China's engagement in Africa: what are the potential impacts on Africa's regional integration?

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Abstract

While Africa's trade with emerging economies and its traditional partners is growing, little trade occurs between African countries. Trade between African countries is currently estimated at 10-12 per cent of the continent's total trade volume, while in 2009 the equivalent figure within North America was about 48 per cent, within Europe about 72 per cent and within Asia 52 per cent (African Economic Outlook, 2014).

Differing trade policies among African countries and trade barriers (tariffs, import and export bans, high trade costs related to the lack of adequate physical and financial infrastructure across the continent, etc.) between them do not facilitate regional integration in Africa. There are huge opportunities for African countries to trade among themselves and invest in each other's economies, but the African market remains fragmented, hampering cross border trade and investments (World Bank, 2012).

Even though African governments are pushing for regional trade integration, challenges and difficulties exist. Limited financial resources, tariff and non-tariff barriers, the slow implementation of a protocol on the mobility of goods and services across countries, and political and economic instability and conflict in some countries have been barriers to regional integration in Africa. Regional integration has been high on African policymakers' agendas and African governments have embraced regional integration as an important component of their development strategies; including in their engagement with their foreign partners, not least so China, the focus of this particular study.

Africa's immense need for infrastructure to fuel its economic growth, catch up with the rest of the world and enable regional integration requires huge investments from Regional Economic Communities (RECs) and traditional as well as emerging partners. Closing the infrastructure gap in Africa will require more than US$ 80 billion of investment per year by the public and private sectors over the next decade, split evenly between new investments, operations and maintenance (Kandiero, 2009). As part of the regional integration plan, African regional organisations such as the African Development Bank (AfDB), the African Union (AU), the New Partnership for Africa's Development (NEPAD) and the RECs have encouraged and elaborated on regional policies to finance infrastructure projects. To this end, new ties between African regional organisations and financial and construction partners have been developed. In recent years, several emerging economies have begun to play a growing role in financing infrastructure in sub-Saharan Africa (Foster *et al.*, 2009). China is the largest player among them and the world's largest financier of infrastructure projects in Africa.

Building infrastructure is a key activity in China's domestic economy and has become important in China's overseas investments, particularly in Africa. Africa's lack of infrastructure coincides with China's growing footprint in African countries' construction sector through investments as well as development assistance programmes. Furthermore, the establishment of RECs to harmonise national infrastructure development plans drives China to promote and support regional integration in Africa by financing and building ports, road and railway networks, hydroelectric power plants and information and communication technology infrastructure (Schiere and Rugamba, 2013).

Based on China's growing interest in funding and building regional infrastructure across Africa, this paper explores China's role and impact on regional development and integration in Africa.

Keywords: Africa, China, regional infrastructure development, regional integration

Introduction

For African governments, regional integration has long been high on the agenda, but achieving integration between African countries with different political economic structures remains a challenge. While there exist Regional Economic Communities (RECs) which facilitate the regional integration process in Africa, the continent still remains fragmented. Challenges to fully integrate the continent are related to the lack of diversification of trade: (almost all African countries trade the same products; which does not facilitate trade exchanges between countries), lack of adequate infrastructure, lack of harmonisation of policies, the existence of market protectionism and trade barriers and so on. Therefore efforts are being made to overcome those challenges.

More and more, building regional infrastructure across the continent has become part of African governments' as well as regional organisations' agendas. In order to contribute to regional infrastructure building in Africa, the African Development Bank (AfDB), the African Union, the New Partnership for Africa's Development (NEPAD) and the Regional Economic Communities (RECs) have encouraged and elaborated regional policies to finance infrastructure projects. The AfDB, for example, has committed to financing and supporting infrastructure development projects in Africa in order to deal with the numerous challenges related to the lack of infrastructure: lack of adequate road and railways networks, poor information and communication technology (ICT) infrastructure, limited or nonexistent power generation, poor state of physical infrastructure and so on. Alongside its partnership with traditional donors, the AfDB has developed new ties with China, which over the years has managed to set up major construction companies with a strong domestic as well as international footprint in the infrastructure building sector and has also established financial institutions which finance construction projects overseas. In China, building infrastructure is a key activity in the country's economy and continues to contribute to its modernisation. Since 1999, China's construction sector has seen annual growth of 20 per cent, making China the largest construction market in the global economy (Foster et *al.*, 2009). Chinese construction companies have acquired expertise at home and now venture abroad in order to explore overseas markets. They play an important role in China's overseas foreign direct investments as well as development assistance.

China's engagement in Africa in recent years is centred on economic cooperation, which strongly focuses on trade and investments. China is involved in various sectors of African economies. More and more, China is investing in Africa's infrastructure development projects. The infrastructure gap in Africa has for a long time been a bottleneck for the continent's development and integration. The lack of adequate infrastructure across the continent coincides with China's interest in investing in African countries' infrastructure projects (roads and railways, ICT infrastructure, ports, hydropower dams and so on). Investments in infrastructure development projects have always been welcomed by African policymakers in order to contribute to African countries' development and to bridge the infrastructure gap. Africa needs US$ 80 billion per year in order to close the infrastructure gap (Kandiero, 2009).

