance for Africa's development needs (UNECA, 2020).

CONCLUSION

The information in this chapter strongly indicates that cross-border infrastructure will be a valuable complementary pillar to the AfCFTA's trade integration programme, and together with structural transformation and industrialisation must form part of the core effort of Africa to advance the economic development of the continent. When supported by the strategic partnerships that Africa has already built with its key trade and investment trading partners such as the EU, US and Japan in the North – and China, India, Turkey and others in the South – the process of developmental regionalism is more likely to become part of a virtuous circle of growth, development and reduction of poverty.

Africa's infrastructure financing needs are estimated at about U$150 billion a year and there is a funding gap of about US$100 a year. Although a number of useful recommendations emanate from the UNECA and NEPAD Agency study, Africa will still need to develop creative proposals to accelerate both the process of undertaking feasibility studies and funding the implementation of its cross-border infrastructure projects.

QUESTIONS FOR DISCUSSION

1. What are the main hard and soft infrastructure challenges that are responsible to increasing Africa's trade costs – both its imports and exports?
2. How can the concepts of development corridors and SDIs assist Africa's regional integration process?
3. What in your view are some of the innovative financing mechanisms that African countries need to explore to finance their economic development?

Changes in the architecture of global trade and the recent shift towards a more inward-looking European Union and United States require African countries to double their efforts towards advancing their own agenda of regional integration on the continent.

CHAPTER SEVEN

THE AfCFTA AND AFRICA'S TRADE RELATIONS WITH THE NORTH AND SOUTH

At the turn of the new millennium, the Economist magazine described Africa across its front cover as "The hopeless continent" (Economist, 2000). This negative narrative of Africa's prospects underwent a major turn with the publication of the McKinsey Global Institute report on Africa's economic prospects a decade later, Lions on the move: The progress and potential of African economies (McKinsey 2010). McKinsey's study was among the first significant reports to change the narrative on Africa's economic future. This report was followed by a slew of similar studies and reports that prompted the Economist itself to state that: "Over the past decade six of the world's ten fastest-growing countries were African. In eight of the past ten years, Africa has grown faster than East Asia, including Japan" (Economist, 2011). This was an extraordinary turn for a magazine that had labeled Africa as "the hopeless continent" just a decade before. In the second decade of the new millennium, the narrative – Africa is "rising" – has now firmly replaced the narrative of "the hopeless continent" (Deloitte LLP, 2013; 2014).

Africa has made significant progress in the new millennium, growing by more than five percent a year on average between 2000 and 2013 (excluding South Africa), creating the conditions for reducing its high poverty levels (World Bank, 2013). These high growth rates in Africa are unprecedented. Africa's economies have begun to diversify from a reliance on commodities and increasing investment in its productive capacity and infrastructure. What has been driving this growth? While the high commodity prices (or commodity super-cycle) were the main driver of African growth in the first decade of the new millennium, other factors such as increased domestic demand, increasing private sector investment in manufacturing and services, public investment in infrastructure, and increased remittances are also fuelling growth (World Bank, 2013). Other studies reflect that only about a quarter of Africa's growth is due to the commodity boom, with wholesale and retail, transport and telecommunications, finance and banking, manufacturing and agriculture, also playing significant roles in this African growth renaissance (McKinsey, 2010). Africa thus has multiple sources of growth. For this reason, the current slowdown of global growth and fall of commodity prices, mainly as a consequence of the global economic crisis of 2008/2009, is unlikely to halt the processes of growth and development underway in Africa (AfDB, OECD and UNDP, 2017). The McKinsey report argues that, while some countries in Africa have experienced a marked slowdown as a result of lower resource prices and higher socio-political instability, other countries have continued to grow fast and that the continent's fundamentals remain strong (McKinsey, 2016). "Africa as a whole", the report argues, "is projected by the International Monetary Fund to be the second-fastest-growing economy to 2020" (McKinsey, 2016).

In their second robust and path-breaking report on Africa, the McKinsey Global Institute (2016) estimates that, by 2025, Africa could nearly double its current manufacturing output to US$930 billion. The report states that this would require Africa to triple the rate of growth achieved since 2000 – to 6.4 percent per annum. The report argues that three-quarters of this growth would come from meeting intra-African demand and substituting imports of manufactured goods, which are much higher than in other emerging economies. The remaining one-quarter of the opportunity can come from accelerating growth in niche manufacturing exports.

The McKinsey report (2016) goes on to argue that, in some key industries and countries, there is a huge opportunity to produce domestically goods that are currently imported. Foreign manufacturers have high market shares in categories that could be produced and supplied more easily and more cheaply in Africa. For example, Africa imports one-third of the food, beverages, and other similar processed goods it consumes. In comparison, the member states of the Association of Southeast Asian Nations (ASEAN) import approximately 20 percent of such goods, and the Latin American countries in the Mercosur trade bloc import about 10 percent of those goods.

The report points to the growing trend in some African countries to increase local manufacturing, indicating that a major acceleration of regional processing production is possible. For example, the McKinsey (2016) report argues that Egypt and Nigeria each increased their value added from food manufacturing by around nine percent a year between 2004 and 2014. Nigeria increased value added from fabricated metal manufacturing at an even faster pace over this period (McKinsey, 2016).

The UNCTAD (2013) report, like the McKinsey study, is also optimistic of Africa's ability to rise to the challenge and take advantage of developments in the resources sectors and embark on a new pathway to industrialisation through participation in regional and global value chains. The report further argues that although there are elements of developmental regionalism in many African regional economic communities, it is not yet a coherent strategy for African integration. It could, however, be the development paradigm for Africa for the 21st century (UNCTAD, 2013).

What are the main changes in the global trading architecture that has influenced Africa's growth and trade trajectory? How have these changes in the global trade architecture impacted on the global trading system and what implications does this have for Africa? How have these changes in the global architecture of trade impacted on the nature of the trade relations between Africa and its main traditional developed country partners, the EU and the US, and its main developing country partner, China? How has the changing narrative of trade and trade integration impacted on Africa's own strategy to integrate its region and develop the African continent?

THE CHANGING ARCHITECTURE OF WORLD TRADE

China's accession to the WTO, at the launch of the Doha Development Round in November 2001, was to catapult China onto the pinnacle of global trade within a decade, and transform the existing patterns of North-South trade that emerged after the Second World War. China's high growth rates – of over 10 percent per annum – created the demand for Africa's commodities that was to see Africa's dramatic rise from at least two lost decades of development. China's rise, and that of other emerging developing countries that became known as the BRICS (Brazil, Russia, India, China, and South Africa), changed the architecture of world trade in the first decade of the new millennium. The changes in the world trading system in just over a decade have been dramatic. A few data points illustrate these changes: China overtook Japan as the leading Asian exporter in 2004 and became the world's largest exporter in 2009 (overtaking the US in 2007 and Germany in 2009) (WTO, 2015a). The share of developing country exports in world trade grew from 26 percent in 1995 to 44 percent in 2014 while the share of developed economies exports in world trade declined from 70 percent to 52 percent, during the same period (WTO, 2015a).

Before China's accession to the WTO in 2001, its exports in 2000 constituted four percent of world exports. By 2003 this had grown to six percent and by 2014

China's merchandise exports had risen to 12 percent of world total exports. India also boosted its merchandise exports into the world from 0.8 percent in 2003 to 1.7 percent in 2014. Brazil increased its share of world exports from one percent in 2003 to 1.2 percent in 2014. In contrast, South Africa's performance has been relatively unspectacular, decreasing from 0.7 percent in 1993 to 0.5 percent in 2003 and remaining with this share in 2014. Africa's share of world exports had also grown from three percent in 1990 to 3.3 percent in 2010. In the same period, however, East Asia's share had grown from eight percent to 17.8 percent (UNECA, 2015). While Africa has made real progress, it still has a considerable way to go to catch up with other fast-growing economies in Asia and Latin America.

THE COLLAPSE OF THE WTO DOHA ROUND

Unfortunately, these dramatic developments in world trade since the Second World War became one of the main reasons for the collapse of the WTO Doha Round ministerial meetings, held in Geneva in 2008. The Doha Round has not succeeded in emerging from this crisis, notwithstanding efforts made to secure incremental outcomes at the Ninth WTO Ministerial Conference, held in Bali, Indonesia (December 2013) and the more recent Tenth WTO Ministerial Conference held in Nairobi, Kenya (December 2015) (Kanth, 2016: Wilkinson et al, 2016). The main argument of the major developed country members of the WTO, led by the US, is that the Doha Round is now obsolete given the new conditions in the world economy, including the rise of China and other emerging economies (Ismail, 2012b and 2012c). In addition it is argued by these writers that the dominant role of "global value chains" in world trade, require "new approaches" and "new pathways" (Hoekman, 2014). The so-called "new pathways" preferred by the US are a shift from multilateral approaches towards plurilateral approaches; and an abandonment of the single-undertaking approach (that requires all issues to be agreed together) towards single-issue approaches (such as that on Trade Facilitation adopted in Bali). Interestingly, this "new narrative" has become the mainstream paradigm on trade influencing the "epistemic community" of researchers and policy thinkers in the WTO, OECD and the World Bank, in much the same way as the "Washington Consensus" was to become in the late 1980s and 1990s (World Bank, 2015b; Williamson, 2008).

The collapse of the Doha Round of trade negotiations in 2008 saw a simultaneous shift of the US towards mega-regional and mega-bilateral approaches to trade negotiations. The US prioritised the TPP (Trans-Pacific Partnership Agreement) and TTIP (Trans-Atlantic Partnership Agreement) negotiations and shifted its negotiating resources towards negotiating higher regulatory standards and disciplines on a range on trade-related issues that it believed were more important in driving the interests of its lead firms in the global value chains. This was accompanied by plurilateral approaches on services negotiations (known as Trade in Services Agreement, TiSA) and on Environmental Goods and Services; and an abandonment of the single undertaking in favour of single-issue approaches in the WTO, such as Trade Facilitation. The EU, at first reluctantly, and then more enthusiastically, decided to fall in line and support these approaches, as it shared a common objective with the US to apply pressure on China to raise its standards on trade to that of the developed countries (Ismail, 2012b and 2012c; Hoekman, 2014).

