

# Africa's Regional Integration Arrangements History and Challenges

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# **Africa's Regional Integration Arrangements**

## **History and Challenges**

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**September 2007**

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## List of Acronyms

ACP	African Caribbean and Pacific
AGOA	African Growth and Opportunity Act
AMU	Arab Maghreb Union
ASEAN	Association of Southeast Asian Nations
AU	African Union
BLNS	Botswana, Lesotho, Namibia and Swaziland
CEAO	Communauté Economique de l'Afrique de l'Ouest
CEMAC	Communauté Economique et Monétaire de l'Afrique Centrale
CENSAD	Community of Sahel-Saharan States
CET	Common External Tariff
COMESA	Common Market for Eastern and Southern Africa
CUs	Customs Unions
DRC	Democratic Republic of Congo
EAC	East African Community
EASSy	East African Submarine Cable System
EBA	Everything-But-Arms
ECCAS	Economic Community of Central African States
ECOMOG	ECOWAS Monitoring Group
ECOWAS	Economic Community of West African States
EPAs	Economic Partnership Agreements
EU	European Union
FTAs	Free Trade Agreements
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GSP	Generalised System of Preferences
IGAD	Intergovernmental Authority for Development
IMF	International Monetary Fund
IOC	Indian Ocean Commission
LDCs	Least Developed Countries
MERCOSUR	Southern Common Market (Mercado Común del Sur)
NAFTA	North American Free Trade Agreement
NEPAD	New Partnership for Africa's Development
OAU	Organisation of African Unity
PTA	Preferential Trade Area
RECs	Regional Economic Communities
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADCC	Southern African Development Coordination Conference
SSA	Sub-Saharan African
UDEAC	Union Douanière et Economique de l'Afrique Centrale
UEMOA	Union Economique et Monétaire Ouest Africaine

## Introduction

From the dawn of the independence era, virtually all African countries have embraced regionalism. Today, there are more regional organisations in Africa than in any other continent and most African countries are members of more than one regional integration initiative. At the same time, it is widely recognised that many initiatives did not live up to expectations. Why did these initiatives only produce limited results so far? Were the challenges and constraints simply too formidable? The underlying reasons for the disappointing record need to be thoroughly examined and understood if African integration initiatives are to realise their potential.

The commitment to regionalism was part and parcel of the broader aspiration of continental integration, a vision that led to the creation of the Organisation of African Unity (OAU) in 1963. The recent transformation of the OAU into the African Union (AU) has significantly strengthened the movement towards the goal of Pan-African political and economic union. However, the new setup at the continental level leads to the question of how the regional and sub-regional initiatives and the AU can become mutually reinforcing.

In addition to the regional initiatives within Africa there have been proposals and actual negotiations aimed at establishing North-South integration arrangements between Africa and developed countries or regions. These include the Economic Partnership Agreements (EPAs) presently being negotiated between four groups of African countries and the European Union (EU). At the global level, almost all African countries became members of the World Trade Organization (WTO) or applied for membership. As a result, regional initiatives must adhere to the rules of the multilateral trading system, which, among other things, are important for the North-South trade arrangements. Another relevant point is the extent to which regional initiatives could help the African countries participate more effectively and take fuller advantage of the global economy.

This paper, which aims to shed some light on these issues, is structured as follows. First, a brief summary of the history of regional integration in Africa is provided. This will set the stage for a thematic review of the constraints at country and regional levels that determine the progress (or lack thereof) of regional integration. The final part will deal with the linkages between the regions and the global economy. It also needs to be noted that because of space limitations, this paper can only cover some of the main issues.<sup>2</sup>

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<sup>2</sup> There is an extensive literature on African integration. A few of the more general references are: Bach (1999), Faroutan (1993), ECA (2003), Van Ginkel et al (2003) and Oyejide et al (1997).

