Chapter 7

Globalization and Regionalization of Africa

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Under globalization, cross-border movement of goods, capital and people are becoming increasingly active. Until the end of the twentieth century, marginalization of Africa had been a big concern. However, with the turn of the century, the situation surrounding Africa is dramatically changing. While a sense of stagnation has been growing in developed markets since the outbreak of the global economic crisis in 2008, foreign direct investments into the African continent to seek natural resources as well as new markets have been growing remarkably. On the other hand, Africa is moving to create an Africa-wide common market and currency union. In fact, Africa is also known as a continent that has devoted earnest efforts to regional integration since the post-independence period.

This chapter focuses on Africa amid globalization and its regional integration process. Both seem to be incompatible, but strongly related. In fact, regional economic cooperation becomes more important in the era of globalization.

1. Overcoming "Marginalization"

Global trade value has expanded dramatically and its growth has accelerated since the turn of the century. In concrete terms, the value of global trade, which was only \$130 billion in 1960, grew steeply, to \$3.5 trillion in 1990, to around \$6 trillion in 2000 and to \$18 trillion in 2013. It means that the value tripled since the beginning of this century. The reduction of tariff rates and the abolition of non-tariff barriers under the GATT/WTO and the remarkable advance of communications and transportation systems apparently contributed to this trend. However, as shown in **Table 7-1**, the share of exports from Africa in the global value of exports continued to decline from 7.3% in 1948, dropping to less than 3% at the beginning of the 21st century. Given that Africa accounted for around 12% (approximately 800 million people) of the global population at that time, this figure is clearly too low, so voices of concern over the marginalization of Africa grew in the mid-1990s. However, since the mid-2000s, Africa's share in global trade has shown signs of rising, partly due to an upsurge in resource prices. Still, the growth of African exports is limited compared with that of Asian exports. Also, it is lower than the growth of exports from South and Central America, whose possible marginalization had also been a concern.

Table 7-1. World merchandise exports by region and selected economy

(% in global trade value)

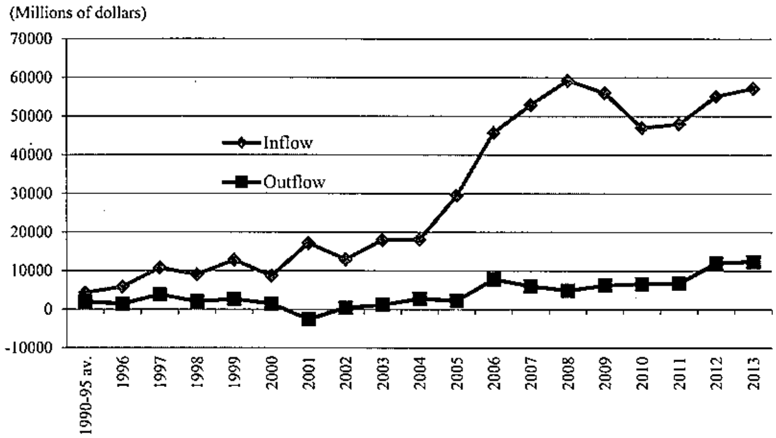
	1948	1963	1983	2003	2013
North America (%)	28.1	19.9	16.8	15.8	13.2
South and Central America (%)	11.3	6.4	4.4	3.0	4.0
Europe (%)	35.1	47.8	43.5	45.9	36.3
Commonwealth of Independent States (CIS) (%)				2.6	4.3
Africa (%)	7.3	5.7	4.5	2.4	3.3
Middle East (%)	2.0	3.2	6.8	4.1	7.4
Asia (%)	14.0	12.5	19.1	26.2	31.5
GATT/WTO members	62.8	75.0	78.4	94.3	97.1

Source: Compiled by the author from WTO (2014), *International Trade Statistics* 2014, Table I.5.

(1) Rapid Growth since 2003

The increase in the value of exports from Africa and the economic growth of the region since 2003 were led by a remarkable expansion of foreign direct investments (FDIs), as indicated in **Figure 7-1**. An upsurge in resource prices after September 11, 2001, became a direct trigger of this rapid increase in FDIs and it contributed significantly to fixed capital formation in Africa. Although the value of direct investment inflow temporarily declined after the breakout of the global financial crisis in the middle of 2008, it has recovered since 2011. Major investor countries are former colonial powers such as France and Britain, but in recent years, investments by these countries have declined. On the other hand, investments by emerging countries such as China, India and Middle East countries have grown rapidly. Including investments by South Africa, the growth of the investments from emerging markets to Africa, so-called South-to-South investments, has been conspicuous in recent years. In 2008, the distribution of investments in the African continent was uneven, with the top 10 countries—the five North African countries, Sudan, Nigeria, the Republic of Congo, Angola and South Africa—accounting for 82% of the total investments. However, in recent years, investment destinations have been becoming more diverse. Although the main part of investment still goes to the resources and energy sectors, it is notable that investment in the agricultural sector has grown, responding to the recent increasing interest in bio-energy as well as concern about future food shortages.

Figure 7-1. FDI inflows into and outflows from Africa 1990-2013



Source: UNCTAD, *World Investment Report*, Annex Tables

(2) Increasing Momentum toward Business Developments in Africa

Compared with developed countries, where markets have matured but a sense of stagnation is growing, Africa is viewed as an attractive investment destination as an emerging market. This movement was encouraged by the new concept suggested by C. K. Prahalad in the early 2000s. He and his collaborators defined the tier at which GNI per capita based on purchasing power parity is less than 1,500 dollars as the bottom of the pyramid (BOP) and attracted attention by regarding them as business customers, rather than recipients of charity and aid (Prahalad & Hammond, 2002; Prahalad & Hart, 2002, Prahalad, 2004). Specifically, his argument represented the arrival of a new business model that enables poor families, who have not been recognized as customers, to purchase products easily such as by using smaller product packages and designing innovative loan schemes.

