

Regional Integration and the African Textile Industry -

Part 4: Framework for Business Engagement with Regional Integration

From the short analysis of regional integration, and the features of a customs union and a common market, it is possible to identify three specific and distinct aspects of regional integration, and their business implications. This framework cuts through the theory of regional integration, be it for a customs union or a common market, and helps to explain the three key facets of regional integration that impact on a business – and on how business needs to engage with regional integration. Not only this but within the following framework the objective is explicitly on linking regional integration processes, and issues, to business needs and objectives, so that business can clearly identify the opportunities, challenges and risks inherent in each. This framework will be used in the analysis later to assess the state of integration in the EAC, and African, textiles sectors.

The framework for business engagement in regional integration is presented in the figure below;

Business Engagement in Regional Integration

Regional Business to Business	<ul style="list-style-type: none"> ◆ Value Chain ◆ Business Directory ◆ Market Information ◆ Data Centre
Advocacy for Trade within Region	<ul style="list-style-type: none"> ◆ Customs Union Procedures ◆ CET Tariff Structure ◆ Smuggling ◆ Rules of Origin ◆ Internal Market
Advocacy for Trade outside Region	<ul style="list-style-type: none"> ◆ Trade Policy ◆ Trade Negotiations (EU & US9 ◆ Marketing

These are the three main facets of regional integration that a business will be confronted with, most likely all at the same time as they interlink and overlap in time and content. It is not claimed that the three aspects identified above are separate and individual categories that should be treated as such – but simply

that looking at regional integration in this way offers a clear and distinct framework for business to understand, and engage, with regional integration. These three categories represent the three main aspects of regional integration, within which there are distinct implications and impacts for business and how they should react and advocate their positions. Business will need to know how to engage with all three of these categories, individually and collectively, based on a solid understanding of the short, medium and long term business implications of each category. Each category will be outlined in more detail to clarify the differences between the categories, and the ways in which they interact.

Regional Business to Business

The first category is all about building up regional business linkages, connections and ultimately a regional value and supply chain – but through business driven integration. The objective of this aspect of regional integration is the gradual creation of a solid regional market. The key business elements within this phase are captured in the graphic below;

Regional Business to Business	<ul style="list-style-type: none"> ◆ Value Chain ◆ Business Directory ◆ Market Information ◆ Data Centre
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An intra-regional market takes time to build and can be done using a variety of methods. This first category has a very solid link to the second category, which also aims at creating a regional value chain and internal market – with the important difference that this category is all about business driven integration. The drive in this category is to put regional businesses into contact and competition so that they are able to work together to enhance the regional supply chain. This value chain is one of the ultimate objectives of regional integration, along with the creation of a solid and dynamic internal market, which is the long-term driver of economic growth through regional integration. The graphic above illustrates the business driven methods that can assist in this process, such as the creation of a regional business directory, online regional market information, regional market exhibitions, regional data centres (for distribution and analysis). These issues are in essence standard business concerns of trying to source the cheapest and most efficient goods and sell on locally if demand exists, i.e. to know and be able to use the regional market. It is through these business driven measures that contact is made between different national business sectors, associations and actors and that a regional integration dynamic can be created. There is obviously a significant difference, in political and business terms, between this business integration and the economic integration that comes in the creation of a customs union and common market. It is possible to categorise the actions highlighted above, such as market information and business directories, as ‘light’ and ‘short-term’

integration, which in no way detracts from their business importance. The distinction is merely a reflection of the fact that they alone will not foster deeper integration and that their benefits are minor relative to those of the 'heavy' and 'long-term' integration actions such as infrastructure projects and legislation to build an internal market which form the bedrock of the next category. These actions are decidedly more difficult to pursue, but the genuine long-term benefits of regional integration reside within these actions.

The first category should imply a business driven process in which national and regional trade associations can play a lead. In terms of advocacy and resources this first category implies a much greater sectoral focus and a need to work within the sector. The creation of regional databases and information and analysis should also be a win-win category that does not imply regional tensions and frictions. This does not mean that it is easy to set up and establish these projects, notably because they will need financing, and it also should not detract from the business and political value that such projects can generate.