# 1 Overview of African Regional Integration Agreements

Most of the currently active regional organisations in Africa were formed or re-established in two waves—the first wave from the mid-1970s to the early 1980s, and the second during the first half of the 1990s. These waves were clearly influenced by positions adopted and initiatives taken by African countries as well as by events and developments in the rest of the world. Thus the inspiration for the first wave was related to the deliberate post-independence pursuit of integration by African policy makers, but it could also be seen to some extent as a response to the success of the European Community and its first enlargement in the 1970s when the UK, Denmark and Ireland joined. The second wave was more focused on revitalising and expanding the mandates of existing regional bodies rather than on creating completely new groupings. It took place around the time when the North American countries created the North American Free Trade Agreement (NAFTA), and the EU was consolidated with the launching of its single market and the signing of the Maastricht Treaty. This section will summarise the mandate and scope of activities of the main regional initiatives in a geographic rather than a chronological order. Figure 1 provides a picture of the membership of most of the regional integration arrangements in Africa, while Table 1 contains basic data for some of the African regional groupings as well as some groupings outside Africa.

**Table 1 Basic Data for some Regional Integration Arrangements (1)**

	GNP 2004 US\$ billion	Population 2005 million	Number of Memb. 2005	Exports 2003 US\$ billion	Intra-trade % (2)
<b>Sub-Saharan Africa</b>					
ECOWAS	116.6	260.5	15	34.5	9.1
UEMOA	41.6	86.7	8	15.1	7.8
ECCAS	65.4	126.2	11	2.7	7.4
CEMAC	36.1	35.9	6	2.6	5.6
COMESA	251.2	411.2	19	15.3	10.1
SADC	293.1	224.5	14	37.1	13.2
SACU	230.2	54.1	5	25.6	7.4
EAC	33.5	101.4	3	3.5	26.3
<b>Latin America and the Caribbean</b>					
CACM	72.2	36.5	5	11.2	27.4
Andean Com.	313.3	122.7	5	51.8	9.7
CARICOM	37.3	15.1	15	6.1	22.2
MERCOSUR	766.3	234.8	4	105.6	12.0
<b>Asia and the Pacific</b>					
ASEAN	765.3	490.7	10	451.3	21.5
SAARC	863.2	1453.5	7	82.8	2.3

#### Notes

(1) Data are taken from the *United Nations University / Comparative Regional Integration Studies (UNU/CRIS)* and are based on other UN sources. Exports are the total for goods and services.

(2) This is the percentage of total exports within the bloc. The data published for intra-regional trade within developing countries integration groupings are not always consistent and sometimes counterintuitive. UNCTAD's *Handbook of Statistics (2005)* contains some different figures and the same applies to the World Development Indicators published by the World Bank.



## **1.1 West Africa**

In West Africa, the most comprehensive regional initiative is the Economic Community of West African States (ECOWAS), created in 1975. Nigeria, accounting for more than half of the region's population and an equally significant proportion of its GDP, has been one of the driving forces behind ECOWAS. Largely due to the Nigerian influence and efforts ECOWAS has enjoyed a high political status. This has also enabled ECOWAS to play a credible and effective role in regional peace keeping operations, through the ECOWAS Monitoring Group's (ECOMOG's) operations in Liberia and Sierra Leone. Another area of its relative success is in relation to the cross-border movement of persons among member countries. On the other hand, ECOWAS has made only limited progress in terms of trade integration. There remain significant tariff and non-tariff barriers in the region.

Another track of the West African regional integration scene can be linked to the aftermath of French colonisation. Following their independence most of the French colonies maintained their monetary union with France. Only Guinea and Mauritania left the CFA franc currency while Mali left temporarily. The West African CFA franc zone countries (except for Togo, but including Mauritania) established the Communauté Economique de l'Afrique de l'Ouest (CEAO) in 1973, in place of another organisation they had set up in the early 1960s. In 1994, during the second integration wave, the monetary and economic integration functions were combined when the CEAO was replaced by the Union Economique et Monétaire Ouest Africaine (UEMOA). Mauritania did not join UEMOA whereas Togo did. Guinea Bisau also became a member of UEMOA in 1997. The UEMOA's Treaty was clearly inspired by the EU's Maastricht Treaty. It is important to note that UEMOA's creation was accompanied by the devaluation of the CFA franc, for the first and only time, by 50%.

