The Impact of Regional Integration on Investment, Agricultural Production and Industrial Production in Africa

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Focus of Presentation

- General impacts of Regional Integration are well understood
  - Trade gains through larger markets that permit economies of scale,
  - Increased returns and wider competition,
  - Enhanced credibility of national reforms,
  - Strengthened unity for international negotiations, etc.
- This is a brief presentation that focuses on an approach to understanding the impact of regional integration on agricultural production and its linkages with other sectors.
Agriculture, the dominant sector in Africa

More than any other region in the world, Africa depends on agriculture for its investment opportunities and industrial growth.

Yet performance in African agriculture remains poor:
- Land productivity 42% Asia and 50% of Latin America
- Labor productivity 60% of Asia and Latin America
- Use of fertilizers low (9% of world average)
- Only 6% of arable land irrigated - 40% in Asia

African Agricultural Systems are characterized by:
- Smallholder subsistence farming
- Limited application of modern technology and weak knowledge base
- Poor production and market support infrastructure
- Incomplete and poorly integrated input and product markets
- Weak backward and forward linkages between agriculture and other sectors

Harnessing agriculture for development requires thinking beyond agriculture.
Agricultural development conceptualized along value chains

A comprehensive system comprising set of physical production and transformation stages inter-linked by transactions

- Input production and delivery
- Farm-level production; value addition (commodity processing),
- Research, technology generation and diffusion;
- Handling and transportation
- Marketing (domestic and international)

An illustration

Value Chain: Cotton-to-Garment

Garment Producers

<table>
<thead>
<tr>
<th>Material</th>
<th>Cutting/Layering</th>
<th>Sewing Assembly</th>
<th>Finishing</th>
<th>Packing/Loading</th>
<th>Inspection</th>
<th>Adm/Oh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw Material</td>
<td>28.0%</td>
<td>22.2%</td>
<td>14.4%</td>
<td>30.3%</td>
<td>1.6%</td>
<td>8.4%</td>
</tr>
</tbody>
</table>

Fabric Producers

<table>
<thead>
<tr>
<th>Material</th>
<th>Cutting/Layering</th>
<th>Sewing Assembly</th>
<th>Finishing</th>
<th>Packing/Loading</th>
<th>Inspection</th>
<th>Adm/Oh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seed Cotton</td>
<td>86.2%</td>
<td>0.3%</td>
<td>5.0%</td>
<td>3.6%</td>
<td>0.0%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

Fiber Cotton Producers

<table>
<thead>
<tr>
<th>Material</th>
<th>Cutting/Layering</th>
<th>Sewing Assembly</th>
<th>Finishing</th>
<th>Packing/Loading</th>
<th>Inspection</th>
<th>Adm/Oh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw Cotton</td>
<td>86.2%</td>
<td>0.3%</td>
<td>5.0%</td>
<td>3.6%</td>
<td>0.0%</td>
<td>4.9%</td>
</tr>
</tbody>
</table>

Row Cotton Producers

<table>
<thead>
<tr>
<th>Material</th>
<th>Cutting/Layering</th>
<th>Sewing Assembly</th>
<th>Finishing</th>
<th>Packing/Loading</th>
<th>Inspection</th>
<th>Adm/Oh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planting</td>
<td>5.5%</td>
<td>10.0%</td>
<td>18.9%</td>
<td>25.4%</td>
<td>24.4%</td>
<td>18.5%</td>
</tr>
</tbody>
</table>
Regional Integration

Efficiency gains along the value chain of any product can be captured from regional integration arrangements (FTA, CU, common markets) arrangements through:

- more integrated markets and economies of scale in the provision of support services along value chains of strategic commodities
- Development of inter-regional value chain integration building on comparative and competitive advantages offered by two or more countries in a region

Opportunities for integration of value chains; e.g., cotton-to-garment

- Ethiopia: Cotton (Ginning) → Seed Cake
- Kenya: Textiles → Garments
- Ethiopia: Livestock → Meat → Processed Meat → Hide → Finished Products
- Kenya: Meat → Processed Meat
- Ethiopia: Maize → Maize bran → Maize Meal
- Ethiopia: Leather processing → Finished products
Conclusion

Identifying strengths and weaknesses along inter-regional value chains allows:
- a proper understanding of the opportunities created by regional integration and
- targeting of efforts towards those parts of a product value chain that are rendered more efficient through cross-country linkages.

THANK YOU!!