While other emerging economies (India and Brazil, among others) are increasingly investing in Africa, China remains by far the largest financier for infrastructure on the continent, ahead of the multilateral donor agencies and African countries' traditional partners. But China's finance in Africa's infrastructure building sector is often linked to investments in other sectors (investments in resources, ICT) of the African countries' economies or is part of development assistance.

Even though most of the negotiations between China and African countries are done at the bilateral level, China has shown its interest in supporting regional integration in Africa, particularly through financing and building regional infrastructure projects in Africa. China's involvement in road, railway and port projects in East Africa, which will link a number of countries in the region, is an example of its contribution to Africa's regional development and integration.

This paper explores China's engagement in Africa and its implications on regional integration through China's funding and building of regional infrastructure development projects. Chapter 1 analyses the regional trade integration dimension in Africa through the Regional Economic Communities. Chapter 2 focuses on the barriers to regional integration in Africa. Chapter 3 looks at China's role and impact on regional integration in Africa.

I-Regional trade integration in Africa

While Africa's trade with emerging economies and its traditional trading partners is growing, little trade occurs between African countries to boost intra-African trade. The establishment of trade blocs based on trade agreements could be an opportunity for African countries to trade at the regional level. Although strong trade blocs like the EU, NAFTA and ASEAN have developed over the past decades in Europe, North America and Asia, the African market remains largely dislocated. Trade between African countries is currently estimated at 10-12% of the continent's total, while in 2009 the equivalent figure within Europe was about 72%, within North America about 48% and within Asia 52% (African Economic Outlook, 2014). However, differing trade policies among African countries and trade barriers (tariffs, import and export bans, high trade costs, etc.) do not facilitate regional trade in Africa. Thus, even though there are huge opportunities for African countries to trade among themselves and generate jobs, the African market remains fragmented, preventing cross-border trade and, in turn, the generation of new jobs (World Bank, 2012). From 2000 to 2011, Africa's exports almost quadrupled in value from US$ 148.6 billion to US$ 581.8 billion a year (UNCTAD, 2013), but 80% of these exports were destined for emerging markets (namely China, India and Brazil), the EU and the US; the latter two alone accounting for more than 50% of this total, and with China a particularly important export market (see Table 1).

Even though Africa is pushing for regional trade integration, challenges and difficulties exist. Limited financial resources, tariff and non-tariff barriers, the slow implementation of a protocol on the mobility of goods and services across countries, political and economic instability and conflict in some countries have been barriers to regional trade integration in Africa. However, the Abuja Treaty of 1991 pushed African countries to aim at deepening regional trade based on a competitive single market in Africa.

Regional integration has been high on African policymakers' agendas, and African governments have embraced regional integration as an important component of their development strategies. Governments have concluded a large number of Regional Integration Arrangements (RIAs), several of which have significant membership overlaps (Hartzenberg, 2011). The Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC) and the East African Community (EAC) have an interest in establishing a single market, and a target was set at the 2012 AU summit to establish a Continental Free Trade Area (CFTA) by 2017 (African Economic Outlook, 2014). In June 2015, a huge step towards achieving the establishment of a Tripartite Free Trade Agreement (TFTA) has been made by 26 African countries in Egypt. COMESA, EAC and SADC signed an agreement to materialise the continent's largest FTA and the deal will bring together 26 African countries, members of the three RECs. Furthermore, the negotiations to establish the CFTA will continue in the African Union's Heads of state and government summit in Johannesburg, South Africa in order to span the continent (African Union, 2015). With a changing global trade system, it is time for African countries to focus on regional integration and establish Mega-Regional Trade Agreements (MRTAs) in order to foster intra-African trade as well as deal with several challenges related to limited industrialisation, lack of infrastructure, poverty, gender inequality and so on.

However, challenges regarding a common customs union, common market, common monetary area and fiscal integration need to be addressed. Creating a free trade area among Africa's 54 countries won't be easy and will require an enormous amount of energy and effort but there is already a consensus that for the continent to develop, regional integration and regional trade integration should materialise (African Union, 2015). In the meanwhile, Regional Economic Communities (RECs) have been established to improve inter and intraregional trade.

ECOWAS and regional trade integration

To facilitate trade among countries of West Africa, the Economic Community of West African States (ECOWAS) was established. As with other RECs, its main aim is to promote intra-regional trade (Olayiwola and Oluyomi, 2013). ECOWAS contributes to improved cross-border trade by reducing trade barriers and costs. The adoption of a common ECOWAS passport enables the free movement of citizens from member countries and fosters business and trade ties between them. As for economic integration, the creation of the West African Economic and Monetary Union (WAEMU) accelerated the implementation of a number of significant programmes: a customs union has been in force since 2000 and WAEMU has established a common trade policy and its Commission has the right to initiate negotiations with other countries or regions (Dinka and Kennes, 2007). The adoption of a common currency, the CFA Franc, as well as a common exchange market by WAEMU member countries facilitates trade, financial transactions and capital mobility. Coordinated and harmonised trade policies between ECOWAS and WAEMU are positive and enhance ECOWAS's intra- and global trade negotiations.