While the CEAO had not been able to make much progress on the economic integration agenda, the creation of UEMOA speeded up the implementation of a number of significant programmes. The Customs Union has been in force since 2000. UEMOA established a common trade policy and the UEMOA Commission has the right to initiate negotiations with other countries or regions. There has also been progress on other integration policies and programmes such as macroeconomic surveillance and competition. By pooling 1% of the duties on imports from the rest of the world into a solidarity fund, UEMOA ensures adequate funding for its operations while also providing resources for a cohesion mechanism aimed at reducing disparities within the region. However, since 2002, the conflict in Côte d'Ivoire, which represents around 40% of UEMOA's GDP, has placed a brake on further progress.

While there was a good deal of institutional rivalry between CEAO and ECOWAS, it is interesting to observe that following the creation of UEMOA the rivalry has significantly diminished. In recent years there have been clear and tangible signs of movement towards closer coordination and harmonisation between ECOWAS and UEMOA. One example of this is that ECOWAS has recently adopted as a target the Common External Tariff (CET) rates set by UEMOA. The present target for ECOWAS is to achieve a Customs Union by 2008. This close collaboration has also been observed in their coordinated approach to the EPA negotiations with the EU.

In contrast to Eastern and Southern Africa, there have been only few changes in the West African integration configuration. Most of the changes involved Mauritania, which had been in both ECOWAS and CEAO, but never joined UEMOA. In 1989 Mauritania became a founding member of the Arab Maghreb Union (AMU) and more recently it withdrew from ECOWAS.

## **1.2 Central Africa**

In Central Africa regional integration has also been affected by the colonial legacy. Already in 1964 the five French ex-colonies in the region had formed the Union Douanière et Economique de l'Afrique Centrale (UDEAC). Equatorial Guinea joined the CFA zone and UDEAC in 1989. Notwithstanding its ambitious name and the advantages of the common CFA currency, UDEAC has never been a well-functioning Customs Union. Intra-regional trade has always been very low, only slightly above 2% of total trade. In UEMOA and ECOWAS the share of intra-regional trade has been around or above 10%. Central African integration is much hampered by the limited cross-border infrastructure networks and the lack of complementarity between the countries. Parallel to the creation of UEMOA, there has been a similar merger of monetary and economic functions by transforming UDEAC into the Communauté Economique et Monétaire de l'Afrique Centrale (CEMAC).

The countries in the Central African region have also formed a wider body--comprising all the CEMAC members as well as DRC, Rwanda, Burundi, Angola, and Sao Tomé and Príncipe--known as the Economic Community of Central African States (ECCAS). While ECCAS has been somewhat active in the political and security field, it has not made much progress towards economic integration. Although the resource base of several member countries would indicate considerable potential, persistent conflict and instability in some of the member countries and the underdevelopment of cross-border infrastructural links would continue to severely constrain progress.

## **1.3 Eastern and Southern Africa**

Eastern and Southern Africa is undoubtedly the region with the most complex institutional structure. The two main bodies in terms of geographical coverage date back to the first integration wave. The Southern African Development Coordination Conference (SADCC) was founded in 1980 while the Preferential Trade Area (PTA) for Eastern and Southern Africa was created in 1981. At its origin SADCC was mainly conceived as a body for functional cooperation with a view to reduce the dependence on South Africa particularly in transport and energy networks. During the second integration wave, it was transformed into a regional integration arrangement, the Southern African Development Community (SADC), by the Windhoek Treaty of 1992. Following its first democratic elections in 2004, South Africa, the largest economy in Africa, joined SADC, which therefore instantly became the economic integration block with the largest combined GDP in Africa.