Advocacy for Trade within the Region

The second category relates to the core drive of regional integration – the creation of a regional value chain and internal market through a customs union and common market. It is within this category that business will be regulated and guided by the government authorities, not by themselves as in the first category. It is for this reason that their understanding and advocacy becomes much more important. This category is built of two key elements, the customs union, with common tariff schedules, customs procedures and anti-smuggling efforts, and the internal market built through a mixture of regulation, standards and harmonisation. The key business elements within this phase are captured in the box below;

Advocacy for Trade within Region	<ul style="list-style-type: none"> ◆ Customs Union Procedures ◆ CET Tariff Structure ◆ Smuggling ◆ Rules of Origin ◆ Internal Market
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The building block of an internal market is the creation of a customs union, because this acts as the gate for the entry of products into the region. A strong regional market, with goods and services moving freely within the region, needs to be fostered by an appropriate customs union to protect, foster and enhance the regional value chains that are within the region. For example if there is a developing regional value chain for textile products a customs union can set external tariffs that mean that any products that the chain needs can be imported cheaply, and that products that compete can be discouraged. There are two key aspects of a customs union that business needs to consider. Firstly the creation of a customs union usually generates a wealth of non-tariff barriers (NTBs) to try and impede cross border trade. Business will be at the front line of this and will need to meticulously and repetitively bring this to the attention

of the authorities. Secondly a customs union is only as good as its coverage and its implementation – so exceptions seriously weaken the whole customs union. This is again something business needs to consider if asking itself for exceptions. These aspects of a customs union are vital to stimulating a genuine regional market and a true regional value chain where products can compete on an equal regional footing with adequate protection from the outside. An internal market cannot, and will not, function effectively without a comprehensive and efficient customs union.

The most important aspect of the creation of a customs union for business is the creation of a common external tariff (CET). Whilst this should remain an economic exercise, the application of tariffs is very much politically driven, and is usually based on a 'need' to protect certain industries (often manufacturing and/or agriculture). The main criterion for the private sector is to lobby for an easily accessible CET list that external actors and the private sector can use freely. A CET should not be too stringent or complicated so as to restrict, or discourage, business from taking advantage of what the region has to offer. In addition a CET should be stable over time and not changing all the time, as this makes it very difficult to follow. If this logic is accepted business needs to engage with the creation of the CET at the earliest possible stage, or at any juncture where a revision is foreseen. In many circumstances insufficient dissemination of this information will undermine the objectives sought in the creation of the common external tariffs. In principle there should be no exceptions to the CET for reasons of clarity and transparency – but in reality there will be exemptions. These should be kept to a strict minimum and form part of a public external tariff list so that all interested parties are aware of exemptions. The private sector should be active in disseminating the external tariff list to trade partners around the world so that they are all aware of the implications/advantages of trading with the regional group. The private sector should be heavily involved in any tariff rate discussions given their implications on business. A balance in the CET needs to be found between a structure based on protection and one based on enabling tariffs to encourage business. Business needs to keep the governments of the region updated with the impacts of the CET i.e. the implications it is having for the industry. The national and/or regional associations need to supply the government with regular facts and figures of the impact that the CET is having. For example is the price of a certain important import too high because of a specific tariff – that if reduced would enhance the regional value chain. Business needs to make sure that the right information, both positive and negative, is passed to government so that they can take the decisions that are needed.

Connected to the CET is the difficult question of Rules of Origin (RoO). RoO are used to determine the origin of a product for international trade purposes – a system that have impacts on imports coming into the region and, as we shall see later, on how exports from the region are treated by trade partners. In specific reference to this category of advocacy in regional integration business needs to be interested in the RoO that the region will apply to imports from outside the region. The system of RoO that the region adopts for imports could have a bearing

on the system trade partners apply to exports from the region – so whilst there might be a temptation to use a more restrictive system, which makes it more expensive for other regions to export to the region, there is a more strategic view needed. In this sense the regional group could adopt open RoO that allow for the easy creation of regional value supply chains in their neighbouring regions – something that would then hopefully be reciprocated. Whilst it is not the place of this report to go into detail on the intricate question of RoO it is important that business understands the RoO regime that has been put in place within the region so as to be able to better inform discussions of the RoO to which it is itself subject when exporting. The ability to create a viable regional supply chain thus depends on the regional group's RoO and then, in the next external orientated category, on external negotiations to ensure that the regional value chain within the region is protected by the RoO imposed by trade partners.