The recent rapid growth in trade and investment inflow has boosted the chance of participating in the global economy for Africa, which has until now been left behind amid globalization. In particular, investments in the communications and transportation sectors are transforming the landscape around people in Africa who have had difficulty making rational choices because of the information asymmetry and physical constraints. Especially the arrival of mobile phones is drastically changing the people's lives. For example, mobile phones have permitted farmers and fishermen who previously had no choice but to deliver their products at brokers' offer prices to obtain market information more rapidly and more accurately. They come to take proactive actions such as taking their products to more favorable markets and to earn higher profits. Mobile phones are also becoming a tool to overcome the BOP penalty, which means that BOP often is required to pay higher prices for basic goods and services than do wealthier consumers. For example, it is estimated that 75% of people in Africa don't have a bank account and these people are obliged to pay more services charges to receive money. However, the new technology called M-PESA using mobile phones has permitted them to transfer the money less expensively and without a bank account.

In fact, M-PESA which is the latest technology got started in Africa. In Rwanda, the first airport for drones and first cargo robot route using them are expected to be built by 2016. And also, Facebook announced to bring free Internet access to rural areas in SSA using satellite and drones. Africa is becoming the place to introduce the latest technologies which are difficult to introduce in the old societies due to conflicts with vested interests and the existing technology.

2. Cross-Border Movement of People

(1) Dreaming of a Better Life

As a result of the advance of globalization, movement of people has also become active. The stock of international migrants in the world is around 210 million people (IMO, 2014), of whom 69-81% are presumed to come from developing countries (the South). Specifically, such people can be divided into two groups – people who are forced to move to foreign countries as refugees in order to flee from recurring conflicts and human rights violations and people who willingly choose to move to developed countries in pursuit of better lives.

As problems such as political instability in North Africa since the Arab Spring, the rise of Islamic fundamentalism and border disputes have deepened, the total number of refugees and people in refugee-like situations in Africa was estimated to total around 3.38 million people as of the end of 2013 (UNHCR, 2013). This figure accounts for 28% of the total number of refugees in the world (UNHCR, 2013).

On the other hand, it has been reported that one in every nine persons born in Africa with a tertiary diploma lived in the OECD in 2010/2011 (UN-DESA, 2013). In particular, many people leave Africa to work as medical staff in developed countries, where demand for such staff is growing. This has deepened the problem of a shortage of medical practitioners in the African continent, where the infant mortality rate is high and infectious diseases, including HIV/AIDS and Ebola, are endemic. For example, in 2003/2004, of the medical staff registered in Britain, 6,208 doctors and 1,689 nurses were immigrants from South Africa (Mensah et al., 2005). A similar outflow of medical staff is observed in former British territories such as Ghana, Nigeria, Kenya, Malawi and Botswana. "Brain drain," which refers to emigration of medical and other professional workers from developing countries to foreign countries in pursuit of higher income, has become a factor which makes Africa less developed and dependent on the financial flow from the outside of continent.

Meanwhile, developed countries which are willing to accept professional workers are wary of an inflow of unskilled, low-wage workers. As developed countries strengthen immigration regulation, illegal immigration from Africa into southern European countries has emerged as a problem. An increasing number of African people are moving to the coastal areas of North Africa and Western African countries like Senegal and Mauritania and setting out to sail across the Mediterranean or Atlantic Ocean by fishing boat in attempts to sneak into the European continent via midpoints such as the Spanish-controlled Canary Islands and the Italian-controlled Lampedusa island, and many of them are losing their lives during the dangerous journey. In 2015 in particular, this problem grabbed media attention because of the sinking of several boats after their departure from Libya, a country afflicted with political instability, and a tragic incident in which people fell into the sea amid onboard squabbles. According to a media report (The Guardian, April 20, 2015), the number of people who drowned to death in the Mediterranean in the first four months of 2015 rose 50-fold to around 1,500 compared with the same period of last year. Back in 2006, the European Union held a conference on immigration and development in Tripoli, Libya, and discussed immigration from the African continent as an important agenda item at the EU-Africa Summit that was held in Lisbon in December 2007. In 2008, the European Union established a job center in Bamako, the capital of Mali, one of the major sources of illegal immigrants in Sub Saharan Africa, among other initiatives to deal with the problem of illegal immigration. However, the job center project fell through because of the political instability in Mali in recent years and the serious economic crisis faced by the EU since 2009. Amid the subsequent turmoil in North Africa and Iraq-Syria, a crisis situation has aggravated, with a flood of boat people coming ashore in southern Europe due to the power expansion of the Islamic State of Iraq and al-Sham (ISIS). For the moment, most developed countries are positive about accepting immigrants, especially, political refugees from Syria and Iraq. Ironically, the more the media focus on them, the less attention is paid to issues of African migrations.

On the other hand, African movements to Asia, in addition to those to Western countries, have been increasing in recent years. One reason for that is improved access between Asia and Africa due to the development of aviation routes linking the two regions via Middle East cities such as Dubai. Most African people who go to Asia are trade merchants who visit the region on a short-term business visa and return home after purchasing Asian goods. However, some of them get married to Asians and settle down and make a family in Asia or stay on as illegal immigrants. For example, hundreds of thousands of Africans are said to be staying in Guangzhou, the capital city of the Chinese province of Guangdong, and most of them are illegal immigrants and are a source of problems for the Chinese authorities (Watts, 2013). In particular, the Xiaobei district is known for its concentration of African people and is called "Chocolate City" by local residents. Immigrants there sell goods to trade merchants from Africa traveling on short-term visas and engage in service jobs at restaurants and beauty parlors. As a new trend, the presence of such immigrants is attracting more and more Africans there. In Hong Kong and Thailand as well, many African people are engaging in commercial activities. Immigration to Asia increased partly because it was easier to obtain short-term visas for Asian countries than those for the United States and Europe. However, in recent years, Asian countries have started to restrict the issuance of new visas and the renewal of existing ones for people from developing countries. African trade merchants who were denied visa renewal stay on as illegal immigrants in some cases, a situation which could develop into a new problem (Ghosh, 2010).