Africa had played an extraordinary role in the Doha Round since the collapse of the Cancun Ministerial meeting, where five of its members joined the G20 group of developing countries on agriculture. The African Group was a powerful player as part of the African, Caribbean and Pacific (ACP) countries, and being a dominant player in the LDC group, in which it has a majority of members. The African Group also supported

the Cotton 4 Group of countries (Benin, Burkina Faso, Chad and Mali) and raised its profile in the negotiations. The African Group also includes a large number of SVEs and has succeeded in negotiating special flexibilities for this group. Africa had begun to influence many of the outcomes of the negotiations in the WTO, including on public health, cotton, LDCs, and SVEs (Ismail, 2007). However, the collapse of the Doha Round and the shift away from the single undertaking towards single issues by the US has fragmented the African Group in the WTO and excluded it from the plurilateral negotiations, where it is regarded as a small and insignificant player.

It has been argued that the shift away from the single undertaking of the Doha Round towards a single-issue negotiation and plurilateral approaches in the WTO will be disadvantageous to African interests for three reasons.

- Such approaches delink the WTO negotiations from the Doha Development mandate that requires the prioritisation of the "needs and interests of the developing countries" and includes issues such as S&DT, LDC issues, and the concerns of SVCs.
- The linkages developed in the Doha mandate, with reforms to be made by developed countries in agriculture, will be severed thus removing this vital leverage that African countries have to secure their interests in agriculture, including cotton.
- The issues to be prioritised will inevitably be those favoured by the developed countries, such as Trade Facilitation, thus marginalising the issues that concern developing countries (Ismail, 2012b and 2012c).

Just as in the period before the Ninth Ministerial Conference, WTO members were divided once again just months before the Nairobi Ministerial Conference in 2015 and could not agree on both the agenda and the way forward post-Nairobi (Kanth, 2016). The most significant decision in Nairobi was to eliminate export subsidies and discipline export credits in agriculture. A number of other issues of interest to developing countries were also discussed but as the Director General of the WTO himself stated: "more limited progress was achieved in other areas on the Special Safeguard Mechanism, public stockholding, minimising the negative consequences of food aid, the LDC package and strengthening Special and Differential Treatment (S&DT) provisions" (Azevedo, 2016). On the crucial issue of the future of the Doha Round, the WTO members were divided and the final declaration from Nairobi stated: "We recognized that many Members reaffirm the Doha Development Agenda…… Other members… do not reaffirm the Doha mandates, as they believe new approaches are necessary to achieve meaningful outcomes in multilateral negotiations" (WTO, 2015b).

The Buenos Aires Ministerial Conference held in December 2017 failed to reach agreement on a declaration. The US refused to support language recognising the "centrality of the multilateral trading system" and the need to support "development" (Hannah, et al, 2018). India and other developing countries were of the strong view that a failure to acknowledge the existence of the Doha Round would signal the end of the single undertaking, with issues of interest to developing countries, such as agriculture, not addressed in future by the developed countries in the WTO. The Buenos Aires meeting was a major turning point away from multilateral processes in the WTO towards plurilateral negotiating approaches, according to some academic observers (Hannah, et al, 2018).

The WTO membership was divided on several issues, this time also reflecting significant differences between developing countries as well. New issues that were not discussed in the WTO before were now on the agenda, such as investment facilitation, and trade and micro, small and medium enterprises. On these issues, including e-commerce, a large number of members agreed to pursue plurilateral discussions.

No positive movement was made on agriculture. On the issue of public food stocks, that the Bali Ministerial had decided should be resolved by the Ministerial Conference 11 (MC11) (at Buenos Aires), no progress was made. This led to developing countries, such as India, opposing an outcome on other issues of interest to the developed countries. In its opening plenary speech to the Buenos Aires conference, India argued that, "This is a matter of survival for eight hundred million hungry and undernourished people in the world ... In this context, we cannot envisage any negotiated outcome at MC11, which does not include a permanent solution" (Hannah et al, 2018).

There was a big push by the US and other developed countries to get the membership to agree to multilateral e-commerce negotiations. However, by the third day of the conference, this attempt had not materialised. A joint statement was issued at the end of the conference by 43 developed and developing countries, committing the group to "initiate exploratory work together toward future WTO negotiations on trade related aspects of electronic commerce". The negotiations would be open to all members to participate.

The Buenos Aires Ministerial Conference was also the occasion for the United States Trump Administration to launch its determined effort to reform the WTO. A slew of proposals by the US were then submitted to the WTO General Council in 2018, 2019 and 2020. These proposals and submissions by the US and other developed countries were met with significant opposition by developing countries, which responded with their own critique of these developed country proposals and their counter proposals. The author has undertaken a detailed commentary and analysis of these WTO reform proposals from the perspective of developing countries (see Ismail, 2020). By the end of the Trump Administration in December 2020, the WTO and the multilateral trading system was in its most profound crisis since its formation in 1947. The Appellate Body, regarded as the jewel in the crown of the WTO, remained paralysed as the US continued to veto the appointment of Appellate Body members and the negotiating body remained as divided as ever on the key issue of the future of the Doha round. The WTO reform proposals submitted by the Trump Administration were the most aggressive attack yet on the rights and interests of developing countries in the WTO. New hope came with the election of President Joe Biden, to whom most members are now looking to break the impasse!

The changes in the architecture of global trade also affected the trade relationship between Africa and its most important trade and investment partner – the EU.

EU–AFRICA TRADE CHANGES FROM COTONOU TO EPAS

At the creation of the GATT in 1947 one of the most contentious issues between the US and the United Kingdom (UK) was that of trade preferences granted by the UK to its colonial countries that were represented in the Commonwealth – the so-called Imperial Preferences (Kock, 1969). The European Economic Community (EEC) itself, created by the Treaty of Rome in 1957, was allowed to grant preferences to its own members in a regional integration framework that allowed for free trade agreements under certain conditions set out in Article XXIV of the GATT. After the UK joined the EEC, in 1973, the original six members of the EEC (Belgium, Netherlands, Luxembourg, West Germany, Italy and France) extended a set of trade preferences and aid to their former colonies, in 1975, that became known as the Lome Convention. This agreement was controversial in the GATT as it did not have a clear framework for establishing a free trade agreement and it included protectionist policies such as the Common Agricultural Policy and the European Coal and Steel Community. The US, however, supported the EEC and its enlargement, due to its interest to support political stability in Europe (Kock, 1969).

The Lome Convention was also controversial because it did not provide preferences to those developing countries in Latin America and Asia that were not former colonies of the EEC. However, both the EEC and the US supported the preferences provided by the Lome Convention. The EU was granted a first waiver at the WTO, for the Lome Convention, in 1996, which expired in 2000. The Lome Convention was changed to the Cotonou Agreement in 2000. At the launch of the Doha Round in 2001, the ACP request for an extension of this waiver was granted after much debate, until 31 December 2007, under the condition that the discriminatory trade Cotonou regime in favour of the ACP only would be replaced by WTO-compatible trade regimes – FTAs or MFN.

The dramatic changes in the European Union, since the fall of the Berlin Wall and the end of the Cold War, has increased the membership of the EU from EU-15 to EU-28 (until the UK's withdrawal). Most of the EU-13 countries do not share the burden of responsibility for the colonial relations between Europe and Africa and thus have not had the same enthusiasm for the EU-AFRICA or EU-ACP relationship that was defined by trade preferences and development assistance since the Lome Convention in 1975. The changes in the composition of the EU began a thrust for radical transformation of the traditional trade and aid relationship between the EU and Africa towards one of reciprocity. The fact that the Cotonou Agreement required a waiver in the WTO to extend the Cotonou preferential trade arrangement with the ACP was arguably of much less importance than the change in the composition and attitude of the new members to the ACP. The EU thus began a process of "negotiating" African countries out of the Cotonou Agreement towards reciprocal Economic Partnership Agreements (EPAs). The EU started the negotiations for various EPAs with ACP countries on 27 November 2002.

Since 1 January 2008 those countries that have signed interim EPAs were to benefit from the new arrangements, while those that did not fell back onto their lesser Generalised System of Preferences (GSP) or Everything But Arms (EBA) (in the case of LDCs). The EU passed Regulation MAR No. 527/2013 which withdrew, with deferred effect, until 1 October 2014, the market access regulation benefits to those countries that had not taken the necessary steps towards ratification of the EPAs (Ramdoo and Bilal, 2011). The effect of the regulation was to pressure African countries to enter into EPAs with the EU. The European Centre for Development Policy Management (ECDPM) reported that as of 16 October 2014, EPAs have been concluded by the EU (28 countries) with 49 ACP countries, covering more than 900 million people on four continents (ECDPM, 2014).

According to the European Commission's official update of the status of the EPAs (at December 2020), the negotiations in almost all the "regions" were still continuing. The Caribbean region made the quickest progress in the negotiations. The CARIFORUM-EU EPA was signed in October 2008 and approved by the European Parliament in March 2009. In the case of the Pacific Islands progress was much slower. The EU signed interim EPAs with Papua New Guinea and Fiji on the 30 July and 11 December 2009, respectively. Samoa acceded to the EPA on 21 December 2018 and Solomon Islands on 17 May 2020. Tonga has still not acceded to the EPA.

In the case of Southern Africa the so-called Eastern and Southern Africa (ESA) group of countries made quicker progress. Mauritius, Seychelles, Zimbabwe and Madagascar signed an interim EPA with the EU that has been provisionally applied since the 14 May 2012. In the case of the Comoros the provisional application of the EPA began on 7 February 2019. The EU has initiated a second phase of negotiations to "deepen" the existing agreement in October 2019. The following issues are being discussed in these negotiations: rules of origin, technical barriers to trade (TBT), customs and trade facilitation, sanitary and phytosanitary

standards (SPS), agriculture, trade and sustainable development, trade in services, investment liberalisation and digital trade.

The EU-SADC EPA (SACU+ Mozambique) was concluded on 15 July 2014 and signed by both groups on 10 June 2016. The agreement was provisionally in force as of 10 October 2016. Mozambique began to provisionally apply the agreement on 4 February 2019. In February 2020 Angola formally requested to accede to the EPA.

The EU-SADC EPA agreement was recognised by the then South African Minister of Trade and Industry, Rob Davies, as a significant improvement on the SA-EU-TDCA (Trade Development and Cooperation Agreement) (Davies, 2016). Outside EPAs, the EU has never agreed before to such a degree of asymmetry in any free trade agreement. It is also the first agreement that commits the EU to eliminate its use of export subsidies. The EU-SADC EPA now harmonises the SACU tariffs imposed on imports originating in the EU and consequently improves the functioning of the customs union – an objective that all participants wanted to achieve. In this way, the EU-SADC EPA strengthens regional integration. For South Africa, and SACU, this offers significant trade and investment improvements that build on the existing TDCA.