EAC and regional trade integration

EAC brings together five partner states (Burundi, Tanzania, Kenya, Rwanda and Uganda). These countries have focused on developing policy for regional cooperation. The EAC aims to attain sustainable and equitable growth and development through increased competitiveness, value-added production, trade and investment. The establishment of a common customs union and market facilitates trade. To work towards eliminating barriers, member countries have established an institutional framework for economic and legal policy reforms (Lubega, 2013). Such policy reforms aim at removing non-tariff barriers, promoting exports, facilitating trade and coordinating and harmonising trade arrangements. Member countries have also agreed to eliminate tariff and technical barriers to trade, harmonise standards and implement a common community trade policy. EAC member countries base their combined efforts on a five-year development strategy. Since 2011, a common market protocol has been elaborated to deepen and strengthen functional integration.

Trade facilitation and negotiation as part of the development strategy enable the development of regional trade and investment policy within the EAC and in international trade negotiations. In order to establish a Tripartite Free Trade Area in 2015, the EAC, SADC and COMESA have developed a comprehensive tripartite legal and formal framework. Key areas of cooperation are harmonisation of trade regimes, free movement of businessmen between RECs, joint implementation of regional infrastructure projects and programmes and legal and institutional arrangements for regional cooperation (Lubega, 2013).

Table 1: Sub-Saharan Africa exports to its partner countries, US Dollars, Billions

	2011	2012	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Jul	2013 Aug	2013 Sep	2013 Oct
World	374.14	373.21	90.88	97.86	100.92	99.31	33.00	32.79	33.52	34.14
Advanced Economies	207.40	190.94	46.44	44.50	41.95	43.65	13.97	14.79	14.88	14.77
Emerging and developing countries	151.48	169.01	41.69	49.91	55.09	51.87	17.70	16.74	17.42	18.90
Developing Asia	83.45	95.74	22.37	31.27	33.55	29.80	9.55	9.81	10.44	10.93
Europe	4.97	4.86	1.31	1.30	1.41	1.32	0.50	0.36	0.46	0.47
Middle East and North Africa	5.62	6.86	2.30	1.55	1.79					
Western Hemisphere	15.55	13.89	3.88	3.36	4.14	4.74	2.41	1.05	1.27	2.01

Source: DOTS Data extracted from IMF Data Warehouse

SADC and regional trade integration

SADC aims to promote economic integration among member countries. A Free Trade Agreement was established in 2008 to enhance trade integration by eliminating non-tariff barriers and import tariffs and harmonising customs policies. Even though market integration was not the main objective behind the establishment of the Southern African Development Coordination Conference (SADCC) in 1980, after it became SADC in 1992, a strategic plan and roadmap for integration was articulated, envisaging the establishment of a Free Trade Agreement, customs union, common market, monetary union and single currency (Hartzenberg, 2011). Since 2006, the SADC has also had a Finance and Investment Protocol (FIP) that seeks to harmonise member country policies on investment promotion, labour codes and immigration laws, with the ultimate goal of developing a “SADC Investment Zone” (Mengistae, 2010:113). Even though there are disparities in the political and economic structures of member states, especially those of the DRC, Zimbabwe, Angola and Tanzania, the SADC is integrated both regionally and globally.

Following the current trend of establishing RTAs, regional integration efforts in Southern Africa have sought to liberalise trade between countries so as to increase bilateral trade flows, diversify exports through overcoming the limitations of small markets and increase specialisation through economies of scale (Gillson, 2010). Regional integration enables access to neighbouring markets and attracts regionally oriented Foreign Direct Investment (FDI). As in most of the RECs, intraregional trade among SADC member countries has increased (see Table 2): intra-exports rose from US$4,460.7 million in 2000 to US$11,599.4 million in 2009, and intra-imports from US$4,026.3 million in 2000 to US$12,089 million in 2009 (International Monetary Fund DOTS, 2011). These increases stem largely from tariff reductions. While much of the trade increases in the SADC occurred in the 1990s, progress has halted in recent years and substantial trade imbalances persist (Mengistae, 2010). Exports and imports within the SADC continue to be dominated by South Africa, which has comparative advantages in primary resources and a more diversified economy based on trade in services and manufactured products. Further, “the South African Customs Union (SACU) continues to dominate intraregional trade flows, both as a destination for other SADC members’ exports and a source of their imports” (Mengistae, 2010:114).