(2) Expectations for the African Diaspora

As a result of slave exports to North Africa and the Middle East, which grew after the 7th century, and trans-Atlantic slave trade that lasted for around four centuries from the mid-15th century, many black Africans were moved out of Africa (see Chapter 1). Descendants of such people are known as the black diaspora (or the African diaspora). In recent years, people who moved out of Africa for the reasons mentioned in the previous section are also considered as black diaspora. Most of them feel strong attachment to the African continent and are engaging actively to contribute to development. In these days, we also observe that Africans who have achieved success abroad return to Africa and start new businesses there using technologies, knowhow, networks of human connections and financial resources obtained in developed countries. In recent years, remittances sent back to Africa from the diaspora are also attracting attention. According to statistics compiled by the World Bank in April 2015, remittances sent back to Africa in 2012 totaled $61 billion (World Bank, 2015). The largest recipient country is Nigeria receiving $20.9 billion, followed by Egypt recording $19.2 billion. On the other hand, The Gambia, Lesotho, Liberia and Comoro received remittances equivalent to around 20 percent of their GDP in 2013. The amount of money transferred to Africa is estimated to be larger if funds transferred through informal means are included. The lives of people living in Zimbabwe, whose annual inflation rate of 200 million percent in 2008 grabbed headlines, are being supported by foreign currencies sent back from the diaspora of people who emigrated from the country and settled abroad, which is an estimated at a total of 4 million people. However, Africa is the most expensive destination to send remittances from abroad due to less development of money transfer operation (MOT) and the oligopolistic market of the banks. The remittance cost to Africa in 2015 is still high at 9.78% according to the calculation of the World Bank, while it tends to decrease along global trends (World Bank 2015). In addition, it is said that only a quarter of the population have a bank account in Africa and people have difficulties accessing suitable financial services. However, the remarkable development of new technologies such as bitcoins and mobile technologies facilitate them to receive the remittance and the cost is also drastically being lowered.

(3) Settlers in Africa

Some people move to and settle in the African continent. It is true that for better or worse, Europeans who settled in Africa in the Age of Great Voyage for purposes such as commercial activities, plantation and resource development had a significant influence on Africa in the subsequent periods. In addition, immigrants from India/Pakistan and Lebanon/Syria, which were under the rule of European countries just as Africa was, gained economic control in some African countries in the post-independence period. Idi Amin, the notorious former president of Uganda, is known for having expelled these Indian immigrants from the country in 1972 (Chapter 5). However, rather than returning the control of Uganda's economy to native Africans, this move led to economic collapse. In this modern age, when global competition is intensifying, inviting talented personnel regardless of their nationality or birthplace will help to promote national development. Indeed, the presence of Asian immigrants in Southeast Africa induced Asian investment projects to Africa in some cases.

In particular, what has been notable in recent years is an increase in the number of Chinese people staying in Africa. In the past, there were already many Chinese people who moved to Africa as mine workers (coolies) or as merchants. After its establishment as the People's Republic of China in 1947, China generously provided assistance to Africa as part of its diplomatic strategy to counter the advance not only of the U.S.-led Western bloc but also of the Soviet Union and Taiwan into the region. In addition, China's economic involvement with Africa has expanded remarkably since the first Forum on China-Africa Cooperation (FOCAC) in 2000 in particular. While the number of Chinese people staying in Africa already totaled 120,000 in 2001, it is estimated to have jumped to more than one million by 2013. As a background factor for this increase in Chinese people staying in Africa, an effort by China, which has become a "global factory," to secure resources and explore new markets is often pointed out. In addition, China is criticized for not coordinating its assistance with traditional donors belonging to the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), and there is also recurring criticism that infrastructure development financed by China's aid does not lead to the creation of jobs in Africa because Chinese workers are sent to the region (Chapter 11). However, China's strategic engagements in Africa are often appreciated as a win-win relationship by the African leaders, and China plays a certain role to globalize the sphere of African economy.

3. Regionalization of the African Economy

(1) Regionalization Moves and Background

As described in the previous sections, it is clear that the African continent is being integrated into the global economy. On the other hand, moves to realize regional economic integration are becoming increasingly active in various regions in the African continent. In Africa, which suffered from the woes of trans-Atlantic slave trade and the subsequent colonial rule by Western powers, people showed strong interest in regional integration in the post-independence period from the viewpoints of anti-colonialism and Pan Africanism. In particular, Kwame Nkrumah, the first president of Ghana, one of the earliest countries in Africa to achieve independence, believed that it would not be sufficient for individual African countries to become independent and strongly argued that it was necessary to create a "United States of Africa" that would make it possible to realize a common currency, common market and common foreign policy if Africa was to avoid being controlled by Western powers. In contrast to this radical argument emphasizing the need to break away with the Western world, Felix Houphouet-Boigny, the first president of Cote d'Ivoire, which is located to the west of Ghana, pointed out the importance of building good relationships with developed countries, rather than breaking away from the former colonial powers. All the same, his position was not different from Nkrumah's in placing emphasis on the unity among African countries. The division between the founding fathers of these two newly independent neighboring countries over African countries' relationship-building with developed countries immediately after achieving independence generated political waves that split the African continent into two camps; a radical camp (Casablanca Group) and a moderate camp (Monrovia Group). Eventually, however, the division was resolved in the form of the establishment of the Organization of African Unity (OAU) in 1963. As the objectives of its establishment, the OAU proclaimed unification and unity of African countries, cooperation in achieving a better life for African people, protection of the sovereignty, territorial integrity and independence of African countries, eradication of colonialism and respect for the United Nations Charter and the Universal Declaration of Human Rights, and it declared that member countries would cooperate with each other to attain these objectives.

This initiative toward a continent-wide political integration also invigorated regional economic cooperation between neighboring countries. In its efforts to enhance political and economic powers, Africa was also influenced by Europe's initiative to create the European Economic Community (EEC) by concluding the Rome Treaty in 1957 and achieve a deeper integration in order to restore its power at a time when the two superpowers, the United States and the Soviet Union, were facing off with each other for supremacy. For African countries, which did not have any significant industries immediately after achieving independence, it was deemed to be imperative to strengthen regional development by increasing intra-region trade through the abolition of tariffs and non-tariff trade barriers and to cooperate in promoting infrastructure building and large-scale industrial development. The establishment of the Latin American Free Trade Association (LAFTA) in Central and South America must also have been a strong inspiration for Africa. There is also a report that between 1960 and 1980, more than 200 organizations intended to promote economic cooperation were created in the African continent (Adedeji, 2002). However, most such regional initiatives did not move beyond political agreement, and the volume of trade with former colonial powers continued to be far larger than the volume of trade with neighboring countries. In fact, most African countries specialized in production of a limited range of primary goods, and it was developed countries, rather than neighboring countries, that needed such goods and were capable of providing most of the manufactured goods necessary for African people's lives.