In the case of the East African Community the negotiations for a regional EPA were successfully concluded on 16 October 2014 and on 1 September 2016, Kenya and Rwanda signed the EPA between the East African Community and the EU. However, Uganda, Burundi and Tanzania have not signed (Krapohl and Van Huut, 2020). Tanzania has indicated that it is not willing to sign the EPA.

The West African states constitute 16 countries with 15 members that are part of the Economic Community of West African States. ECOWAS is a Customs Union with 15 member states. Eight French speaking members of ECOWAS constitute the WAEMU (also known by its French abbreviation (UEMOA, Union Economique et Monètaire Oest-Africaine). According to the EU Commission, negotiations of the regional EPA covering 16 countries in West Africa were concluded on 30 June 2014 (European Commission, 2020). However, only 13 West African countries signed the EPA in December 2014, with Nigeria, Mauritania and The Gambia not signing. The Gambia signed on 9 August 2018. Mauritania signed an EPA with the EU on 21 September 2018. Mauritania is not a member of ECOWAS. Mauritania and ECOWAS signed an Association Agreement on 9 August 2017 to define the country's participation in ECOWAS's trade policy, including the EPA. Nigeria is the only country of West Africa that has not signed the EPA.

Eleven of the 15 ECOWAS members are LDCs and have duty free access into the EU under the EBA preferences. Cote d' Voire, Ghana and Nigeria are not LDCs. Nigeria's main export to the EU is oil and constitutes about 96% of Nigeria's exports to the EU. Nigeria's oil exports enter the EU market duty free and it thus has little interest in increased market access into the EU (Krapohl and Van Huut, 2020). Cote d' Voire and Ghana signed separate bilateral EPAs with the EU in addition to signing the ECOWAS EPA. The EPA with Côte d'Ivoire was signed on 26 November 2008 and entered into provisional application on 3 September 2016 with effective liberalisation beginning on 6 December 2019. The EPA with Ghana was signed on 28 July 2016 and entered into provisional application on 15 December 2016 with tariff liberalisation beginning in 2020 (European Commission, 2020)

In the Central African region, only Cameroon signed the EPA with the EU on 15 January 2009 with the agreement entering into provisional application in July 2014 and tariff phase down beginning in 2016 (European Commission, 2020).

Thus, with the exception of ECOWAS and EAC, which are at a more advanced stage

of integration (they have a Customs Union), the other African RECs did not negotiate with all their members. While these EPAs have mostly focused on goods trade, they have made provision through the so-called rendez-vez clause to also negotiate disciplines on services trade and rules, including investment and competition, and regulations, such as SPS and TBT issues. As African countries try to unravel the spaghetti bowl of their own regional integration process, they will also need to assess how to incorporate the EPAs into the African regional integration process and not allow them to derail African regional integration by reducing tariffs to the EU before reducing tariffs to their own neighbours.

While the EPAs have been criticised by African countries for many different reasons, the main reason has been expressed by the former South African Minister of Trade and Industry, Rob Davies as follows: "Our overriding concern remains that conclusion of the separate EPAs among different groupings of countries in Africa that do not correspond to existing regional arrangements will undermine Africa's wider integration efforts. If left unaddressed, such an outcome will haunt Africa's integration project for years to come" (ECDPM, 2014). African countries thus have a challenging task to evaluate the implications of the EPAs for their regional integration process in Africa. A range of issues arise, including the different goods liberalisation both in terms of products and phase-down periods; the different rules of origin that may complicate regional integration; and the different rules that may create different policy issues, such as export taxes.

Africa will have to evaluate how to unravel the complications that have been created by these EPAs and how to ensure that they do not allow these agreements to become stumbling blocks to regional integration in Africa but building blocks.

The EU would do well to heed the policy advice provided by UNECA researchers, Stephen Karingi, Simon Mevel and Giovanni Valensisi, on how to realign the EPAs with the regional integration objectives of the AfCFTA and the AU Agenda 2063. These researchers offer five compelling recommendations to the EU and African negotiators (Karingi et al, 2015).

As African countries try to unravel the spaghetti bowl of their own regional integration process, they will also need to assess how to incorporate the Economic Partnership Agreements into the African regional integration process and not allow them to derail African regional integration by reducing tariffs to the European Union before reducing tariffs to their own neighbours.

1. To sequence trade liberalisation between Africa and the EU, and within Africa, so as to ensure that intra-regional trade is not diverted.
2. To harmonise various provisions in each of the EPAs so as to prevent regulatory divergences.
3. The EU should confer the most favourable access granted to any African region to all African regions.
4. African countries should be allowed to preserve hard-fought policy space to advance their industrial and economic development and thus the EU should not push for WTO+ provisions in EPAs.
5. The EU should support Trade Facilitation measures to boost intra-African trade in line with the AU Commission Action Plan.

THE US AFRICAN GROWTH AND OPPORTUNITY ACT

As the end of AGOA III approached in September 2015, the US followed the EU negotiations with the ACP countries with a great deal of interest as it began its own process of reviewing its trade arrangements with Africa (Pigman, 2016). The US put in place the African Growth and Development Act (AGOA), granting sub-Saharan African

countries unilateral trade preferences into its large market for over 6 400 tariff lines, in 2000. This programme has now been renewed four times with the latest renewal (AGOA IV) signed by President Barack Obama in June 2015.

Learning from the EU, the US introduced a slew of provisions in the new AGOA Extension and Enhancement Act of 2015 that demands reciprocity from AGOA beneficiaries, including on specific trade and investment related policy issues required by its lobbies.

In addition, the US administration is required to actively encourage African countries to engage in a dialogue with the United States Trade Representative (USTR) with a view to transforming the existing one-way preferential trade system enjoyed by AGOA beneficiaries into a two-way reciprocal free trade agreement. It is also most likely that the template for the reciprocal free trade agreements will come from the newly agreed TPP negotiations where the US has already agreed on a slew of trade issues including tariffs, trade rules and regulations, that go well beyond that covered or contemplated in the WTO Doha Round. These new provisions of the AGOA Extension and Enhancement Act 2015 (US Government, 2015) and their implications for sub-Saharan African countries are briefly assessed.

While section 104 of the US Trade and Development Act of 2000 had already built in some key policy statements on eligibility requirements for sub-Saharan countries, including movement towards "a market-based economy that protects private property rights" and "the elimination of barriers to US trade and investment", the AGOA Extension and Enhancement Act of 2015 extends the objectives of AGOA to "the elimination of barriers to trade and investment in sub-Saharan Africa, including high tariffs, forced localization requirements, restrictions on investment, and customs barriers". The Act goes on to provide for the "withdrawal, suspension or limitation of preferential tariff treatment" to ensure "compliance by the country" with US objectives on trade and investment in addition to "termination" of eligibility that was already provided for in the 2000 Act (AGOA, 2015: Sec 105©). Perhaps the most disturbing provision of the new Act for African countries is the wide powers provided to lobbies and interest groups in the US to use the Act to pursue particular commercial interests. The 2015 AGOA Act allows for the private sector or "any interested person, at any time" to file a petition with respect to the failure of "compliance" of a country, "with eligibility requirements" and to petition the USTR in this regard (AGOA, 2015: Sec 105 (d) (3)).

The 2015 AGOA Act provides that the President may "at any time, initiate an out-of-cycle review of whether a beneficiary country is making continual progress in meeting the requirements", for eligibility of AGOA. The Act also provides that if the President determines that a country does not meet the requirements …. the President shall … "terminate the designation of the country as a beneficiary sub-Saharan African country or withdraw, suspend, or limit the application of duty-free treatment…" (AGOA, 2015: Sec 105 (d)). The Act makes special reference to the case of South Africa in a section titled Sense of Congress. This section states, that "recognizing that some concerns have been raised about compliance … of some beneficiary countries … the President should initiate an out-of–cycle review … with respect to South Africa … not later than 30 days after the date of enactment of this subsection" (AGOA, 2015: Sec 105 (d) (4)).

The use of this provision in the case of South Africa was discussed extensively elsewhere and is thus not further elaborated in this report (see Ismail, 2017). The 2015 AGOA Act further provides for continuous reviews on whether individual sub-Saharan African countries are meeting the eligibility criteria of the Act, after one year of its enactment, and biennially thereafter (AGOA, 2015: Sec 105 (d) (4)).

Another important element of the 2015 Act, which builds substantially on the provisions already contained in the 2000 Act, is the principle of reciprocity. The 2015 Act states that it is the policy of the United States to "seek to deepen and expand trade and investment ties between sub-Saharan Africa and the United States…" by among other things ... "negotiate agreements with individual sub-Saharan countries ... as well as Regional Economic Communities" and "to promote full implementation of commitments made under the WTO Agreement" (AGOA, 2015: Sec 107). In this regard the Act follows the EU-EPAs so-called MFN clauses by stating that the policy of the US is to "promote the negotiation of trade agreements that cover substantially all trade between parties to such agreements and, if other countries seek to negotiate trade agreements that do not cover substantially all trade,

Mitumba undermines local textile sector

The US-East Africa Community dispute on second hand clothing underlines the fundamental asymmetry of power in the US-Africa trade relationship. In early 2017, the EAC Summit decided to ban imported used clothing or *mitumba* from the US. *Mitumba* is a Swahili term, literally meaning "bundles", used to refer to plastic-wrapped packages of used clothing donated by people in wealthy countries. By June 2017, a US lobby, the Secondary Materials and Recycled Textiles (SMART) Association, filed a petition with the US government against limiting clothing imports. Kenya decided to compromise in view of the threat by the US to withdraw Kenya's preferences under AGOA. The United States Trade Representative initiated an "out-of-cycle" review of three out of six countries – Rwanda, Tanzania, and Uganda – to assess the allegations made by SMART on 20 June 2017 (King, 2017). Tanzania and Uganda also decided to follow Kenya and reverse the ban and increase tariffs instead and gradually phase out second hand clothing (Wetengere, 2018). Rwandan President Paul Kagame and Finance Minister Claver Gatete fiercely defended the used clothing ban despite threats of sanctions from the US (Freytas-Tamura, 2017). The African Cotton and Textile Industries Federation responded to the USTR threat arguing that the trade actions of the East African countries do not violate any WTO rules and are applied to all countries in the world, not just the US (Edmonds, 2017).