A further issue to consider at the level of regional advocacy within the region is that of harmonised and improved regional customs procedures that should simplify and speed up business and reduce costs. This category is also referred to trade facilitation measures. This will obviously take some time and involve quite heavy costs for national administrations as customs procedures are upgraded and improved, but the benefits to business can be substantial. A customs environment that is easy to understand, paper-light and quick and efficient across the whole region will reduce business costs and contribute to competitive advantage creation in the region. Finally there will be a need to address smuggling, which in certain world regions is endemic, and a huge cost, if not threat, to business. If goods are being smuggled across borders and avoiding taxes then they will undercut local production and sales. This needs to be an essential part of a revised regional customs operation. Business needs again, like for CET issues, to keep the governments updated with the facts and implications of customs procedures and smuggling – it needs to advocate and report to government on a regular basis of how its interests are being impacted. The government needs facts and figures on which to base its own arguments and political decision making – so again, whether in support or against an element of the CET, customs procedures, or smuggling the government needs to be presented with clear facts and figures.

All of these customs union issues are clearly important for the business trading environment, but only inasmuch as the business imports goods, competes against imported goods or is part of a regional value chain. A CET that sets a tariff too high, or too low, for imports can immediately choke off a business or industry and hence it is vital for business to know how to influence the regional CET. In this sense the CET sets the framework for the building of an internal market that can then take shape and grow. Business needs to appreciate the close link between the customs union and the internal market, such that the customs union is vital to allow the internal market to grow. In this sense the customs union is a support mechanism, but it can be an unstable support mechanism and should not replace genuine internal market growth as the long term objective of business. Whilst a business/industry should always be assessing the tar-

iffs for the imports that it needs, as well as the tariffs for the products that compete with it in the regional market, and making suggestions and recommendations accordingly, it should not content itself with this support because it can be changed very quickly.

The ultimate aspect of the internal advocacy that a business needs to engage in within the region relates to the creation of an internal market, or common market. The stage of a common market was detailed in the previous section, and it is the long-term driver of growth in a regional integration project. The creation of a common market will be done through a mixture of regulation, harmonisation of standards, guidelines, recommendations and other instruments to achieve the creation of a genuinely regional market. Business will be impacted by the process on both general and specific levels. On the general level the regional group will try to enhance the environment for doing business, looking at cross-cutting business issues such as infrastructure, company law and accounting which will impact all business. It is also likely that integration will also drive towards sectoral issues whereby standards will be harmonised and national legislation replaced by regional legislation ensuring free competition and movement of goods, people and services. Whilst it is difficult to specify exactly what a business needs to advocate for it should be aware of the general and specific regional integration processes that relate to them – and be engaged on them both. It is through these measures that genuine long-term value can be added to the region, but this process is not similar to the first category because here there will sectoral and individual winners and losers. The development of a regional value chain implies a survival of the fittest type logic to generate the best value and quality – and indeed this can impact an entire value chain that is prioritised over other for example (focus on textiles and not agriculture for example), or an individual business in a value chain who is less competitive than a business from another part of the region. It is for this reason that the development of the common market is very politically sensitive, why NTBs appear and why business needs to advocate for its interests on all levels.

Advocacy for trade outside the Region

The third aspect of regional integration that is vital for a business is advocacy on trade outside the region, everything that deals with the external representation of the regional group – notably its external trade negotiations. The key business elements within this phase are captured in the box below;

Advocacy for Trade outside Region	<ul style="list-style-type: none"> ◆ Trade Policy ◆ Trade Negotiations (EU & US9) ◆ Marketing
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The first element is the creation and implementation of a common trade policy. By adding the economic weight of a number countries together, the region is able to have a greater voice in trade negotiations, as the group has a collective voice that is bigger than the sum of the parts. The common trade policy needs to be created at the outset of the regional integration project, if the group wishes to speak with one voice, so it is

something that needs to be lobbied at the outset – although a trade policy always changes over time. The trade policy of the regional group will also be bolstered by the creation of a customs union – meaning again that business needs to constantly engage in working with the trade policy of the group. This also highlights, again, how these three different aspects of regional integration interact. The biggest effort business needs to make is to ensure that its interests are taken into account in the groups trade policy – specifically into any negotiating mandates the group forms for external trade deals. Here business needs to present the negotiators and their governments with their trade policy priorities – be this better tariff access, increased quotas, changed RoO to allow a regional value chain to flourish. It is essential that business is involved in lobbying for its positions, in following negotiations very carefully and finally in making sure the provisions of an agreement are actually enacted by trade partners. Business will always have the on the ground experience – and governments need this information to drive their political choices, their negotiating mandates and their regional integration efforts.