The Lagos Action Plan, which was announced under the OAU's initiative in 1980 in order to invigorate the African economy, set forth a comprehensive development strategy for the African continent, which also emphasized the promotion of regional economic integration. As shown in the column, the foundation of most of the eight regional economic communities (RECs) that constitute the eight pillars of the planned Africa Economic Community (AEC) was laid in the 1980s. However, the serious economic stagnation caused by worldwide declines in primary goods prices and the cumulative debt problem in the subsequent period led to the introduction of structural adjustment policy under the leadership of the World Bank and the International Monetary Fund. This policy required the African economy to directly open up to the global market, beyond the level of regional economic integration. As a result, regional economic integration did not make as much progress as was expected. Moreover, the OAU, a continent-wide political union, was failing to function due to excessive emphasis on the principle of member states not intervening in each other's affairs.

(2) Creation of the AU and the Path toward the Formation of the AEC

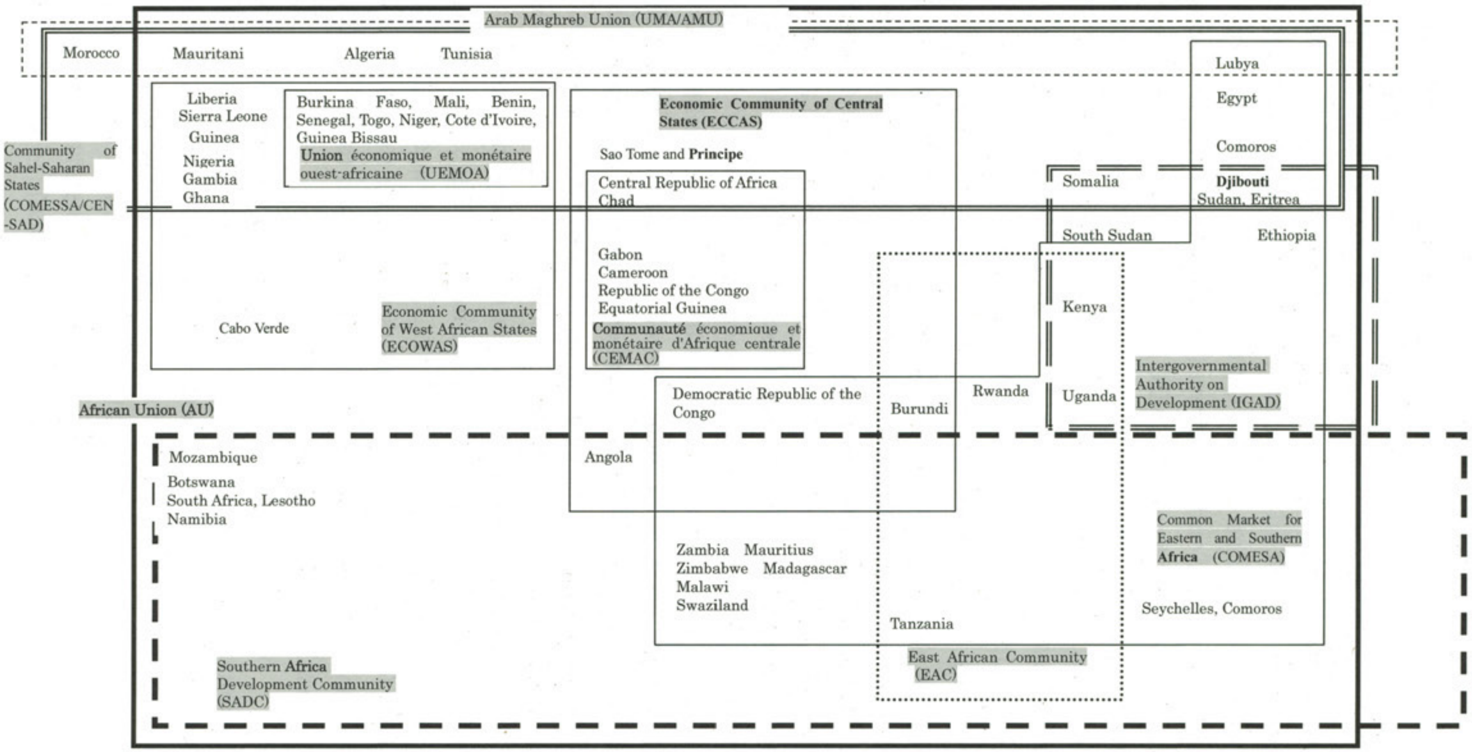
To resolve these problems, the African Union (AU) was created in 2002 to replace the OAU. As its name indicates, the AU was established with strong consciousness of the European Union (EU), which had already succeeded in achieving a currency union. Prior to the creation of the AU, it was declared under the Abuja Treaty signed in June 1991 (put into effect in May 1994) at the summit meeting of the OAU that the AEC would be formed in 6 stages over 34 years from the date of entry into force of the Treaty (which means by 2028). Specifically, as shown in **Table 7-2** and the column, as the first step, the eight existing regional economic communities in Africa will form their respective free trade areas, customs unions and currency union, and then a continent-wide common market will be established through the unification of those areas. The ultimate goal is achieving a continent-wide economic and currency union and creating an African continent parliament. Under Article 44 of the Abuja Treaty, it is stipulated that each of the regional economic communities should first achieve a currency union and that a continent-wide currency union should be promoted through the integration of the individual unions. Let us take up the case of the Economic Community of West African States in West Africa (ECOWAS) as an example. ECOWAS has a sub-region called the West African Economic and Monetary Union (UMOA/UEMOA), whose foundation was laid in the era of French rule, as shown in the column. According to the integration plan, first, countries outside UEMOA will form a second currency union called WAMZ, and then, the ECOWAS-wide currency union is planned to be achieved through the integration of the two unions.