President Trump then suspended Rwanda's AGOA clothing benefits. The decision elicited criticism from many African leaders. The General Secretary of the United Nations made a statement in defence of the East African countries stating that: "When America says that because a few exporters of second hand clothes want to continue having access to the African market, they will refuse to give access to their markets, what they are saying is that people of East Africa should make new clothes, export them to America and after they are done with them, they can export them back. Politically and morally it is wrong, the leadership of Rwanda and East Africa is right and should not lose sight of the bigger picture they have in mind" (Freytas-Tamura, 2017).

The second hand clothing industry has boomed in the past last few decades as a result of the impact of structural adjustment programmes of the 1990s and 2000s (Mold and Mveyange, 2020). In Uganda, for example, 80 percent of clothing purchased is estimated to be second hand clothing. Observers such as Andrew Mold and Anthony Mveyange argue that it is difficult for regional industries to compete with the second hand industry, which has zero production costs. *Mitumba* in their view is undermining productive capacity and the development of regional value chains.

continue to object in all appropriate forums" (AGOA, 2015: Sec 107 (4)). The 2015 Act provides that "not later than 1 year after the enactment of this Act" the USTR shall provide a report that "identifies sub-Saharan African countries that have expressed an interest in entering into a free trade agreement with the United States". It further states that the report shall evaluate "the viability and progress (of such countries) … towards entering into free trade agreements" and "describes a plan for negotiating and concluding such agreements …" (AGOA, 2015: Sec 108).

Parallel with AGOA, under President Trump, the US pushed ahead with its strategy to build reciprocal free trade agreements with African countries. President Trump and President Uhuru Kenyatta decided to initiate bilateral free trade negotiations in 2020 and on 8 July 2020, USTR Robert Lighthizer and the Kenyan Cabinet Secretary for Industrialization, Trade and Enterprise Development, Betty Maina, formally launched these negotiations (USTR, 2020).

This raises at least three important policy questions relevant to AGOA. Is AGOA still a one-way preferential trade programme without cost? Does it still facilitate a co-operative trade and development relationship with the US? For how long will the US still allow non-reciprocity in trade with sub-Saharan African countries? Three key trends or themes can be identified from this cursory analysis of the 2015 AGOA Act.

1. A one-way non-reciprocal arrangement that was to facilitate the increased integration of African countries into global markets has now become a programme that the US seeks to be paid for. The case of South Africa clearly illustrates that interest groups in the US, such as the poultry industry (and pork and beef, among others) have seen AGOA renewal as an opportunity to seek payment for a non-reciprocal US trade assistance programme (Ismail, 2017).
2. The 2015 Act creates a system of structural attrition between the US and sub-Saharan countries. It does this by leveraging a preferential tariff programme to gain increased access into sub-Saharan markets. African countries will no doubt have to consider the cost of this attrition and uncertainty on their trade and investment with the US and many will look to the new emerging countries to support their development projects and programmes when the demands on reciprocity are not as sharp or aggressive.
3. The initial good intentions of AGOA, which was to provide a non-reciprocal tariff preference into the US market for sub-Saharan countries, that would stimulate investment in these countries for export-oriented industrialisation has turned into a tool to leverage increased market access into sub-Saharan countries for US exports and investment.

The above analysis points to the dangers of the 2015 Act for Africa-US trade relations under AGOA and calls for the urgent need for Africa and the new US Biden Administration to engage with each other to ensure that the goodwill provided by the extension of AGOA across four Administrations (Clinton, Bush, Obama and Trump), since the year 2000, on a non-partisan basis, needs to be preserved. The US needs to be lobbied to support the building of industrial capacity and infrastructure in sub-Saharan African countries that will enable the beneficiaries of AGOA to use the opportunities it provides to access the US market. African countries need to campaign in Washington for the current 10-year extension of AGOA (AGOA IV) preferences to be fully implemented until 2025 – creating more certainty for investors in Africa that are keen to use the AGOA preferences to export into the US market.

CHINA'S RISE: OPPORTUNITIES AND CHALLENGES FOR AFRICA

China's trade and economic relationship has evolved considerably since the founding of the Peoples Republic of China in 1949. In 1964 China provided 53 percent of the loans received by Africa and in the 1970s it financed the Tazara Railway line from the Zambia copperbelt to the port of Dar es Salaam in Tanzania. However, since the formation of the Forum on China-Africa Cooperation (FOCAC) in 2000, this relationship has expanded.

FOCAC has met every three years at Ministerial and Presidential levels and made a large number of commitments to enhance its support to Africa in a number of areas, including opening its market up to 95 percent for LDCs; the provision of concessional loans and grants; support for infrastructure; and generous debt relief (UNCTAD, 2010). Fifteen years after its inception, the sixth FOCAC was held in Johannesburg on 4-5 December 2015, under the theme Africa-China Progressing Together: Win-Win Cooperation for Common Development. Chinese President Xi Jinping announced a big package that covers the areas of industrialisation, agricultural modernisation, infrastructure, financial services, green development, trade and investment facilitation, poverty reduction and public welfare, public health, people-to-people exchanges, and peace and security. The package included: "60 billion US dollars of funding support, including US$5 billion of free aid and interest-free loans, US$35 billion of preferential loans and export credit on more favorable terms, US$5 billion of additional capital for the China-Africa Development Fund and the Special Loan for the Development of African SMEs each, and a China-Africa production capacity cooperation fund with the initial capital of 10 billion dollars" (Xinhua News, 2015). The Beijing Summit of FOCAC in 2018 saw 53 of the 55 African countries represented, reflecting the convening power and influence of China in Africa (Oyewole, 2019).

China had been growing consistently since the 1990s at over 10 percent a year, importing commodities and processing these for its own vast population and increasingly exporting its manufactured products. By 2009 China had become the factory of the world and the worlds' largest exporter! The global shift in trade patterns as a consequence of China's new role in the World economy resulted in it becoming the largest export destination for almost all the major economies in the world, including the US, the EU, Japan and even the major developing countries, including Brazil, India and South Africa. By 2010 China also became Africa's largest export destination. China also became a significant investor in natural resources and manufacturing in many countries, including in Africa. In sharp contrast, the EU and the US witnessed a decline in their share of global trade. In addition both the EU, which remains the main destination for Africa's exports, and the US, have declined as an export destination for Africa. In 2005, 52 percent of Africa's exports went to Europe. This percentage was reduced to 36 percent in 2014 while over 27 percent of Africa's exports went to Asia in 2014 (mainly China) (WTO, 2015a). Similarly, only about seven percent of Africa's total exports went to North America in 2014 (WTO, 2015a).

Although China did not colonise any African country and remains a developing country, its long-standing involvement with the continent has taken a new turn, given its new capacity and role in world trade in the new millennium making it increasingly active in trade concessions, loans, grants, and private sector investment (Ismail, 2011). The main driver of global growth in the new millennium was the increased demand from the new emerging economies in the South, led by China and India. Increasing demand from China and India led to growth of exports from commodity-producing economies of the South, including Brazil and South Africa and other African and Latin American countries.

CHINA'S BELT AND ROAD INITIATIVE (BRI)

President Xi Jinping, in his speech at Nazarbayev University in Kazakhstan, on 7 September 2013, proposed building a Silk Road Economic Belt and a 21st century Maritime Silk Road as a "grand cause benefiting people in regional countries along the route" (Zhang et al, 2018). Formerly known as the One Belt One Road Initiative, the programme has become known as the Belt and Road Initiative since 2016. In October 2013, Beijing proposed building an Asian Infrastructure Investment Bank (AIIB) to provide specific funds, with itself the biggest shareholder in the bank with a stake of 50%. Beijing proposed to build highway, port, and dam projects in the East Asian Region in an attempt to increase "infrastructure connectivity" (Zhang et al, 2018). What is the BRI and how does it contribute to global governance in China's view?

The Chinese Office of the Leading Group for Promoting the Belt and Road Initiative produced a book titled *The Belt and Road Initiative: Progress, Contributions and Prospects* (2019). The Office of the Leading Group identifies the principles of extensive consultation, joint contribution and shared benefits as priorities for the BRI. Mutual benefit and win-win outcomes (increased imports, outward FDI) are actively encouraged. International agreements and the building of international coalitions for green development within the Belt and Road are encouraged.

The office identifies six pillars that define the Belt and Road Initiative:

1. Policy coordination (including, in the UN; regional organisations, such as FOCAC; and on sectoral issues, such as digitalisation, standardisation, tax, intellectual property, and maritime cooperation.
2. Infrastructure connectivity (such as the Greater Mekong Subregion Economic Cooperation).
3. Unimpeded trade (bilateral and regional cooperation agreements; FTAs such as China-ASEAN, China-Singapore, China-Pakistan).
4. Financial integration (innovative investment and financing models including cooperation between the Peoples Bank of China, the World Bank, European Bank for Reconstruction and Development, and the BRICS Bank, bilateral currency swops and Renminbi clearing arrangements).
5. People-to-people ties (including in art, film, and cultural links, education, tourism and health, and the creation of 153 Confucius Institutes).
6. Industrial cooperation (industrial cooperation signed with over 40 countries including Ethiopia and Egypt, and the establishment of industrial parks).

The Belt and Road Forum was launched in 2017 and held for the second time in 2019 to build transparency and support for these principles and the BRI. The first BRI Forum was attended by about 30 world leaders and representatives from 110 countries (BRI Forum, 2017). While the BRI was officially launched in 2013, many of the projects had started much earlier as there is no official definition of what qualifies as a BRI project. Chinese companies are clearly the major beneficiaries of BRI projects. Some researchers argue that, according to Fortune 500, seven of the 10 largest construction companies in the world, by revenue, are now Chinese-owned. Infrastructure investment is clearly also linked to market access as better infrastructure will facilitate trade between China and its trading partners.