Trade policy, like the CET that we saw in the previous category, is also a tool to serve the internal market – and business needs to advocate accordingly. Trade policy allows the region to carve out better trade deals, make itself more visible on the international stage, and to ultimately to deliver more favourable conditions to its exporters. In addition, the fact that the region is acting with one voice for one market focuses the message. This is a double-edged sword for business because if its interests are taken into account the region is in a much better position to deliver the trade policy needs it has advocated. On the other hand, if a business's position is not taken into account by the regional negotiators then they can find themselves locked into a trade deal for a number of years that does not favour their interests, be this through better access to a partner's markets, or through the opening of the regional market for the partner. There are two sides to trade negotiations in this sense – trying to secure access to partner markets and trying to make sure the CET, that regulates imports from the partner, is not changed in such a way as to disadvantage regional business and the value chain. In this sense two sets of negotiations are particularly important for African regional groupings, those with the US and those with the EU. It is vital for African regional groupings to ensure the best possible market access to their major markets, without having to open the region up too much too soon. This will always be a problem for smaller regional groups who, when negotiating with the EU and US, are at a comparative disadvantage and under severe pressure to negotiate.

A second, and corollary issue in terms of external advocacy that is required by business, is that of a common marketing and branding strategy that can generate savings and a more targeted impression in export markets. A regional group, by pooling resources, either at a sectoral or general level can deliver a regional image that benefits the whole of an industry or region. This is simply a strategy of pooling resources to brand and market regional products, – which can cut costs and raise visibility. Business needs to actively engage in these processes because it could lead to opportunities and openings that it would otherwise

not have access to. Like elements seen in category one of this framework much of this work can be done by national and/or regional associations.

These two issues are clearly very important for business because they need the best possible access to their key export markets. However, guaranteeing competitive tariff preferences does not automatically translate into more trade, because the companies benefitting from the tariffs need to have the capacity and the competitiveness to be able to export to these markets. Both a customs union and a trade policy support the creation of an internal market by generating the best possible conditions for the creation of a regional value chain – notably by setting the best conditions for imports and exports. Both trade policy preferences and the structure of the CET are temporary and subject to fluctuations – they do not offer solid guarantees for a business. They are supposed to be used to enable business to become more competitive over time, not as support mechanisms to keep inefficient businesses in the market. Advocacy for trade outside the region needs to recognise the fluctuating nature of the gains, or losses, made. It is, however, vital to advocate for trade policy advantages because, for example, if the region has a competitive supply chain but poor tariff access to a key market, then it will not be able to export anything. Tariff access and regional marketing are short term drivers of business development that can be removed very quickly depending on external circumstances that the business has not control over – and should always be considered in this light.

The three aspects of regional integration identified in the preceding pages represent an analytical framework with which to evaluate the business implications of regional integration in any sector or region. It is also a framework for how business needs to approach and engage in regional integration, with a full understanding of the likely and potential implications and impacts. These three aspects need to be understood separately, whilst simultaneously recognising that they are intrinsically linked. The key linkage relates to the fact that if a region is striving towards the creation of a common market then the advocacy for trade within a region is the long-term objective, and that the two other aspects are used to serve this long-term objective. At the same time business can clearly see that all three aspects need to be lobbied, in different ways, for successful business growth in regional integration. The bottom line that a business needs to fundamentally accept is that the creation of a common market is the long-term motor of change and development and nothing should detract from this long-term objective. Business to business development and trade policy can bring business success on their own, or together, but they will only ever be limited, short-term and dependent on volatile external variables.

Before applying this framework to the EAC textiles industry it is first important to outline the current state and structure of the industry as well as the cost drivers and competitiveness issues. This will allow, in the final section, an application of the above framework to understand how regional integration works in practice.