COMESA and regional trade integration

COMESA is the largest regional economic organisation in Africa, with 19 member states.[1] Its objective is promoting sub-regional economic integration through the establishment of a customs union and a Free Trade Agreement to contribute to the reduction of tariffs. Fourteen of the nineteen countries participate in the FTA. In 2014, at a COMESA summit in Kinshasa, DRC, an agreement between the heads of states of Ethiopia, Uganda and the DRC encouraged the DRC to join the COMESA FTA (Clottey, 2014). The establishment of the sub-regional economic community was based on a Preferential Trade Area to be upgraded to a common market. COMESA aims at fostering common policies for structural harmonisation to enable trade reforms and liberalisation among member states (Khandelwal, 2004). However, disparate trade regimes (protection vs. open markets) and dependence on trade taxes by several COMESA member countries are challenges to the achievement of tariff harmonisation.

A tariff structure based on the classification of products into the categories of raw materials, capital goods, intermediates and finished products would lower average protection for some countries but increase it for others (Khandelwal, 2004). As well, the overlapping membership of COMESA countries in other regional organisations and RECs makes it difficult to negotiate common trade policies at regional and global levels. Kenya’s and Egypt’s lack of political commitment to liberalisation is an impediment to tariff harmonisation within COMESA. Thus, addressing tariffs, structural organisation and harmonisation of customs policies and procedures is crucial to enhancing regional trade integration among COMESA members.

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[1] Burundi, Comoros, DRC, Egypt, Djibouti, Eritrea, Kenya, Libya, Ethiopia, Malawi, Madagascar, Mauritius, Seychelles, Sudan, Rwanda, Swaziland, Uganda, Zambia and Zimbabwe

Table 2: Intra-RECs exports and imports (US$ millions)

	2000		2003		2006		2009	
RECs	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
SADC	4,460.7	4,026.3	5,649.5	4,831.4	8,598.2	9,654.9	11,599.4	12,089.9
ECOWAS	2,714.9	2,473.6	3,037.2	3,293.1	5,901.6	6,391.8	7,312	7,950.3
COMESA	1,442.8	1,394.6	2,004.2	2,203.2	2,917.7	4,461.8	6,114.2	6,890.7
ECCAS	181.6	207.3	183.2	213.5	312.8	346	378.3	418.4
EAC	689.4	512.3	878.5	786.9	1,061.5	1,160.7	1,572.2	1,723

Source: International Monetary Fund, DOTS, 2011

ECCAS and regional trade integration

Involving ten countries,[2] ECCAS, like other African regional organisations, aims at fostering economic integration among member states and on the continent. It was established in 1983 and brought together the former Central Africa customs and economic union and the economic community of the Great Lakes states. It took effect in 1985 but remained ineffectual throughout the 1990s (Intellectual Network for the South, 2008).

The political and economic structure that prevails in most ECCAS member countries (namely small countries, small economies, resource-rich vs. resource-scarce countries, political instability, etc.) jeopardises the prospect of economic integration. However, despite these political and economic impediments, ECCAS member countries recognise the value of certain collaborative policies and actions to achieve regional trade integration through harmonised institutional frameworks and regional infrastructure development.

Such infrastructure development helps bring the landlocked countries into regional trade and beyond. Financially, there have been positive achievements, specifically the establishment of the Bank of Central African States, which issues the common CFA Franc, used by six countries under the Economic and Monetary Community of Central Africa (EMCCA). This has facilitated trade and financial exchanges among EMCCA member countries. According to CEMAC/EMCCA (2012), the bank has the following mission:

- Define and facilitate the Union’s monetary policy
- Issue the currency based on the Union’s legal framework

[2] Angola, Burundi, Cameroon, Gabon, Chad, Congo, DRC, Central African Republic, Equatorial Guinea, Sao Tome and Principe

- Facilitate the Union’s currency exchanges
- Hold and manage the member states’ official currency reserves
- Promote the payment and financial transactions system

The EMCCA has thus managed to provide a common financial, regulatory and legal structure. To promote trade within the EMCCA, tariffs have been eliminated and there is free movement of capital between member states. More and more, the ECCAS aims to maintain economic stability and establish a Central African common market.

AMU and regional trade integration

Established in 1989, AMU comprises five countries: Morocco, Tunisia, Libya, Mauritania and Algeria. While economic integration is AMU’s objective, political tensions – especially between Morocco and Algeria over the status of the Western Sahara – meant that hopes for substantial political and economic integration in the Maghreb quickly dimmed and the Union was never fully consolidated (Bouhdiba, 2011). Moreover, due to their different political and economic strategies towards a monetary union, the economy, migration and so on, AMU member countries could not agree on policy harmonisation. Algeria’s, Tunisia’s and Morocco’s relations with France and Spain also hamper AMU member states in achieving a unified foreign policy on common trade negotiations. With the Arab Spring and widespread economic malaise due to both domestic and external factors, these countries are revisiting the long-dormant AMU agreement in the hopes of jointly overcoming the challenges they face (Achy, 2012).