Table 7-2. Seven phases of the creation of the African Economic Community and progress in the integration process in eight individual communities

	Target	Target year		EAC	SADC	COMESA	ECOWAS	CEN-SAD	ECCAS	IGAD	UMA
1	Strengthen existing RECs and create new RECs in regions where they do not exist	1999		○	○	○	○	○	○	○	○
2	Ensure consolidation within each REC, with a focus on liberalizing tariffs; removing non-tariff barriers (NTBs); harmonizing taxes; and strengthening sector integration regionally and continentally in trade, agriculture, money and finance, transport and communications, industrial development and energy	2007	Promotion of cooperation/ coordination	○	○	○	○	○	○	○	○
			Phased reduction of tariff/ non-tariff barriers	○	○	○	○	Not started	○	Implemen -ting	Implemen -ting
3	Set up in each REC a free trade area (FTA) and customs union (with a common external tariff and a single customs territory)	2017	Free trade area	○	Not started	○	○	Not started	○	Not started	Not started
			Customs union	○	Implemen -ting	○	2015	Not started	Target year not set	Not started	Not started
4	Coordinate and harmonize tariff and non-tariff systems among the RECs with a view to establishing a continental customs union	2019	To be started after all RECs have achieved customs unions and have set common tariffs								
5	Set up an African common market	2023	To become possible after all RECs have formed a continent-wide customs union and have realized free movement of factors of production (labor and capital).								
6	Establish the AEC, including an African Monetary Union and Pan-African Parliament	2028	To be started after all RECs have created a common African market. The deadline will be 2034.								
7	Deadline for the completion of the whole process	2034		COMESA-EAC-SADC Tripartite FTA							

Source: Prepared by the author based on the Abuja Treaty and the African Union Commission (2013), *Status of Integration in Africa* (SIA IV). p.20, with the addition of developments since 2013.

Figure 7-2. Relationship between major regional organizations in Africa (May 2015)



However, as the existing regional communities were not established with a continent-wide union in mind, many countries are members of multiple communities as shown in **Figure 7-2**, and this is preventing smooth economic trade within and between the regional communities. Meanwhile, the progress in integration varies across the continent. While regional integration is proceeding relatively smoothly in the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC), there are no signs of progress in the Intergovernmental Authority on Development (IGAD), Arab Maghreb Union (UMA) and Community of Sahel-Saharan States (CEN-SAD) despite calls for integration. It cannot be denied that some regional communities will withdraw from this integration process in the future, including UMA, where the political and economic situations have been unstable since the Arab Spring, CEN-SAD, where the charismatic leader Gaddafi passed away, and IGAD, many of whose members also belong to COMESA. Each of the Economic Community of Central African States (ECCAS) in central Africa and ECOWAS in West Africa has a sub-region that has already achieved a currency union based on the colonial-era legacy. Even now, each legal tender used in these sub-regions is fixed with that of France and guarantees the free convertibility with the Euro through an operations account (*compte d'operation*) opened in the French treasury. This means that the members can avoid the unexpected change of currency value by financial crisis. Member states of neither UEMOA nor the Economic and Monetary Community of Central Africa (CEMAC) seem to have the intention of voluntarily quitting this system. However, on the other side, difficulty could arise from this system being applied to non-UEMOA countries within ECOWAS or non-CEMAC countries within ECCAS. This makes it difficult to integrate the UEMOA countries and non-UEMOA countries within ECOWAS and the CEMAC countries and non-CEMAC countries within ECCAS.

A similar problem may occur in the ongoing continent-level economic integration process. As was discussed earlier, the integration plan calls for the existing regional economic communities to first achieve their respective currency unions and then promote the continent-level economic integration through the unification of those communities. However, it is possible that as the regional integration deepens in each region, it will become more and more difficult to achieve integration between the regions. Therefore, there is an initiative to achieve larger economic integration before regional economic integration deepens. Specifically, this initiative aims to form a free trade area through the integration of the COMESA, SADC and EAC regions (COMESA-SADC-EAC Tripartite Free Trade Area: TFTA). A total of 26 countries, accounting for around half of all countries in Africa, are scheduled to join the TFTA. If it is realized, the TFTA will create a huge market with combined GDP of $624.9 billion (accounting for around 58% of GDP of the AU member countries) and a combined population of 520 million (accounting for 57% of the total population in Africa). It has been confirmed that following the formation of the TFTA, a customs union, currency union and common market will be created according to the roadmap shown in Table 7-2. If a similar integration process proceeds in ECOWAS and ECCAS – although this possibility is small at the moment – the regional economic integration in Africa will be accelerated.

(3) Economic Benefits of Regional Economic Integration and Necessary Policies

Regional economic integration is expected to bring the following three economic benefits: (1) the economy of scale to be generated by the expansion of the market; (2) productivity improvement arising from the free movement of factors of production; and (3) macroeconomic stability to be produced by the harmonization of monetary and fiscal policies. Indeed, according to statistics compiled by the World Bank, the population was less than 15 million people in 33 African countries, or around 61% of the 54 countries in Africa, and was less than 3 million people in 14 of them in 2013 (Africa Development Bank 2014). For such small countries, the creation of a common market and a currency union is highly likely to improve economic management. Meanwhile, for inland countries, economic integration with coastal countries absolutely permits them to improve access to the global market. Moreover, as creating a currency union requires restraint on inflation and improvement in the fiscal balance, there are expectations that countries that have until now implemented impromptu policies will achieve economic stability by moving toward a currency union.

However, the share of intra-region exports in the total exports of member countries is very small in Africa compared with that of other economic integrated regions (see **Table 7-3**). In fact, as most of African countries' export products are less diversified and quite similar with those of their neighboring countries, intra-region demand for these products tend to be small, although it is necessary to discount the fact that the value of trade indicated by official data is understated due to smuggling. Another reason is that smooth distribution of goods is unavailable due to underdeveloped infrastructure and the large amount of time required for customs clearance on the border. Therefore, it is necessary not only to issue political statements declaring an intention to achieve regional economic integration but also to remove the abovementioned obstacles. In recent years, in order to promote regional economic integration, international organizations and developed countries have been devoting efforts to building broad-area infrastructures and creating one-stop border posts. It is also important to take coordination measures regarding intangible infrastructure, such as abolishing non-tariff barriers by unifying various regulations and integrating settlement systems.

Table 7-3. Share of intra-regional exports in total regional exports (2012)

Region	COMESA	ECCAS	ECOWAS	SADC	ASEAN*	EU*	NAFTA*
%	6.9	0.8	7.7	11.7	24.5	66.4	47.8

Note: The share regarding ASEAN excludes the share regarding Singapore.
Figures for regions with the mark "*" are those for 2009.
Source: Prepared by the author based on African Development Bank (2014), *WTO (2010).