China's role in Africa has come under much scrutiny by both African policymakers and academics the world over. It is for this reason that China's evolving role in Africa and the role of the BRI are discussed. China's rise has created both opportunities and challenges for African countries. The rise of China has created an opportunity for Africa to diversify its exports. The dramatic changes in China's rise have

created huge opportunities for Africa to export its commodities at higher prices into the Chinese market, propelling its growth rates. However, China's rise has also created the challenge for Africa of managing the impact of the increasing competitiveness of China's labour-intensive manufactured products on its own nascent labour-intensive manufacturing sectors, such as in clothing and textiles, leather and footwear, electronics and furniture.

In the first decade of China's entry into the WTO, African countries were increasingly under siege as China's exports of manufactures caused many factory closures and deindustrialisation of several African countries. Interestingly, as China's own wage levels have begun to rise, the country has begun to sub-contract out the labour-intensive parts of production to lower wage regions, mainly in South and Southeast Asia. More recently, African countries, such as Ethiopia, have begun to tap into this opportunity, and have succeeded in attracting Chinese investors to build industrial capacity and manufacture in the low-value sectors of clothing and textiles, electronics and footwear (Zalk, 2016). Unlike the private sector investors in the US and the EU, Chinese state-owned enterprises have taken a longer view of their investments in Africa and have begun to invest in infrastructure, such as energy, road and rail transport, port development and logistics.

Africa has about 10 percent of global oil reserves, about one third of cobalt reserves, and an abundance of base metals. South Africa alone has about 40 percent of the world's gold. China has begun to source about half its imports of alumina, copper, iron ore and oil from Africa (Financial Times, 2011). The continent also has about 60 percent of the world's uncultivated arable land. The rise of commodity prices has also been accompanied by the rapid expansion of telecommunications (over 80 million mobile users in Nigeria and 20 million mobile users in Kenya in 2010) and banking and other services in Africa. Africa is thus an exciting opportunity for China to not only source its natural resources but to also take advantage of the opportunity to beneficiate its natural resources, build Africa's capacity to serve its new and rising middle class and raise living standards.

China's rise provides Africa with a range of new opportunities. China has tended to be more holistic in its approach to promoting its own exports and securing raw materials by providing alternative financing modalities, supporting direct investment in infrastructure, manufacturing production and offering development aid to reduce poverty in Africa (AfDB, 2011). As Africa's abundant resources become more valued and the size of its middle class grows, becoming attractive for exporters and investors, it can leverage these strengths to negotiate a more mutually beneficial relationship with China.

HOW SHOULD AFRICAN COUNTRIES ENGAGE WITH CHINA'S BRI?

First, African countries need to use their agency and collective negotiating power through the African Union, the African Development Bank and the Economic Commission for Africa and Regional Economic Communities to negotiate mutually beneficial trade and investment deals with China that advance the AfCFTA and "developmental regionalism" in Africa (Ismail, 2019).

Second, African countries should leverage the resources and financing facilities, such as the AIIB, created by the BRI, to support their infrastructure investment needs.

Third, China's cooperation programmes on Industrial Parks and Free Trade Zones offer African countries opportunities to mobilise investment to industrialise and build their regional value chains.

Fourth, the lessons from China and ASEAN, such as the experience of the Greater Mekong Subregion, can offer

African countries valuable insights into how to build their own regional integration in the AfCFTA in a way that is inclusive, mutually beneficial, and builds cross-border infrastructure and industrialisation across the African continent.

Fifth, African countries should be insisting that China's BRI supports the effective implementation of the AfCFTA that is consistent with their own vision for a "developmental regionalism" approach to regional integration (Ismail, 2019).

Sixth, there are also new opportunities and challenges arising from the COVID-19 crisis. COVID-19 has brought to the fore the over-reliance and dependence of Europe, America and Japan on China for vital supply lines and has prompted them to begin a process of reshoring and restructuring their supply of intermediate inputs, in pharmaceutical products, medical equipment and consumer goods (Gopaldas, 2020). Major producers such as Wistron Cosp, an iPhone assembler, Samsung, Toyota and Honda, have indicated their intention to restructure their production processes from China. These new trends provide African countries with new opportunities to attract these investors to support their efforts to industrialise and transform their economies.

Seventh, one of the largest fallouts will be the management of the high levels of African debt owed to China. The G20 group of countries, including China, agreed to suspend all debt payments until 2021. China, however, is cautious about creating a precedent and it has excluded its BRI Infrastructure loans provided by the China Export-Import Bank from the suspension a few days after the G20 announcement (Mills and Van der Merwe, 2020). China has been accused by critics in the US and EU for practising debt-trap diplomacy by lending countries in Africa more money than they can afford to repay, thus placing these countries in its debt. China holds about one third of Africa's sovereign debt and has lent African countries about US$150 billion over the past two decades, funding Africa's infrastructure projects in electricity generation, ports, roads, rail, and dams (Kynge and Yu, 2020). African countries should use the collective institutions of the AU to negotiate debt forgiveness and restructuring of the debt as part of their post-COVID-19 economic recovery programme.

CONCLUSION

This chapter has argued that the past two decades of the new millennium ushered in dramatic changes to the architecture of world trade, creating both opportunities and challenges for Africa's development. Africa needs to adapt to these changes and develop innovative trade and investment partnerships with its main external trading partners, both the traditional partners, such as the EU and the US and the emerging countries in the South, such as China. Multilaterally, the African Group played a remarkable role in the Doha Round of negotiations that the developed countries have recently sought to abandon. It is argued that the abandonment of the Doha Round of negotiations will tend to marginalise the African members of the WTO from the multilateral negotiations and reduce the collective bargaining power they enjoy in the WTO. Thus African countries should continue to build alliances with other developed countries and strive to strengthen the multilateral trading system.

African countries will need to adopt the principle of Africa First, not in an insular and isolationist way, but in an attempt to advance their goal of regional integration. The AfCFTA has created an African-wide FTA and, while a fully-fledged common external tariff and a customs union may still be some distance away, African countries should begin to base their integration on the principle of providing preferential tariffs on an MFN basis. This means preferring each other first before opening their markets to third countries. This issue is particularly pertinent in the case of the EU-Africa EPAs in which African countries are being required to provide market

access to the EU. A smart sequencing of their tariff schedules should ensure that African countries first reduce tariffs and open their markets to each other before opening their markets to the EU. Similarly, the development of regional value chains in African should develop productive linkages between African countries to strengthen their capacity to compete with Northern and Southern external partners. In the area of cross-border infrastructure too, African countries should build alliances with each other, providing access to their infrastructure projects to African suppliers and construction companies that have the capacity to build Africa's roads, rail and energy requirements. This will be a significant way of strengthening African solidarity and ensuring that the AfCFTA is mutually beneficial and supports the development of the smaller and more vulnerable African countries.

These changes in the architecture of global trade and the recent shift towards a more inward-looking EU and US require African countries to double their efforts towards advancing their own agenda of regional integration on the continent. The chapter thus implores the World Bank and other donors and trading partners from the North and South, such as the EU, the US and China, to work closely with the African Union to advance the negotiations and implementation of the AfCFTA and the AU Agenda 2063.

QUESTIONS FOR DISCUSSION

1. How can Africa address the new challenges that the EPAs pose for its African integration agenda and also build a more strengthened mutually beneficial trade and investment partnership with the EU?
2. How can Africa ensure that it takes full advantage of the opportunities provided by the 10-year extension of AGOA to 2025 and avoid the possible disruptions that could arise from the US out-of-cycle reviews?
3. How can African countries use their collective power through the AU to engage China on building a mutually beneficial long-term relationship that supports the development integration of Africa based on the AfCFTA and the AU Agenda 2063?

The decision by African Union leaders in Kigali on 21 March 2018 to launch the AfCFTA is historic. It gives momentum to the vision of the Pan-African leaders that dreamt of a united and prosperous Africa built on the values of solidarity and collective action. It is the responsibility of all stakeholders, policymakers and the international community to support Africa's efforts to mainstream development in the AfCFTA, ensure that it is mutually beneficial, and advances all four pillars of the developmental regionalism agenda.

CHAPTER EIGHT

CONCLUSION: ADVANCING THE AfCFTA *AND* DEVELOPMENTAL REGIONALISM

This chapter draws out the main ideas, values and norms of the preceding chapters. It draws a number of policy lessons from both the academic literature and experiences of African countries.

The African continent has begun to accelerate its momentum towards regional integration. The signing of the Tri-Partite Free Trade Agreement between SADC, COMESA and the EAC at Sharm el Sheikh, Egypt on 10 June 2015 and the launching of the AfCFTA negotiations a week later in South Africa on the 15 June 2015 set in motion a new historic phase in Africa's integration process. It was also during this period (2015) that the African Union launched its own 50-year vision, on the 50th anniversary of the OAU, called Agenda 2063 (AU, 2015). This document titled The Africa We Want called for "a prosperous Africa based on inclusive growth and sustainable development" and an "integrated continent, politically united, based on the ideals of Pan-Africanism and the vision of Africa's Renaissance". These historic initiatives, including the TFTA, AfCFTA and Agenda 2063, provide African trade negotiators, policymakers, academic scholars and other stakeholders with a powerful challenge to reclaim ownership over their regional integration project and economic development agenda.

This handbook is about ideas and values and the importance of critical thinking when considering appropriate policies for the development of the African continent. This is particularly important as African countries accelerate the processes of structural transformation and industrialisation of Africa. In the course of the discussion on these process a number of important ideas are critically discussed including that of free trade, special and differential treatment for developing countries, regional integration, trade and industrial policy, infrastructure and development corridors, and the need for African countries to implement the AfCFTA on the basis of the MFN principle. The core idea that is discussed and elaborated in this handbook is that of "developmental regionalism". This concept is elaborated and further developed in this handbook.

IDEAS ARE A MAIN DRIVING FORCE IN HUMAN PROGRESS

The main thrust of the argument in Chapter one is that IDEAS are an important driver of human progress. Kofi Annan, the Ghanaian Secretary General of the United Nations, observed that: "Ideas are a main driving force in human progress." (Annan, 2001). The Nobel prize winner, Joseph Stiglitz, warns us that Europe got it wrong by confusing the means (the Euro) with the ends (socioeconomic development and cohesion)! He argues that ideas and values are important (Stiglitz, 2016). In addition he argues that collective action and solidarity are critical for the success of regional integration. The need for the correct ideas and right values to inform South Africa's thinking and perspective on trade and economic relations with Africa was also underlined by Nelson Mandela who advocated that South Africa's relations with the continent of Africa should be based on the "principles of equity, mutual benefit and peaceful cooperation".