But the 2011 Arab Spring in the Maghreb has also added to the existing challenges facing the Union’s consolidation. Economically, low trade complementarity and competition in agriculture, energy and other sectors between member countries have not encouraged the establishment of common trade policies or a common market. This is despite the adoption of a comprehensive strategy in Libya by the AMU in 1991 for a progressive transition to a free trade zone, a customs union and finally a common market by 2006. This plan failed miserably not only because of inter-state tensions but also because of resistance to trade liberalisation (Achy, 2012). The lack of a common currency does not facilitate trade and financial transactions among member countries. Tariff barriers imposed by countries in the Union and a lack of integrated regional infrastructure to enable movement of people and goods mean that intra-regional trade is low and that the political will and incentive to achieve integration is weak among governments of the region.

More and more, African regional organisations have agendas to promote trade integration among the different RECs on the continent. At the 18th AU Summit in 2012, African heads of state made decisions about African integration, intra-African trade and a continental FTA (CFTA) (Mwanza, 2013). The first decision invites various RECs (ECOWAS, ECCAS, AMU, etc.) to learn from the ideas in the tripartite framework between EAC, COMESA and SADC as a model for REC integration. The second aims to expedite the formation of the African Economic Community (AEC) to boost trade and enable the CFTA. Furthermore, agreements have been signed between RECs for regional infrastructure development, industrialisation and trade liberalisation to promote trade and the movement of people and goods.

There are also negotiations to strengthen the integration of common markets. Instead of using a linear model of integration, relying on the free movement of factors of production, RECs suggest a new model that could be pursued in a tripartite framework and across the continent (Mwanza, 2013).

However, challenges exist in RECs. For instance, while ECOWAS has made progress in consolidating its FTA, ECCAS has not, due to the political and economic circumstances in most of its member countries. Overlapping membership is also a barrier to comprehensive regional trade integration, particularly during negotiations between RECs. For instance, SADC faces this situation with Tanzania, which is a member of both SADC and EAC, while the DRC is a member of ECCAS and the SADC. Kenya and Uganda are members of both EAC and COMESA. However, African countries are trying to tackle overlapping membership: in 2006, AU heads of state decided not to create new RECs and to recognise only the eight existing ones as well as the tripartite collaborative efforts of COMESA, EAC and SADC at the time. Moreover, no member state would be able to belong to more than two RECs and there is a focus on creating a CFTA (African Economic Outlook, 2014). Ultimately, the formation of an African common market is expected to bring about greater rationalisation and reduce overlapping membership in RECs (African Union, 2010). An integrated continental market would offer Africa a better hope of building its manufacturing sector, diversifying its economy away from primary products and of taking the necessary steps to remove continental trade barriers and strengthen regional infrastructure (Elhiraika, 2005).

II-Barriers to regional trade integration in Africa

Political and economic structure

Several factors account for Africa's low internal trade. The differences in comparative advantage between many African countries (be they resource rich, landlocked, coastal, resource poor, etc.) that could enable trade exchanges between them are not such as to favour trade. Indeed, most of them produce similar products. The production and export structures of many African economies are centred on primary commodities and are often directed towards external markets. Many African economies rely heavily on resource exports even though other sectors could be developed through diversification. The lack of strong manufacturing industries across the continent increases Africa's reliance on products made elsewhere. Such a reliance has been a major challenge for countries aiming at moving towards value-added exports and changing Africa's global trade patterns. Unskilled labour, poor research and development in design and manufacture, low capital investment and strong competition from cheaper imports account for the weak performance of Africa's manufacturing industries (Moghalu, 2013).

This dependency on external markets for resource exports and imports of manufactured goods does not contribute to developing intra-African markets and thus a changing of the structure of Africa's trade. Moreover, the ongoing dependence on the export of commodities – the prices and markets of which are volatile and largely determined by multinationals from developed and emerging economies – constrains many African countries in their efforts to develop other sectors of their economies and diversify their exports (Kousari, 2005). There is a stark reality to the continent's structural deficiency, which is manifested in the dichotomy between traditional and modern sectors, in the excessive dependence on external inputs and in the functioning of external, rather than domestic markets as the principal drivers of development (ECOSOC and UNECA, 2012). Changes have not occurred in many African countries' political and economic structures to enhance domestic and international trade. Several African countries face stiff competition in regional and international markets and have less bargaining power in international bodies – such as the WTO – and in negotiating Economic Partnership Agreements (EPAs) (African Economic Outlook, 2014). Regional integration has been hampered by inadequate organisational capacity within RECs and insufficient coordination and communication among them (Woodrow Wilson International Center for Scholars, 2008).

Inadequate production and logistical and financial infrastructure, among other things, are a drag on production capacity, market access, free trade, capital (both social and human) and financial transfers between countries. Poor road and railway networks and port facilities impede Africa's intra- and international trade and increase transport and transaction costs. Building Africa's physical infrastructure has been a major challenge for African countries seeking to develop and for regional integration, and has been impeded by a lack of cooperation and funding.