4. Economic Integration of Africa into the Global Market

Since the conclusion of GATT in 1944, countries around the world have been trying to abolish non-tariff barriers and reduce tariffs through trade rounds (multilateral negotiations). In January 1995, the WTO was established as the successor to GATT, and in 2001, the Doha Development Round (DDA) was launched. However, at that time, the number of WTO member countries was well over 140, and developing countries accounted for nearly 80% of the total. It is no longer possible to bring global trade negotiations to a successful conclusion under developed countries' leadership alone. Consequently, DDA negotiations have been stalled due to the confrontation of different standpoints among WTO member countries, and free trade agreements (FTAs) and economic partnership agreements (EPAs) in place of multilateral agreements are recently attracting attention around the world. In this section, firstly, we will look at the EU's engagement to conclude EPAs with each African region. Secondly, we also introduce that the United States takes a different strategy from the conventional approach of seeking an FTA or EPA.

(1) Conclusion of EPA with EU

Since 2000, the EU has spent more than 15 years of efforts on concluding EPAs with African countries. In the first place, when the European Economic Community (EEC) was established in 1957 based on the Rome Treaty, it was agreed that the original six EEC member states (Belgium, West Germany, France, Italy, Luxembourg and the Netherlands) would promote free trade with their former foreign territories and colonies, and that they would provide economic assistance to the colonies through the European Development Fund. This agreement was realized under the strong initiative of France, which owned many colonies in Africa. This strong economic relationship between Europe and Africa was maintained even after African countries achieved independence, under the Yaounde Convention (1963 and 1969) and the Lomé Convention (1975). Expectations for European assistance for Africa were behind the argument made by Houphouët-Boigny, the first president of Cote d'Ivoire, for the pro-Europe policy that was mentioned in the previous section. Under the Lomé Convention in particular, the scope of aid recipients, which had previously been limited mostly to African countries, was expanded to include former colonies of the United Kingdom, and Caribbean and Pacific island nations. In addition, under the Lomé Convention, the European market was opened to imports from Africa and the Caribbean and Pacific regions (ACP) and it was prescribed that income guarantee when ACP countries' revenues from primary goods exports dropped by more than a certain margin and fiscal and technical assistance would be provided through the European Development Fund. However, it was obvious that the unilateral preferential measures adopted by Europe for ACP countries violate "WTO rules," which upholds the principles of reciprocity and non-discrimination. Therefore, the Cotonou Agreement was concluded in 2000 (put into effect in 2003) between the EU and the 77 ACP countries to replace the Lomé Convention. The Cotonou Agreement calls for political dialogue, development cooperation and free trade between Europe and ACP countries. Regarding free trade in particular, the special treatment for ACP countries under the former Lomé Convention, which was discriminatory against third-party countries, was maintained until the end of 2007 as a transitional measure. The 77 ACP countries were divided into seven regions — Eastern and Southern Africa, West Africa, Central Africa, Southern Africa, East Africa, Pacific and the Caribbean — and the EU made efforts to conclude an EPA with each of these regions so as to establish a trade regime harmonious with the WTO in 2008.

However, by the end of 2007, an EPA was concluded only with the Caribbean region. In addition, the EU's negotiating partner regions in Africa did not necessarily match the regional economic communities that were discussed earlier, so the negotiations were held under technically difficult circumstances. In addition, the mixture of non-LDC and LDC countries in each African region complicated achievement of the internal agreement because free access to the EU's market under the rule of "anything but arms" was granted only to the latter group. Under the Cotonou Agreement, African countries will only have to open a smaller proportion of their market for goods to the EU than the EU will be to Africa. In particular, care was also taken to ensure that when African countries open their markets, the opening process would be gradually implemented over time. However, it was a concern that an influx of industrial and agricultural products from Europe under a free trade regime would have a significant negative impact on the development of African manufacturing sectors.

Under these circumstances, African regions and the EU had to continue EPA negotiations for a prolonged period of time. Finally, EPA negotiations between the EU and ECOWAS were concluded and an EPA was signed in October 2014. Shortly after that, South African region followed it, and in September 2015, the East African region completed the legal scrubbing of the initial EPA text with the EU while the other two regions still continue their negotiations. According to the EPA concluded between ECOWAS and the EU, ECOWAS countries would open 70% of their markets for EU goods, while on the other hand, West African countries would enjoy full access to EU markets excluding for sugar and rice. Nevertheless, even after the signing of the EPA, some African officials expressed concerns that industrial and agricultural products from the EU may destroy African industries. Therefore, the EU has pledged to provide development assistance worth 6.5 billion euros to ECOWAS over the five-year period between 2015 and 2019.

If the EPA paves the way for exports of industrial products from Africa to the EU market and if African countries improve administrative procedure capability by appropriately implementing procedures for certification of origin and customs clearance based on the experience of exports, it will open up the possibility of African products becoming more competitive than before in the global market. However, on the other hand, the possibility cannot be denied that the EPA will fail to promote industrialization and economic diversification of African countries and will force them to continue to be primary goods exporters indefinitely, so we need to keep a careful watch over future developments.

(2) AGOA and Africa's Globalization

The United States is known as a country eager to conclude FTAs with countries around the world. However, with respect to the economic relationship between the United States and Africa, the African Growth and Opportunity Act (AGOA) is attracting global attention even more than FTAs. The AGOA was signed into law on May 18, 2000, as Title 1 of The Trade and Development Act of 2000. AGOA provides for preferential trade measures for African countries making efforts in such matters as democratic governance and respect for human rights. Sub-Saharan African countries to which AGOA is applicable (44 countries as of April 2015) are eligible for relaxation of export quota requirements when exporting to the U.S. market. At the moment, more than 7,000 product items are eligible for preferential treatment. The U.S. approach is different from the EU approach in that the United States is seeking to conclude an agreement with individual countries which meet the U.S.-set criteria. It is also noteworthy that with respect to some AGOA-applicable countries, consideration is given to non-resource-related industries, particularly labor-intensive ones, as exemplified by the preferential treatment for textile and apparel industries. However, under the WTO regime, although granting preferential treatment to LDCs is permitted, unilaterally granting trade preferential measures to a specific geographic area is not. In the Asia-Pacific region as well, there are countries whose economic development level is similar or inferior to the level of AGOA-applicable countries. Although the United States urged the EU to shift from the Lomé Convention to the Cotonou Agreement on the grounds that the former violated the WTO rules, AGOA is a policy that clearly contradicts that stance.