The second integration wave also affected the PTA, which adopted a new and much more ambitious Treaty in 1994 and changed its name to the Common Market for Eastern and Southern Africa (COMESA). Even during the era of the predecessor institutions--the PTA and SADCC--there had been an issue of overlapping membership between the two, as several states belonged to both organisations. But while in the 1980s the objectives of the two institutions were rather different, this was no longer the case from the 1990s onwards. Both organisations also campaigned for the expansion of their membership. Following its independence, Namibia joined both institutions. The Democratic Republic of Congo (DRC) and the Seychelles also joined both COMESA and SADC. Mauritius, a founding member of COMESA later joined SADC. In 1998 Egypt, the second largest African economy joined COMESA. Madagascar while maintaining its membership in COMESA also joined SADC. Finally, in 2006 Libya became a full member of COMESA. During 1990s there have also been a few departures: Lesotho, Mozambique and Tanzania left COMESA. More recently, the Seychelles left SADC while

Namibia and Angola ended their membership in COMESA. Despite these departures, at the end of 2006, there remains a sizeable overlap between COMESA and SADC as the following seven countries are members in both: DRC, Madagascar, Malawi, Mauritius, Swaziland, Zambia and Zimbabwe.

As regards progress towards economic integration, COMESA launched its Free Trade Area in 2000, but not all the member states joined. By mid 2006 there were six members that were not yet in the FTA.<sup>3</sup> COMESA's original plan to create a Customs Union in 2004 was postponed until 2008. Apart from the core area of tariff liberalisation, COMESA has made sizeable progress in several trade-related areas such as: trade facilitation, regional insurance and harmonised transit charges. Preparations are under way for implementing a COMESA Fund which will support infrastructure investment and will assist weaker member states with the adjustment costs of trade liberalisation.

SADC adopted its Trade Protocol in 1996 and started actual implementation of an FTA in 2000. Of the 13 member states 2 did not join the FTA.<sup>4</sup> The objective is to liberalise 85 per cent of intra-SADC trade by 2008 and 100 per cent by 2012. The Trade Protocol implies more rapid liberalisation for the subset of member countries that constitute SACU (cf infra). In line with its original purpose SADC has made progress on functional collaboration for example in cross-border transport infrastructure and connection of the electricity grid.

There are a number of other important integration initiatives in Eastern and Southern Africa, which operate at the sub regional level--the Intergovernmental Authority for Development (IGAD), the East African Community (EAC), the Southern African Customs Union (SACU) and the Indian Ocean Commission (IOC).

IGAD, originally named the Intergovernmental Authority on Drought and Development, was created in 1980 mainly to promote food security and to combat desertification in the Horn of Africa. The founding members were Djibouti, Ethiopia, Kenya, Somalia, the Sudan and Uganda. Apart from functional cooperation in the food security and environmental areas, IGAD has played a useful role as a forum for mediation in internal conflicts within its member states. In the mid 1990s an agenda oriented towards more general development cooperation was adopted (and the 'D' standing for drought was dropped). Following its separation from Ethiopia in 1993, Eritrea also joined IGAD as an independent state.

The East African Community (EAC), comprising Kenya, Uganda and Tanzania, can trace its origins as far back as the early decades of the 20<sup>th</sup> century. Britain, as the ruler of the colonies of Kenya and Uganda and the protectorate of Tanganyika, established a customs union comprising the three countries, together with a common currency, and an organ for the management of common services for ports, railways, and air transport. Disparities with respect to perceived benefits and other differences contributed to a gradual loosening of their common bonds, and these outward pulls grew stronger following independence in the early 1960s. The three countries attempted to address these differences, and the 1967 Treaty establishing the East African Community was meant to be a major step in this respect. However, the clash of ideologies between Tanzania and Kenya, and the irreconcilable political tension between Uganda's Idi Amin (who came to power via a 1971 coup) and Tanzania's Mwalimu Nyerere, created an untenable situation. These irreconcilable differences were further exacerbated by the

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<sup>3</sup> Those still outside the FTA are: Comoros, DRC, Ethiopia, Eritrea, Uganda and Swaziland. This approach of *variable speed* where some member states that are ready and willing to move forward is a convenient approach for an organisation with a large number of members. If all members are obliged to move at the same time, progress is determined by the slowest member.