MAINSTREAMING DEVELOPMENT IN THE AfCFTA

In Chapter two the idea of "free trade" is critically discussed. The academic literature points to the controversial use of the concept of free trade – based on the Ricardian theory of comparative advantage. A historical perspective of the debate on free trade reveals that the most developed countries advanced the concept of free trade when they were competitive and had the requisite manufacturing capabilities to produce and export. This was the case

of the United Kingdom – which was the most advanced industrial economy in the early 19th century and then the case of the United States in the early 20th century (Chang, 2002; Reinert, 2007). The same debate resurfaced in the 1980s and the 1990s when the United States advanced the ideas of free trade in the form of the "Washington Consensus" through the World Bank and IMF that advised African countries on their economic policies (Stiglitz, 2003). Nobel Prize-winning economist Joseph Stiglitz accused the United States of double standards because while the US advanced the ideas of free trade in the world, it maintained highly protectionist policies in its domestic economy especially for agricultural products.

This double standard by the developed countries in trade is also reflected in the history of the GATT, whereby products of interest to developing countries, such as agriculture and textiles were protected by the developed countries while developing countries were required to open their markets in areas of interest to the developed countries (Wilkinson, 2014). It is in this context that the idea of Special and Differential Treatment emerged in the GATT. Developing countries argued that they were not equal in development to the developed countries and should not be expected to make similar commitments. The developing countries were also aggrieved that the developed countries did not provide them with similar opportunities to export products of interest to them, such as textiles and agriculture.

It is for this reason that they pushed for S&DT provisions in the GATT. The developed countries eventually reluctantly agreed to do this, and several provisions were created in the GATT to provide for S&DT. However, it has been argued that S&DT was only a palliative to remedy what was wrong in the GATT – it did not address the fundamental concern of developing countries, namely their lack of capabilities to produce and export and the lack of market opportunities provided to them. This is the reason that some developing countries called for the "mainstreaming of development" in the WTO (Ismail, 2007).

Similarly, Chapter two argues that the special needs and interests of the smaller and more vulnerable African countries (the LDCs and SVEs) should be recognised and provided for in the AfCFTA. As in the case of the European Union, the smaller countries of the African Union need to also benefit from the gains of regional integration and not have to bear a disproportionate share of the burdens of trade integration. However, it is argued that a mere provision of asymmetry in implementation (longer implementation periods) will not be sufficient. The larger and economically capable African countries have a responsibility to support the mainstreaming of development in the AfCFTA.

It is thus argued in this handbook that for the AfCFTA to benefit *all* countries in Africa it will need to:

- Advance fair trade by a) implementing asymmetrical market access; b) developing balanced trade rules; and c) be participatory, inclusive, and transparent.
- Stimulate productive capacity and transformative industrialisation.
- Build cross-border infrastructure.
- Strengthen democractic governance and institutions of peace and security.

This approach to regional integration is referred to as "developmental regionalism". This approach it is argued differs from the linear integration approach to regional integration that has been advanced by some neoliberal writers on trade. The linear integration approach has tended to follow the sequential approach to trade integration proposed by the American economist, Jacob Viner, in the 1950s.

STIMULATE PRODUCTIVE CAPACITY AND TRANSFORMATIVE INDUSTRIALISATION

Building on the developmental regionalism approach to regional integration in Africa, this handbook discusses the nexus between trade and industrial policy and strategy and the prospects for Africa's structural transformation in Chapter three. Again two main ideas have influenced the debate on industrialisation, around the world and also in Africa, during the past few centuries, namely the theory of comparative advantage and that of infant industry protection. It is interesting that the idea of comparative advantage emerged with David Ricardo writing in the context of a superior and confident British economy with its industrial revolution in the early nineteenth century, while the idea of infant industry protection emerged with the writings of Alexander Hamilton, the first US secretary of the Treasury (1789-1795), writing at a time when the United States was relatively backward economically and was building its manufacturing capacity (Chang, 2002).

African countries have emerged from the two lost decades (the 1980s and 1990s) of economic growth and development and have begun to prioritise the need to transform their productive structures and industrialise in the 21st century. Almost all African countries have industrial policies and strategies to transform their productive structures and develop their economies. Learning the lessons from the experience of other countries, especially the East Asian economies, African countries have begun to develop policies that are flexible, strategic and dynamic with no a priori "one size fits all approach" to industrial policy (UNCTAD and UNIDO, 2011).

The joint UNCTAD-UNIDO 2011 report was path-breaking in setting out the broad framework for Africa's structural transformation and industrialisation. The 2013 UNCTAD report on economic development in Africa went further and discussed how regional value chains and special economic zones could be valuable tools and mechanisms to advance Africa's industrialisation. The UNECA 2015 Economic Report on Africa (*Industrializing through Trade*) stressed the link between trade and industrialisation and argued for a *strategic* trade policy. Perhaps the most comprehensive study in the past decade is the report by the UNECA (2016) titled *Transformative Industrial Policy*. These reports all point to the growing interest in African countries to embark on and accelerate their structural transformation and industrialise as a core part of their development strategy.

Africa will need to consider the implications of developing their industrial policies and strategies in a context of the increasing trend of global value chains. While global value chains are not new – global commodity chains and trade have been developing for a few centuries – the increasing tendency of multinational companies to restructure their operations by focusing on core competence and outsourcing lower-value production to lower cost developing countries has increased at a significant pace in the past few decades (Millberg and Winkler, 2013).

This new trend of increasing FDI flows, accompanied by the increasing proliferation of fragmentation of global production, offers some opportunities for African countries to industrialise and transform their economies. However, there is a danger that African countries that join the lowest segments of these value chains continue to reap the lowest value while the lead firms based in the industrialised countries continue to obtain the lion's share of the value added from the value chain of the product. Producing more of the same product can also lead to anomalous results as African countries could continue to "produce more but gain less" as UNCTAD warned some years ago (UNCTAD, 2002). There are also significant new opportunities that developing countries could take advantage of in these new value chains.

China is a good example of how African countries could move up the global value chains. A recent UNECA study states that Chinese firms are increasingly moving from simple contract assembly to "full-package" manufacturing, with Chinese firms controlling all stages from material procurement to product design (UNECA, 2016).

The rise of outsourcing and fragmentation of production has led to the increased use of services in global production, prompting several writers to refer to this process as the "servicification" of production. A focus on industrial sectors or manufacturing in the past by development economists was to reap the benefits of favourable terms of trade relative to commodities. However, in the era of Chinese dominance of the global production of low value-added manufactured goods, African countries also need to consider a focus on niche services segments in both agriculture and services (Kaplinsky, 2017). The focus of policy, he argues, must shift from industrial policy, which has historically been associated with manufacturing, to productive sector policy. It is for this reason that the case studies in this study also focus on manufacturing, agriculture and services productive sectors.

Millberg et al (2014) argued that in the era of GVCs African countries will need to focus not just on sectors but also on upgrading in GVCs – that is, finding niche activities, stages and tasks in these GVCs and moving up the value chain in these productive areas. Second, there has to be a trade-off between trying to produce and compete in intermediate products and the need to import the highest quality inputs for the production of export goods. Third, the need for lead firm behavior to be constantly analysed with a view to engagement and bargaining has become even more important for African countries.

The productive sector case studies or success stories reviewed in Chapter three provide a rich empirical base to reflect on and draw lessons from for other African countries. Five lessons can be drawn from these case studies.

First, African states have the capacity to lead the structural transformation and industrialisation of their countries. While the leadership role of the state is a necessary but not sufficient condition for the success of industrial sector development, it is a critical factor in the industrialisation of Africa. A number of studies have pointed to the activist and strong role of the state in the industrialisation of East Asia (Wade, 2004; Amsden, 1989; Studwell, 2014). Dr Arkebe Oqubay (2015), who served as Minister in the office of the Prime Minister of Ethiopia, points out that the Prime Minister Meles Zenawi repeatedly expressed admiration for the East Asian experience. He stressed that the East Asian success was based on a prudent combination of market forces and state intervention, in which the state not only provided basic infrastructure and services but also a conducive environment for the private sector to develop productive capabilities. Oqubay (2015) characterises the Ethiopian state as one clearly aspiring to become developmental – a state characterised by its exclusive focus on development, public mobilisation around a grand vision, the commitment to improving state capability, and embedded autonomy. The role of the state in the economic development of a country is also evident in the case of the Rwandan gorilla viewing sector.

The case of the Kenya mobile banking sector displayed significant state leadership. One of the academic observers of M-Pesa has argued that the Kenyan "government has made it possible to have a legal and regulatory framework that fosters the development of Public-Private Partnerships" (Yi et al, 2017). In addition, the notable success of the South African automotive sector is based on strong and sustained government leadership in creating both the necessary policy framework for the industry to thrive but also providing the tariff and fiscal incentive structure to guide the industry towards increasing

competitiveness and growth over several decades.

In the case of the cocoa production and chocolate manufacturing in Côte d'Ivoire and Ghana, this leadership on the part of government is just beginning to emerge. The Nigerian Nollywood case suggests that the film industry has developed spontaneously through the creativity and innovation of Nigeria's small businesses that created a thriving industry. More recently, the state has become involved in providing the necessary policy support to address the issue of piracy and education and training facilities to build local capabilities.

These case studies of industrialisation with the strong hand of the state playing a supportive and guiding role, give credence to the views of Thandika Mkandawire that "developmental states are not alien to African climes". He argues that as difficult as the political and economic task of establishing such states may be, it is within the reach of many countries struggling against the ravages of poverty and underdevelopment (Mkandawire, 2001). He refers to the two most cited "developmental states" at the time he was writing, Botswana and Mauritius, as being African and democratic. These case studies thus give credence to the proposition that democratic developmental states, that can lead and support the transformation of their productive sectors towards higher levels of growth and development, are both essential, and possible in Africa.