Tariffs and taxes

The economic structures of several African countries – which are reluctant to liberalise trade – and the establishment of tariff and non-tariff barriers are not conducive to the harmonisation of trade policies in Africa, the promotion of free trade and the creation of African common markets. Moreover, the tariffs imposed on African exports to the European and American markets do not improve the composition of Africa's trade: higher tariffs are placed on finished African goods rather than on raw material exports. This affects the composition of Africa's export goods (Moghalu, 2013).

Financial structure

The absence of a common currency, except for the West African Economic and Monetary Union (WAEMU),[3] EMCCA[4] and the Common Monetary Area (CMA) in Southern Africa,[5] necessitates multiple currency conversions and increases trade costs in Africa. Harmonisation of the financial system across African countries to enable the use of a common currency or currency value for conversion, the establishment of common financial institutions to facilitate inter-bank foreign exchange, the elimination of transaction costs and transfer fees and the liberalisation of capital are crucial to enhancing the financial sector and boosting regional trade in Africa. Financial policy reforms could help to change the financial structure of many African countries.

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[3] WAEMU member countries (Senegal, Guinea-Bissau, Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger and Togo) use the CFA franc as a common currency. It is issued by the West African Central Bank, headquartered in Dakar, Senegal.

[4] EMCCA brings together Gabon, Cameroon, Equatorial Guinea, the Central African Republic and Chad which share the CFA franc, which is issued by the Bank of Central African States, located in Yaoundé, Cameroon.

[5] Of the SACU members (South Africa, Namibia, Lesotho, Swaziland and Botswana), only Botswana changed its currency (to the Pula) and is outside the CMA in Southern Africa. The CMA was created in 1986 out of the Rand Monetary Area (RMA) established in 1974.

Customs policies

Lack of uniform customs policies across the continent increases trade costs. Most RECs in Africa have no such policies to facilitate trade between them, even though customs unions exist. Thus, harmonisation of customs policies is important if intra-trade patterns in Africa are to change. Trade facilitation agreements would ease trade flows and customs procedures and cut bureaucracy and corruption, saving up to 5% on total trade volumes (Moghalu, 2013). The transformation of transport corridors into economic corridors is aimed at changing the customs structure of many African countries in the interests of policy harmonisation, trade facilitation, market integration and intra- and international trade. For instance, regional corridors foster regional integration and development and provide opportunities for landlocked countries to participate in global trade (Mulenga, 2013). Corridors also enhance regional transport (namely access to routes, ports and markets).

Trade negotiations

While the Doha Round of trade negotiations aims at lowering tariff barriers, it has in effect become an arena to defend self-interests, with developed countries seeking to protect their trade interests and developing countries wanting their voices to be heard in the negotiations. This has led to failures to find consensus at Doha meetings in past years on free trade, eliminating trade subsidies, reducing tariffs and non-tariff barriers, etc. Lower trade preferences for African countries and less preferential market access are obstacles to improvements in Africa's global trade. Conditionalities imposed on African countries by traditional donor countries (EU and US) and international institutions such as the IMF and World Bank are constraints on good policymaking in Africa (Woo *et al.,* 2005). As well, AGOA and EBA trade policies that fall under "aid for trade" and aim at enabling African exports to the US and EU did not fully enhance Africa's global trade and have their limitations. Trade negotiations between African countries and Europe or the US should focus on aid for trade policies that allow beneficiaries to realistically access EU and US trade and investment opportunities without being snarled up in myriad requirements and restrictions (ECOSOC and UNECA, 2012).

III-Chinese regional infrastructure development projects and potential impact on regional trade in Africa

Regional integration is supported by Africa's economic partners, not least China, in order to affect the continent's regional and international integration. Cooperation between the AU, African regional organisations and China has been strengthened in various sectors. Consequently, a new roadmap has emerged for the African Union's and African sub-regional organisations' multilateral engagement with China. With the launch of the New Asian-African Strategic Partnership, China has expressed its intention to play a role in Africa's regional integration (Bertollo *et al.*, 2009).

Africa's immense need for infrastructure to fuel its economic growth, catch up with the rest of the world and enable intra-regional and international trade requires huge investment from RECs as well as African countries' traditional and emerging partners. Closing the infrastructure gap in Africa will require more than US$ 80 billion of investment per year by the public and private sectors over the next decade, investment to be split evenly between new investments, operations and maintenance (Kandiero, 2009). Investment in infrastructure is on the development agenda across the continent.

The current global financial crisis is already affecting Africa. Recently, investment in Africa's infrastructure development has been cut, thereby challenging several infrastructure projects (Kandiero, 2009). As part of the regional integration agenda, African regional organisations such as the African Development Bank (AfDB), AU, NEPAD and the RECs have encouraged and elaborated on regional policies to finance infrastructure projects. For instance, the AfDB has shown a strong commitment to supporting infrastructure for regional integration in order to connect about 40 per cent of Africa's population in landlocked countries to the rest of the continent and deal with continental challenges in transport and energy, the poor state of physical infrastructure and weak market integration and intra-African trade (less than 10 per cent of total trade) (Kandiero, 2009). To this end, new ties between African regional organisations and financial and construction partners have been developed. In recent years, several emerging economies have begun to play a growing role in financing infrastructure in sub-Saharan Africa (Foster *et al.*, 2009:11). China is the largest player among them.