Although the U.S. trade policy tends to be viewed as an embodiment of free trade, in reality, the United States promotes many protection policy measures for industrial products and calls on exporting countries to adopt voluntary export restrictions. In particular, in the 1960s to 1970s, the United States was concerned over an influx of low-price apparel products from emerging countries, including Japan, and in 1974, it established a Multi-Fiber Arrangement (MFA) together with Europe and Canada and continued the policy of allocating import quotas to individual countries until the end of 2004. Under the MFA, it was impossible for apparel exporting countries such as China and Taiwan to export apparel products to developed countries in excess of the quotas granted to them. Therefore, in the 1980s and later, these countries scrambled to establish manufacturing operations in developing countries where the capacity was well below their own quotas. The first African country to enjoy the benefits of this trend was Mauritius, an island country in the Indian Ocean. Originally, Mauritius was a mono-crop economy heavily dependent on sugarcane. However, starting in the 1980s, Mauritius succeeded in inviting the apparel industry from Hong Kong and Taiwan and used this success as a springboard for industrialization. Under these circumstances, AGOA, which was enacted in 2000, induced investments in Africa by apparel manufacturers from China and other emerging countries by providing African countries with easy access to the U.S. market. Over only five years from 2000 to the end of 2004, just before the expiry of the MFA, the value of apparent exports from Africa to the U.S. market reportedly jumped from $8 million to $18 million (Nishiura and Fukunishi, 2007). The major exporting countries were Southeast African countries such as Lesotho, Swaziland, Kenya and Madagascar. In these countries, the apparel industry grew, creating many jobs. As is well-known without citing the example cases of the Industrial Revolution and the development of East Asia, the textile and apparel industries serve as a springboard for industrialization. In other words, although AGOA violates the spirit of the WTO, it has played a certain part in providing African countries with the chance for industrialization (see Chapter 4).

Let us look at how the structure of trade between AGOA-applicable countries and the United States has actually changed based on information available at a U.S. government portal site called AGOA.info. The total value of U.S. imports from AGOA-applicable countries in 2013 was approximately 24.9 billion dollars, or around 65% of the total value of U.S. imports from Africa. A breakdown by product shows that energy-related products accounted for around 86% of overall imports from AGOA-applicable countries, while textiles and apparel products accounted for only 4%, or 908,000 dollars. All the same, imports from AGOA-applicable countries represented 96% of overall textiles and apparel imports from Africa, indicating that light industries such as textile and apparel manufacturing have been developed in AGOA-applicable countries compared with in non-AGOA-applicable countries. Although the total value of U.S. imports from Africa was only $23.4 billion in 2000, it rose to $103.2 billion in 2008 partly because of a rise in oil prices. However, the figure was halved after the global economic crisis that broke out in 2009. After recovering to $85.2 billion in 2011, the figure turned down again. But it is too early to conclude from these data that the effects of AGOA have been fading. Among the factors behind the recent steep decline in U.S. imports from Africa are falling oil prices and the fact that the United States has become an oil exporter due to the shale revolution. In the meantime, U.S. imports from Africa have been increasing in recent years with regard to labor-intensive products for which high-wage African countries find it difficult to gain a price advantage, such as textiles, apparel and footwear.

Initially, AGOA was a provisional law to be effective until September 2008, but President George Bush at that time extended its effective period in 2004 until September 2015. In April 2015, the law was renewed again for the period until 2025. In addition, a proposal to introduce rules compatible with the WTO's most-favored nation principle will be deliberated in U.S. Congress. While AGOA is not necessarily compatible with the conventional trade policy under the WTO, it remains to be examined whether it contributes to the diversification of African countries' export products, the countries' democratization and their economic development.

(3) Implications for Japan

Since fiscal year 2007, Japan has been implementing trade preferential measures, such as tariff and quota exemptions, for imports from LDCs. As there are also LDCs in Asia and the cost of transportation from Africa is high, those measures have failed to create a sufficient incentive for importing products other than primary goods from Africa and they cannot be expected to produce the effect of promoting industrialization in Africa that AGOA has generated. The number of Japanese companies interested in trade and other economic transactions with Africa is far smaller than the number of companies interested in trade with Asia. Since the Fifth Tokyo International Conference on African Development (TICAD V), which was held in Yokohama in 2013, the view that investment should be given precedence over assistance has grown in Japan as well at long last. Indeed, the number of companies considering advancing into Africa is increasing. However, at the moment, Japanese companies are mostly interested in Africa as a source of resources and agricultural products or as a market for Japanese products, while only a small number of Japanese companies regard Africa as a production base of manufactured goods. Japanese companies have the experience of promoting economic growth and development of neighboring Asian countries by transferring industries with comparative disadvantage in Japan to those countries and manufacturing products there. While this method is unlikely to be applicable without modification to Africa, where wages are high and the economic environment is different, the Japanese government will need to consider how to promote imports of non-resource products from Africa.

5. Globalization and Regionalization of the African Economy

(1) Two Scenarios which Globalization May Bring

As has been discussed in this chapter, it is clear that Africa, which faced the risk of marginalization in the past, has been integrated into the global economy. How will the lives of people living in Africa change as a result? Two scenarios can be drawn from the integration into the global market. First, the integration into the global economy will not improve people's living if African economies are jolted by a rapid flow of short-term capital and an influx of goods from developed countries drive local companies out of business as a result of an open market, thereby eliminating jobs, causing an exodus of skilled labors and increasing dependence on a limited range of primary goods. Conversely, globalization will bring benefits to Africans if transportation and communications infrastructure is developed as a result of capital inflow from abroad, resulting in quick supply of high-quality goods from Africa into the international market at favorable prices and diversification of goods and services available domestically, investments create new industries, creating jobs, leading to higher income, giving more people access to medical and educational services and resulting in longer life expectancy, and finally democratic countries are built. Just as there are prosperous and declining regions in each country, globalization could also bring either prosperity or decline.