Second, the strategic use of trade policy is essential for implementing industrial strategy. The experience of South Africa's automotive sector suggests that a more nuanced approach to trade and industrial policy is necessary for Africa's economies to make the necessary structural changes, upgrade their productive capacity, move up the value chain and improve their welfare. South Africa's Motor Industry Development Programme provided import rebate credits to exporters of automotive vehicles and also built in a progressive reduction of import tariffs on motor vehicles and components. The latter acted as a discipline on importers, driving the OEMs to rationalise platforms and increase economies of scale. This mechanism is credited with South Africa's vehicle production increasing from 388 442 units in 1995 to 534 490 units in 2007, with exports increasing tenfold over the same period (Zalk, 2014). A review of the MIDP programme in 2007/8 led to its termination in 2012 and the establishment of the Automotive Production and Development Programme in 2013. The APDP has been successful in increasing local production and local content. Barnes et al (2016) argue that the APDP stimulated increased rationalisation of production, reducing the extreme proliferation of makes and models being assembled, and improved the quality and productivity of automotive producers. The South Africa government together with the major stakeholders in the private sector and trade unions have developed an Automotive Masterplan and have set a target for 1.4 million vehicles to be produced in South Africa by 2035.

The potential for the South African industry to work in partnership with the major economies on the African continent, including Nigeria, Kenya, Ethiopia and Morocco, to build an African auto industry is being seriously discussed by academic writers and policymakers (Black and McLennan, 2016). The authors argue that relatively rapid growth of the African middle class could increase the size of the passenger vehicle market to approximately 10 million unit by 2030. South Africa would need to work closely with other potential key partners in Africa to pursue this objective. Experiences built up in the South African automotive industry over the past 50 years can be shared with other African countries to design appropriate trade and industry programmes to support the development of an African automotive industry. Trade negotiators in the AfCFTA should begin to engage each other, supported by industry experts on the auto industry on how best to design the AfCFTA so that it fosters such partnerships between

African countries as Africa deepens its regional integration.

Third, Africa is capable of rising to the challenge posed by the fourth industrial revolution and leapfrog using these advanced technologies. The case study of Kenya's mobile banking revolution and the recent use of drones in Rwanda to support its health system illustrate the inherent creativity and capacity to innovate. Kenya's M-Pesa is probably the most celebrated success story of mobile banking in a developing country. Technological innovations such as M-Pesa have made it possible to extend financial services to millions of poor people at a relatively low cost. This innovation illustrates the capacity of African countries to be creative and harness fourth industrial revolution technologies to both further their productive capacity and provide improved services to their populations.

Another exciting development is the relatively rapid use of the ICT-based services sector to advance health services in Rwanda. The government initiated its national ICT plan in 2000 with the hope of transforming Rwanda into the Singapore of Africa. In 2011, the Rwanda Technology Authority announced the completion of a 2 300 km nationwide fibre optic cable, providing faster internet access to a wider range of broadband services. This has spurred the increased use of telecommunications services and adaptation of a range of innovative applications such as e-banking, e-agriculture, and e-trade (UNECA, 2016).

Most recently, Rwanda has applied mobile technology to fly drones to provide life-saving blood to hospitals and clinics within 75 km of its capital, Kigali. A US company, Zipline, uses drone technology to carry blood supplies from Kigali to remote areas. Zipline is a California-based robotics company and has provided Rwanda with the first drone medical service delivery in the world (James, 2017). This report states that whereas an ambulance takes four hours to deliver blood to a remote area, a drone gets it done in 15 to 45 minutes. About 30 drones each carrying a 1.5 kg payload make 500 flights daily at 110 km/h. Health officials send text messages to place orders and the deliveries are dropped from the sky at a designated spot marked by paint (James, 2017). This innovative use of technology illustrates how African countries can harness the technologies of the fourth industrial revolution to advance their development. AfCFTA needs to recognise this potential and build into its services negotiations schedules the possibility for cross-border trade in health services using telecommunications technology.

Fourth, the case study of cocoa and chocolate manufacturing in Côte d'Ivoire and Ghana is an excellent example of how Africa can make a major shift away from the low-value trap of commodity chains and transform its production. African countries producing commodities have been struck at the low-value end for decades. This has been compounded by the unfavorable terms of trade of commodities that has resulted in declining relative prices for their commodities. A recent report indicated that while over two million small-scale farms in Côte d'Ivoire and Ghana produce nearly 60 percent of the world's supply of cocoa, their farmers earn an average of 67 cents per day – just 6.6 percent of the final price (Quartz Africa, 2017). However, the case study in Chapter three illustrates that both Côte d'Ivoire and Ghana are making strong efforts to break out of this immiserising trap.

A drive towards investment in large commercial cocoa production and increased domestic processing of cocoa and manufacturing of chocolate is underway in both Côte d'Ivoire and Ghana. A Belgian-based company, Solea, is developing about 2 000 hectares of land in Eastern Côte d'Ivoire and using sophisticated drip-feed irrigation. Another company, Olam International, has opened a US$475 million factory in San Pedro, in the Côte d'Ivoire, to make Côte d'Ivoire the world's largest

processor of cocoa beans (Quartz Africa, 2017). Interestingly also, foreign investors in chocolate manufacturing are beginning to invest in Africa. French chocolatier Cemoi opened its first major chocolate factory in 2015 in Côte d'Ivoire, with a capacity to produce over 10 000 tons of chocolate a year (Quartz Africa, 2017). Local artisanal producers of chocolate are also beginning to reflect increasing capacity to innovate and create local brands. A small local artisanal chocolate company in Côte d'Ivoire, called Instant Chocolate, grew from selling 3.5 tons of chocolate a month to about 50 tons a month in 2016 producing bars of chocolate and pralines for individuals and corporate clients such as Air France under the brand Made in Ivory Coast (Quartz Africa, 2017).

This case study illustrates the increasing determination of African countries to break out of the lowest-value segment of commodity value chains and to upgrade and increase their ownership and share of the value that derives from commodities produced in Africa. Trade negotiators in the AfCFTA need to ensure that regional value chains that promote cooperation between African countries can be built to beneficiate local commodities and improve the innovation capacity of African countries.

Fifth, African countries are demonstrating increasing creative capacity to identify niches in the services sector when they can move up the value chain of production. The case of Rwanda's gorilla viewing tourism sector and the Nigerian Nollywood film industry provide examples of activist government initiatives, and the dynamism of the private sector, to capture increased value from niche markets. Rwanda has displayed an innovative capacity to identify a niche segment of the tourism sector and then take active steps to move up the value chain – providing a full service that has dynamised its tourism sector and created significant good quality decent jobs for its citizens.

The Rwanda government has taken active industrial policy steps to develop this niche sector of the tourism industry. At least three measures can be credited with the success of the sector. First, the government has aggressively been promoting its attractions internationally earning it the award of Best Exhibitor from Africa in the International Tourism Bourse in Berlin five times since 2003. Second, the government has worked meticulously to develop skills of employees in the tourism sector by establishing the Rwanda Tourism University College in 2006 and expanding tourism education in TVET institutions to provide more training in culinary art, housekeeping, front desk operations, and table waiting. In addition, the government provides exemptions for import duties on tourism products and other fiscal support measures for the industry.

As a consequence of these policy measures gorilla viewing has been the most significant contributor to the surge of tourism in Rwanda. Rwanda has had the largest surge in tourist arrivals in East Africa, from 12.8 per 100 000 people in 2000 to 85.4 per 100 000 people in 2011 (UNECA, 2016). Gorilla tourism has also generated a large number of jobs for guides, trackers and anti-poachers (Nielsen and Spenceley, 2010). While the gorilla viewing tourism sector in Rwanda is on its way to reaping higher value from the tourism value chain, the government still needs to develop the capabilities of local entrepreneurs and attract foreign investors in the hospitality, transport and finance services sectors to increase the value added gained by the Rwandan economy.

Unlike the Rwandan case of gorilla viewing, the Nigerian Nollywood film industry was developed largely by the initiative of Nigeria's very innovative and creative private sector. The Nigerian film industry grew from its formation in the 1980s and 1990s to become the third-largest film industry after Hollywood and Bollywood (WTO TPR, 2017). USITC has estimated that over one million people are employed in the industry (excluding pirates), which makes it

Nigeria's largest employer after agriculture (USITC, 2014). Nigerian films have a large following in Africa and among African emigrants around the world. However, the Nigerian film industry faces many challenges. Although Nollywood's output by volume of about 40 films a week is higher than both Hollywood and Bollywood, most of its production is low budget. The Nigerian government has indicated that it is working to address these challenges. The most important of these includes a lack of enforcement of intellectual property rights and piracy (USITC, 2014). Nigeria's most recent Economic Recovery and Growth Plan has prioritised the creative industry. The government has proposals to create a Nigerian Film Institute (WTO TPR, 2017). Although the Nigerian film industry grew almost spontaneously during the 1980s with small film producers using modest technology and small budgets, the industry has the potential to move up the value of production as local and global investors take a keen interest in its further development.

The six case studies indicate that African countries are advancing the objective of structural transformation and industrialisation. It is useful to emphasise at this stage that while the flagship programme of the African Union – Agenda 2063 – called for the fast-tracking of the AfCFTA negotiations, the BIAT Action Plan, adopted by AU leaders at the same Summit, includes seven clusters: trade policy, trade facilitation, productive capacity, trade-related infrastructure, trade finance, trade information and factor markets (UNECA, 2012).

Chapter three proceeds to discuss Africa's need for cross-border investment in infrastructure and the progress it is making in this important pillar of its development integration agenda. Here too it is argued that significant progress can be observed.

In a path-breaking long paper Carlos Lopes and Willem te Velde discuss the challenges Africa is facing as African countries experience the impact of the COVID-19 pandemic. They point to the resilience displayed by African countries, which have surprised many by leading the fight against the pandemic, innovating and saving lives (Lopes and Te Velde, 2021).

The paper also identifies some clear possibilities and opportunities for Africa to advance its development through transformative industrialisation:

1. Implementing the AfCFTA with a developmental regionalism approach.
2. Harnessing the digital economy and the fourth industrial revolution and leapfrogging Africa's industrialisation.
3. Taking advantage of Africa's large irradiance exposure, untapped hydropower and geothermal energy, and the fall in prices of renewables relative to fossil fuels, to pursue green industrialisation.

BUILD CROSS-BORDER INFRASTRUCTURE

Carlos Lopes and Ibrahim Mayaki argue that, "industrialisation is at the core of Africa's structural transformation and infrastructure is its catalyst" (UNECA and NEPAD Agency, 2016). Infrastructure is an important pillar of the development integration concept. This concept is developed in Chapter four of the handbook. Infrastructure problems largely explain the relatively low levels of African trade. Most African countries are at a great distance from their primary markets and the high transport costs of their products inhibit their participation in the global economy (Hoekman and Njinque, 2016). Addressing these challenges is further complicated by the fact that Africa has 34 LDCs and 16 landlocked countries. Thus the concept of "development corridors" or spatial development corridors have become a useful tool to assist African countries to reduce their trade costs and stimulate investment in cross-border infrastructure and productive capacity.