Building infrastructure is a key activity in China's domestic economy, and has become important to China's overseas investments, particularly in Africa. Chinese construction companies have explored overseas markets, and their overseas operations have given them opportunities to access more markets, create jobs for Chinese workers and acquire a reliable reputation in the construction industry (Cissé, 2013). Africa's lack of infrastructure is met by China's engagement on the continent through FDI and development assistance. Chinese construction companies, by venturing into Africa, have been able to put their domestic experiences to the test and gain access to new markets. Chinese companies are involved in various infrastructure sectors (road, railway, hydropower, telecommunications, etc.). Most of the time, they are backed by China's central or provincial governments, which enables the companies to offer competitive prices and to win both bilateral and multilateral tenders. The establishment of RECs to harmonise national infrastructure development plans has driven China to promote and support African integration by financing and building ports, road and railway networks, hydroelectric power plants and ICT infrastructure (Schiere and Rugamba, 2013). In South Africa, for instance, China Development Bank (CDB) has recently granted US$ 5 billion to South Africa's state-owned rail and ports operator (Transnet) to improve and support the country's infrastructure development. Similarly, the International and Commercial Bank of China (ICBC) and the Standard Bank of South Africa (SBSA) signed a US$ 2 billion agreement to support the South African government's renewable energy programme. China's investment in energy in South Africa falls under a regional framework and is to establish a regional power pool. Such pools can create continental energy markets with coordinated supply systems, something that is already happening: in coming years, East and Southern African power grids will be connected in a single power pool (Schiere and Rugamba, 2013).

With growing trade, investment and economic assistance ties between China and Africa, Chinese companies, especially construction companies, are investing in African countries. While China has built, rehabilitated and renovated road and railway networks in many African countries (Angola, Nigeria, Sudan, DRC, Zambia, Tanzania and so on), today Chinese financial agencies and construction companies invest in regional projects supported by African RECs, regional organisations and financial institutions.

Most of the projects aim to link landlocked countries with the coast. African governments have encouraged China's role in Africa's regional integration.

However, China's involvement in Africa's regional infrastructure remains strategic, specifically in relation to China's resource exploitation in Africa and its search for new markets for its construction companies. Thus, most of the regional road and railway construction links resource-rich and coastal countries. Examples include railway renovation between Zambia and Tanzania, railway construction between Zambia and Angola and road construction between Ethiopia and Djibouti. Both China Railway Construction Company and China Railway Engineering Company have shown interest in helping Zambia construct railway projects connecting Angola, Mozambique and South Africa (*Lusaka Times*, 10 April 2013).

China's financing of African infrastructure projects is done through China's Export and Import Bank (China EXIMBANK) and China Development Bank. Cooperation has been established between them and AfDB, the Development Bank of Southern Africa and the West African Development Bank to develop policies and institutional frameworks to enhance Africa's infrastructure development. While the value of the financing is unknown, 35 sub-Saharan African countries have benefited from Chinese finance or are discussing funding opportunities for infrastructure projects. The largest recipients of such finance are Nigeria, Sudan, Ethiopia and Angola (Foster *et al.*, 2009).

Recently, China has shown growing interest in the Indian Ocean trade and investment corridor and become increasingly involved in financing infrastructure projects in East Africa (see Table 3). China and Kenya have entered into cooperation agreements worth US$ 5 billion for the construction of infrastructure to improve the movement of people and goods within and beyond Kenya's borders. Recent oil and gas discoveries in Kenya and Uganda explain China's interest in building roads and railways in East Africa (Workneh, 2014). In Africa, the resource sector is the primary draw for foreign investment and once resources are secured, infrastructure building comes along (Cissé, 2013). Part of the deal between China and Kenya involves the construction of a railway connecting the port of Mombasa (one of the busiest in Africa) to Malaba, a town on Kenya's border with Uganda, another country where China also has a vested interest (Falk, 2013).

African governments should be strategic in their engagement with China and in fostering intra-regional trade in the continent. The so-called "Angola model" of exchanging resources (sometimes at prices lower than those on the international market) for infrastructure projects – a model prevalent in many African countries – is not economically sustainable in the long run (Cissé, 2013). Obviously, African countries can integrate through infrastructure networks for regional and international trade and investment, but infrastructure projects across African economies are only part of the equation.

Holistic regional economic integration requires sustainable peace, good governance, minimisation of trade barriers, equitable benefits from wider markets and economic policy harmonisation, among other factors (Workneh, 2014). Infrastructure projects will attract both regional and international investments, and the nature of the finance, energy resources and security risks should be carefully scrutinised to ensure the sustainability of the projects and the political and economic stability of African countries.