<sup>4</sup> Angola and DRC have not joined the FTA.

serious disparities in the perceived economic benefits. Kenya was seen as the principal beneficiary. The momentum towards break up gathered speed starting in 1971, and the Community Treaty was formally terminated in 1977. Most of the joint organs and common services were dismantled.

However, starting in 1993, a process was launched by the three countries that led to the reconstitution of the Secretariat and the signing of a new Treaty establishing the East African Community, which came into force in July 2000. The Treaty provided for the formation of a customs union—which became operational in 2005—to be followed by a common market at a later date. Although the developmental gap between the three countries has narrowed, the provisions of the customs union allow for some asymmetry in that certain Kenyan exports to the other two countries are subject to the payment of progressively declining tariffs for a period of five years. The deep involvement of the private sector is also expected to solidify cooperation. At the end of 2006 Burundi and Rwanda were accepted as new EAC members. Both countries are scheduled to join EAC during 2007. Overall, the Community appears to have been re-launched on much better footing. It is also considered by some as a pace setter for COMESA—an application of variable geometry or allowing countries to move at different speeds. However the practicality of this has become questionable as Tanzania is now a member of SADC only while the other two countries are in COMESA.

The formation of the Southern African Customs Union (SACU), sometimes referred to as the oldest on-going customs union in the world, goes back to an agreement in 1910 between South Africa and Britain, representing at that time the three British protectorates that would much later become the independent states of Botswana, Lesotho and Swaziland. The SACU agreement was renegotiated in 1969 following the independence of the three countries. After World War I, South West Africa (today's Namibia) also became part of the same customs territory. At its independence in 1990, Namibia decided to remain within SACU. South Africa dominates SACU, with the other four members—Botswana, Lesotho, Namibia and Swaziland, sometimes referred to as the BLNS—representing only 15 per cent of the total population and less than 10 per cent of the GNP of SACU.

SACU is a remarkable arrangement, not only because it continued throughout a long period of major political changes, but also because it incorporates some aspects of deep integration, while until recently it did not even have a separate secretariat. After the democratic transition in South Africa another renegotiation started, which led to a new agreement in 2002 and, in 2004 to the transformation of SACU into a regional integration organisation with a secretariat based in Namibia.<sup>5</sup>

The deep integration aspect of SACU is partly reflected in the mechanism of pooling of all tariff and excise revenue together with a formula to share the revenue in a manner that provides compensation for the polarisation effects within SACU. The new arrangement also introduced joint decision making on customs issues, which previously had been the sole responsibility of South Africa. While the revenue sharing approach is interesting from a development point of view, it also implies a high dependence of the BLNS, especially Lesotho and Swaziland, on the customs revenue. All the SACU members are also in SADC, but because SACU has a unified trade policy this is not a problem. In other words SACU is an example of *variable geometry* within the wider SADC.

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<sup>5</sup> See Kirk and Stern (2005) for an overview and assessment of the new SACU agreement.

Finally, in Eastern and Southern Africa, there is another sub-regional scheme, the Indian Ocean Commission (IOC), comprising the island states of the Indian Ocean that are part of the African continent (Comoros, Madagascar, Mauritius and Seychelles) as well as the French Département of Réunion. The IOC has focused on functional collaboration among countries facing similar challenges (for example in the areas of fisheries and environment). All IOC members except Réunion are in COMESA and generally IOC has promoted the COMESA economic integration strategy.

#### **1.4 North Africa, and the Sahel**

Although the focus of this paper is on Sub-Saharan Africa, in order to provide a complete continental picture, the status of regional integration in North Africa is briefly set out. All the North African countries--except for Egypt but including Mauritania--established the Arab Maghreb Union (AMU) in 1989. Due to continuing political divergences, mainly between Algeria and Morocco, the achievements and progress of AMU has been limited.