The innovative capacity displayed in the creation of the Maputo Development Corridor provides an important learning

experience for other countries on the continent. This type of corridor development has been referred to as developmental regionalism (UNCTAD, 2013). The 2013 UNCTAD *Economic Development Report in Africa* provides useful insights on the experiences of the Greater Mekong Subregional Corridor in implementing a developmental approach to regional integration. African countries have, since the development of the Maputo Development Corridor, taken a number of initiatives to advance cross-border infrastructure investment. These include Africa's NEPAD, PIDA, PICI and MoveAfrica initiatives. These initiatives have been briefly discussed in Chapter four. While significant advances have been made in some corridors such as the North-South Corridor Rail project and the Northern Corridor, most of the other initiatives above lack sufficient financing.

Thus, the Dakar Financing Summit convened by President Macky Sall of Senegal provided a set of recommendations in the Dakar Agenda for Action (NEPAD, 2014) to finance Africa's infrastructure needs. The Summit was a follow-up to a study on mobilising domestic resources for financing undertaken by the Planning and Coordinating Agency of the New Partnership for Africa's Development and ECA with other partners. A number of interesting proposals made in this study include promoting infrastructure bonds, African-owned private equity funds, establishing sovereign wealth funds and public-private partnerships (UNECA and NEPAD Agency, 2016). In this spirit, the President of the AfDB at the time, Donald Kaberuka, took the opportunity to present the Africa50 Fund, an innovative financing mechanism with the goal of mobilising domestic and external resources to finance African infrastructure development. Thus, while a great deal of work has gone into envisioning the development corridors that will contribute to building Africa's cross-border infrastructure and help to deepen its regional integration, a great deal of work remains to mobilise financial resources and attract foreign investment. More innovative financial instruments, including green bonds and fintech, can also be used to support Africa's development finance needs, especially its infrastructure financing gap of approximately US$100 billion a year (UNECA, 2020).

STRENGTHEN MUTUALLY BENEFICIAL EXTERNAL TRADE AND INVESTMENT RELATIONSHIPS WITH BOTH NORTHERN AND SOUTHERN STRATEGIC PARTNERS

An important strategic task when implementing for AfCFTA is building and strengthening mutually beneficial external trade and investment relationships with both Northern and Southern strategic partners. For this reason Chapter seven of this handbook provides an overview of Africa's trade and investment relations with its main Northern and Southern trading partners, bilaterally and multilaterally.

The chapter provides an overview of the changing architecture of global trade since the onset of the new millennium. The evidence discussed in the data on global trade flows indicates that the rise of China and other emerging economies such as India and Brazil has changed the geography of global trade. Unfortunately, one of the consequences of this change has been the declining support by the developed countries for the Doha Development Agenda of the WTO Doha round, resulting in its collapse in 2008. Developing countries, including the Africa Group in Geneva, are playing a more active and influential role in the WTO. However, the Doha Round has lost traction and the US and other developed countries have turned their attention to mega-regionals such as the TPP and the TTIP. While President Trump withdrew the United States from these negotiations in early 2017 the likelihood of these negotiations proceeding in a different shape and form during the US Biden Administration remains high. African countries have continued to maintain their solidarity through the efforts of the Africa Group in the WTO and have consistently

called for the Doha Development Agenda to be restored and implemented. Africa will need to continue its active role in the WTO and work with other developing countries to strengthen multilateral rules and resist efforts by the developed countries to impose imbalanced rules on poorer countries.

The chapter discusses the two significant changes in the relationship between Africa and its main developed country partners: the EU and the US. The EU initiated a process in 2000 of transitioning from the Cotonou Agreement that provided unilateral preferences to sub-Saharan African countries (and Caribbean and Pacific countries) towards bilateral free trade agreements in the EPAs. The US, led by President Bill Clinton, initiated a unilateral programme to provide trade preferences for sub-Saharan Africa, promulgated into law by the US Congress in the AGOA Act. These have been extended several times until the last extension from 2015 to 2025. Both these relationships are crucial to Africa. Europe is Africa's largest trade and investment partner, and the US is the largest market in the world.

In the case of the EPAs between the EU and Africa, most of these agreements were between the EU and individual countries or small groups of African countries that did not follow the traditional RECs of the African Union. This has caused great concern and challenges for the regional integration process in Africa and AfCFTA negotiations. In addition concern remains in Africa that the EPAs are not fair or mutually beneficial and will undermine the development of African countries. For these reasons at least three African regions have not yet signed or ratified the EPAs (UNECA, 2016). Some writers have called for "smart sequencing" of the EPAs and AfCFTA implementation so that African countries open their markets to each other first before to the EU.

While the successful extension of the AGOA preferences for another 10 years by President Obama was a significant positive measure for Africa, the 2015 AGOA Act raises at least three concerns and questions for African countries.

- Is AGOA still a one-way preferential trade programme without cost?
- Does it still facilitate a co-operative trade and development relationship with the US?
- For how long will the US still allow non-reciprocity in trade with sub-Saharan African countries?

First, lobbying by American business interests in the US to increase their exports of second hand clothing, which undermines East Africa's industrialisation process, creates a great deal of uncertainty for policymakers. Second, the AGOA Act makes it possible for relatively small stakeholders in the US to put pressure on the US government to act against countries that are perceived to frustrate its trade and investment interests. The US government will need to demonstrate a great deal of leadership and avoid acting on behalf of such interests that only serve to create trade tensions in its relationships with African countries. Third, the 2015 Act has also compelled the US administration to begin discussions on transforming the current preferential trade arrangement in AGOA into a Free Trade Agreement with the US. If these processes are advanced prematurely, the process could undermine the need for African countries to leverage these preferences and attract investors that want to export into the US. African countries will need assurances that the 10-year extension of AGOA will be fully implemented. There are nevertheless significant opportunities for African countries to expand their exports into the US using the provisions of AGOA – including on regional cumulation that could deepen and advance the objectives of development integration in Africa.

Over the past decade China has increasingly become one of the largest trade and investment partners for most African countries. Chapter seven argues that China's rise provides both opportunities and challenges to African countries. China has become one of the largest

sources of finance and investment for large infrastructure projects on the African continent and the largest market in the world for Africa's natural resources. However, China's prowess and competitiveness in labour-intensive manufacturing has disrupted Africa's industrialisation process. The experience of some countries such as Ethiopia suggest that China could also begin to invest in labour-intensive manufacturing in African countries where it has begun to assist in the creation of EPZs. There are significant opportunities for African countries, working together in the African Union and with the RECs, to engage China on increasing its investment in productive capacity and cross-border infrastructure development of Africa that enhances Africa's development integration agenda and the AfCFTA.

This handbook has argued that African countries should adopt the principle of Africa First in a spirit of ubuntu to deepen and accelerate their integration. African countries can and should begin to base their integration on the principle of providing preferential tariffs to each other on an MFN basis. This means preferring each other first before opening their markets to third countries. In the case of the EPAs, a smart sequencing of tariff schedules, that ensures that African countries first reduce tariffs and open their markets to each other before opening their markets to the EU, will ensure that the EPAs do not undermine regional integration in Africa. It is also argued that African countries should participate in regional value chains to build their productive capacity to compete in the global economy. Similarly in the area of cross-border infrastructure, African countries should build alliances with each other, providing access to their infrastructure projects to African suppliers and construction companies that have the capacity to build Africa's roads, rail and energy requirements. The adoption of the Africa First principle should be applied in a way that builds strategic alliances with Africa's Northern and Southern trade and investment partners, while supporting the development of the smaller and more vulnerable African countries, at the same time.

Africa has come a long way since *The Economist* magazine headline in the year 2000 declared it to be "A Hopeless Continent". Since then African countries have been growing at unprecedented rates. However, the process of beneficiating Africa's commodities, building its industrial capabilities and upgrading in global value chains, and investing in cross-border infrastructure, has only just begun. African leaders are demonstrating a determination to transform their productive capabilities and industrialise. The decision of AU leaders at their Summit in Kigali on 21 March 2018 to launch the AfCFTA is historic. It gives momentum to the vision of the Pan-African leaders that dreamt of a united and prosperous Africa built on the values of solidarity and collective action. It is the responsibility of all stakeholders, policymakers and the international community, to support Africa's efforts to mainstream development in the AfCFTA, ensure that it is mutually beneficial, and advances all four pillars of the developmental regionalism agenda.

QUESTIONS FOR DISCUSSION

1. What in your view are the main differences in the ideas of "free trade" and that of "developmental regionalism"?
2. How can African countries implement their liberalisation commitments in the AfCFTA and still ensure that they advance their industrialisation agenda?
3. How can African countries strengthen their trade and investment relations with their main external partners in the EU, US and China while ensuring that they adopt an Africa First approach?

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He is the author of three books on the WTO: *Mainstreaming Development in the WTO: Developing Countries in the Doha Round* (2007) and *Reforming the World Trade Organization: Developing Countries in the Doha Round* (2009). His latest book was published by the South Centre and TIPS: *WTO Reform and the crisis of multilateralism: A Developing Country Perspective* (2020).

The African Continental Free-Trade Area is undoubtedly the most important pan-African integration undertaking ever. For all those who want to understand why, master its complexity, or assess the challenges and opportunities it creates, this handbook will prove to be a loyal companion. It can be read as much as consulted for any informed engagement necessary to propel the continent into a sustainable structural transformation path.

DR CARLOS LOPES
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Professor Ismail's handbook on the AfCFTA is a lifesaver for any teacher of regional integration and trade in Africa. Its clear, carefully articulated content on development integration is indispensable to lecturers, practitioners and students of African integration, all of whom will find the book a contemporary, reader-friendly resource on trade and integration in Africa. It's a real pleasure to welcome the much-anticipated revised version, even while all the gems in the first edition are yet to be uncovered.

PROFESSOR ADA ORDOR
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This handbook by Professor Faizel Ismail is timely and highly relevant for mapping the journey taken to arrive at the AfCFTA and the way forward in translating the agreement into a policy instrument for advancing Africa's industrialisation. Its originality and value addition lie in its analysis of the nexus between trade and industrial policy and regional integration and development.

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