Table 3: **Selected Chinese infrastructure projects under construction or planned in East Africa**

Geographical locations	Types of projects	Costs (US$ billions)
Mombasa-Kampala-Kigali	Railway project	13.5
Konza City, Nairobi	Technology and financial city project	9.2
Ethiopia-Djibouti	Railway	1.2
Ethiopia	Dam	4.7
Bagomoyo, Tanzania	Port	11
South Sudan	Infrastructure development	8
Kenya, Ethiopia and South Sudan	Lamu Port-Southern Sudan and Ethiopia Transport corridor (LAPSETT project)	23

Source: Workneh in *Eurasia Review,* 24 February 2014

China's presence in Africa's construction sector has raised questions about norms and standards. The rapidness of constructing big infrastructure projects, norms which sometimes fail to meet international standards, deterioration of infrastructure shortly after delivery and lack of transparency in financing raise major concerns about China's contribution to infrastructure development in Africa (Cissé, 2013). The sustainability of projects is important to both people's livelihoods and future investment and trade. Non-transparent loan deals and contract bidding (particularly with Chinese-funded projects in Africa) entail higher financial burdens for African countries (Workneh, 2014). Often, Chinese institutions and companies involved in funding and building projects carry out no impact assessment. Almost nothing is disclosed about project success rates or impacts (Grimm *et al.*, 2011). The longer term performance of projects should be appraised in light of the adequacy and competency of maintenance plans (Workneh, 2014). Furthermore, African governments should be engaged on the role of governance and responsibility for ensuring more transparency surrounding foreign development assistance.

Even though China is increasingly engaging with Africa on economic cooperation, African RECs ought to be strategic in fostering intra-regional trade, which remains low. Regional infrastructure projects funded through the African Development Bank (AfDB), for instance, should facilitate the movement of goods and people, reduce trading costs, foster market integration and so on. The AfDB has increased its efforts to support regional integration by providing financial assistance to regional programmes and organisational capacity building initiatives (Woodrow Wilson International Center for Scholars, 2008). Regional infrastructure programmes and projects have been, or are being undertaken by, for example, ECOWAS and SADC; NEPAD, too, has made regional infrastructure a major focus (Dinka and Kennes, 2007). The establishment of regional transport networks through the removal of cross-border bottlenecks, additional investment to close gaps and upgrading existing roads and railways are among the priority projects of most African regional institutions. The AfDB understands that addressing the infrastructural gap and promoting regional integration are necessary for structural transformation in Africa. This explains the establishment of the Africa50Fund, which aims to increase the amount of bankable infrastructure projects and direct project finance (Schiere and Rugamba, 2013). It is essential that RECs develop transparent and stable regional frameworks in order to attract greater investment. While the advancement towards economic regionalisation has thus far hinged on the initiative of key African leaders, sustainable progress will require much deeper institutional commitments (Woodrow Wilson International Center for Scholars 2008). Efficient networks should be established to provide accurate and up-to-date information on investment opportunities, technological and market potential, national laws and regulations, costs, availability of labour and potential partners (African Union, 2010).

Conclusion

Several countries have joined regional trade groups (NAFTA, EU, ASEAN and so on) to enhance regional trade and their position in global trade. While more and more trade occurs between countries within the same regional trade blocs, intra-African trade still remains low when compared with trade within the EU, ASEAN, NAFTA and so on. But if regional trade is the new trend in global trade, there are limitations. Countries tend to choose protecting their own economic interests or showcasing their influence over regional objectives. Even though regional trade integration is the main objective for regional trade blocs, tariff and non-tariff barriers and a lack of concrete trade liberalisation have often made it difficult for countries to engage equally with each other.

Those limitations have constrained regional trade integration in Africa. While regional integration is an opportunity, it remains a challenge for African countries. More and more, African countries are willing to achieve regional integration. Therefore the harmonisation of macroeconomic policies, including customs and trade policies aimed at reducing barriers, would improve regional trade in particular and regional integration in general, and would also contribute to Africa's global trade.

Regional organisations, Regional Economic Communities and regional financial institutions are coordinating and working towards regional integration across the continent. One of the main challenges to regional integration in Africa is related to the lack of a regional infrastructure network which links different regions. With the growing relationship that African countries and China have developed these past years, there is more and more collaboration and partnership between African regional organisations and China. China is strongly supporting regional development and integration in Africa. China's interest in supporting such an approach complements the African governments' willingness to strengthen regional cooperation.

Through funding and building regional infrastructure, China has committed to regional integration in Africa. However, African regional organisations and regional banks should play an important role in fostering multilateral negotiations with China. China's support for a more multilateral approach to

African countries should be carefully managed in order to develop regional trade and integration in Africa.

China's emerging role as a financier for regional infrastructure development in Africa could be seen as positive. Such projects as the ones China finances could enhance the mobility of people and goods between countries and regions and foster intra-regional trade. However, China's involvement in building regional infrastructure networks is in many cases linked to resource exploitation and should be carefully managed to avoid security problems between African countries. African and Chinese financial institutions supporting regional infrastructure development in Africa should aim for more funding transparency in order to avoid the financial burdens arising from unsustainable projects.

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