(2) Regionalization for the Sake of Globalization

Nkrumah, the first president of Ghana, believed that integration into the global economy would cause African countries to decline and argued for Africa-wide unity. However, the rejection of the globalization of the African economy will prevent creating the positive cycle that was mentioned earlier. It is true that in the long history of the world, developed countries set the rules of the global economy and companies from those countries behaved arrogantly in order to maximize their own profits. In 2012, 42 of the 54 African countries were small countries with a population of less than 25 million. It would be difficult for such small countries to individually take actions to bring inappropriate economic activities of global companies under supervision, correct rules unilaterally unfavorable for Africa, or remove obstacles to Africa's development and economic growth. In that sense, there is no doubt that it is essential for African countries to achieve political unity. In order to resolve conflicts and problems within Africa, the presence of a supranational cooperation organization such as AU is also important. Indeed, the presence of the AU is continuing to grow at the WTO, international conferences on climate change and in efforts to prevent and resolve conflicts within Africa. With regard to EPAs and FTAs, developed countries tend to prefer concluding such agreements with regional groups, rather than with individual countries. On the other hand, from Africa's standpoint, the presence of a regional economic organization is necessary in order to prevent individual countries from being forced to unilaterally accept unfavorable conditions. It will facilitate for landlocked countries, which face difficulty gaining access to the global market except via neighboring countries, linking to coastal areas through regional infrastructure development projects as well as improvement of the efficiency of customs clearance and intra-region financial settlements. Therefore, deeper regional economic integration is expected to be realized. Under the three-way partnership between COMESA, EAC and SADC, which was mentioned in Section 3, it was declared at the first summit meeting that the three regions would cooperate with each other in EPA negotiations and the Doha Development Round. In addition, developed countries and international organizations have in recent years been providing support to member countries of regional economic communities in Africa so as to promote integration of financial and customs systems. The regionalization that Nkrumah argued for was clearly a rejection of globalization. However, the regionalization that has been observed in African countries in recent years appears to be a means toward globalization. Indeed, in some aspects, the African economy is influencing the global economy in a way that creates a new form of globalization. For example, as has been discussed in this chapter, immigrants from Africa are starting to become an essential presence for the economies of the host countries. A rise in resource prices has dramatically changed the framework and power balance of the global economy, and Africa, which is called the last resort, is starting to significantly influence the strategies of companies from developed and emerging countries. Africa is no longer placed in the passive role of being forced to take the path of globalization. But on the contrary, it is about to change into a pillar of the global economy. In order to play a more proactive role in promoting this move, Africa will be required to actively pursue regionalization.

■□ Column □■

Regional Integration in Africa

The following eight regional economic communities (RECs) represent eight pillars of the AEC that the AU is planning to create. It should be noted that some of them are regional cooperative organizations of a strongly political nature, rather than economic communities.

- Community of Sahel-Saharan States (CEN-SAD); headquarters: Tripoli (Libya)

CEN-SAD was established in February 1998 under the leadership of Colonel Gaddafi, who was Libya's leader at that time. Originally, it was comprised of six member states — Libya and five inland countries, namely Burkina Faso, Mali, Niger, Chad and Sudan — but its membership was expanded over a period of only 10 years to 28 states (Mauritania left the community in 2012), accounting for more than half of the 53 African states.

- Common Market for Eastern and Southern Africa (COMESA); headquarters: Lusaka (Zambia).

COMESA was established in 1994 through the reorganization of a preferential trading area that had existed since 1981. Currently, it is comprised of 19 member states with a combined population of 400 million people, or around half of the total population in Africa. In 2009, an agreement was reached on a customs union and common tariff rates were set. Currently, coordination work is under way toward putting the customs union into practice. The problem is, however, that many member states also belong to other regional economic communities, as shown in Figure 7-2.

- East African Community: (EAC); headquarters: Arusha (Tanzania)

EAC was established by the founding fathers (Kenyatta, Obote and Nyerere) of three former British territories influenced by pan-Africanism (Kenya, Uganda and Tanzania) in 1967, immediately after independence and was virtually disbanded in 1977. However, efforts to establish EAC again started in the late 1990s, and EAC was established in January 2001 by the original member states and was joined by Rwanda and Burundi in 2007. It is the most advanced regional organization in Africa.

- Economic Community of Central African States (ECCAS); headquarters: Libreville (Gabon); sub-region: Communauté Economique Monètaire Afrique Centrale (CEMAC); headquarters: Bangui (Central Republic of Africa)

CEMAC formed mainly by countries which constituted the former French Equatorial Africa based on their colonial-era ties. ECCAS was established in 1983 through the integration of the CEMAC member countries, Communauté Economique des Pays de Grands Lacs: (CEPGL, established in 1976), comprised of three former Belgian territories (Democratic Republic of the Congo, Burundi and Rwanda) and Sao Tome and Principe. In 1999, Angola joined ECCAS after the end of its civil war, while Rwanda left it in 2007.

- Economic Community of West African States (ECOWAS); headquarters: Abuja (Nigeria); sub-region: Union Economique Monètaire Ouest Africaine (UEMOA); headquarters: Ouagadougou (Burkina Faso); Union Monètaire Ouest Africaine (UMOA); headquarters: Dakar (Senegal)

As in the case of Central Africa, there are two sub-regions in the former French West Africa, namely UMOA (established in 1962), which was created on the basis of a currency relationship with the former colonial master, France, and UEMOA (established in 1994), which is an economic union based on UMOA. While the members of UMOA and UEMOA are the same, it is notable that UMOA and UEMOA exist as separate entities, one as a currency union and the other as an economic union. ECOWAS was established in 1975 through the integration of UMOA and other West African countries. In 2015, a customs union at the ECOWAS level started in earnest, and in the future, a currency is planned to be formed.

- Intergovernmental Authority for Development (IGAD); headquarters: Djibouti

IGAD was established in 1996 through the restructuring of an organization created in 1986 by six of IGAD's seven current member states (excluding Eritrea) through the mediation of the United Nations in order to deal with serious droughts.

- Southern African Development Community (SADC); headquarters: Windhoek (Namibia)

SADC was established in 1992 in order to create a common market through the reorganization of SADDC, which was established in 1980 in order to break away from the economic control of South Africa under the apartheid regime. In 1994, it was joined by South Africa. The launch of a customs union scheduled for 2010 was postponed in that year.

- Arab Maghreb Union (AMU); headquarters: Rabat (Morocco)

An agreement on the establishment of AMU was signed in 1989, and the union was established in 1992 with its headquarters located in Rabat. AMU functions as a political organization responsible for tackling regional problems, rather than as an economic union.

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