More recently another grouping, the Community of Sahel-Saharan States (CENSAD), actively promoted by Libya, has been created. It comprises a large number of countries from North Africa and the Sahel, and even parts of Central Africa, the West African coast and the Horn of Africa. In terms of the number of member states (23), CENSAD is the largest African regional body. Needless to say that CENSAD overlaps very much with several other regional organisations. Most members of AMU and ECOWAS as well as several CEMAC/(ECCAS) and COMESA countries have joined CENSAD. So far it has been mostly active as a political dialogue forum and not that much as an economic integration body.

#### **1.5 Pan-African Dimension**

Africans from all regions have for a long time held a vision of the continent's political and economic union. The pioneers of the modern pan-African movement were developing and promoting such a vision already in the 1930s and 1940s. While they had their priorities right in that they pushed for the liberation of Africa from colonial rule as the first order of business, bringing the liberated African states under a continent-wide umbrella was always on the radar screen. This vision was behind the creation of the Organisation of African Unity (OAU) in 1963.

Over the years the OAU has focused on ending colonial and minority rule. But the OAU Charter already contained a reference to regionalism. This was specified more in detail in the Lagos Plan of Action (LPA) of 1980, which called for the formation of an African common market by the year 2000. The LPA introduced the idea that regional integration initiatives would gradually converge towards a single Pan-African arrangement. In 1991 this idea became the central feature of the Abuja Treaty establishing the African Economic Community (AEC). The Abuja Treaty introduced the notion of Regional Economic Communities (RECs) as building blocks of the AEC. The Treaty did not exactly specify the membership of the RECs, but it did indicate that the regional communities would cover North, West, Central, Eastern and Southern Africa. This led to the designation of AMU, ECOWAS, ECCAS, COMESA and SADC as RECs. The Abuja Treaty sets out a number of stages that would ultimately lead to a continental economic and monetary union. The first stage is to reinforce and consolidate the RECs.

The Pan-African ideal was further reaffirmed by the reconstitution of the OAU into the African Union (AU) in 2002. The Constitutive Act of the AU fully incorporates the

provisions of the Abuja Treaty. The AU's responsibility has been made significantly broader, particularly in the areas of peace and security and good governance. The AU Act also foresees the creation of a stronger institutional framework, in some respects similar to the one of the EU. For example the AU does not have a Secretariat, but rather a Commission with a Chairperson. There are ten AU Commissioners elected by the AU Assembly of Heads of State for a period of four years. The New Partnership for Africa's Development (NEPAD), an initiative promoted by a number of African countries, including South Africa, is now considered a programme of the AU. A related initiative, developed in the NEPAD context, is the African Peer Review Mechanism, a voluntary mechanism for mutual monitoring of governance and accountability.

In addition to the five RECs that can be traced to the Abuja Treaty, three more have recently been given formal recognition by the AU: EAC, IGAD and CENSAD. While the EAC has a clear historical background and a solid record in terms of progress towards economic integration, IGAD and CENSAD have so far been much more active as political fora and as functional cooperation bodies. The AU's recognition of eight "official" RECs has not contributed to addressing the issue of overlapping membership.<sup>6</sup>

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<sup>6</sup> Attributing REC status to some bodies that are clearly sub-regional in their membership and that overlap with the original five is somewhat surprising. But it is also remarkable that some other regional bodies with a track record of economic integration like UEMOA, CEMAC and SACU do not get the same status.

## 2 Country Level Constraints and Tasks <sup>7</sup>

The viability and effectiveness of regional integration is ultimately determined by the internal strengths and weaknesses of the member countries as well as the extent to which they are prepared to meet their obligations to their integration institutions. The concept and design of integration schemes assumes that member countries would have both the capacity and disposition to fulfil their obligations and live up to commitments undertaken. To the extent that African performance on regional integration has fallen short of expectations, it would at least in part be a reflection of country-level shortcomings and constraints that could be grouped into two broad categories. One group of problems revolves around the degree of political commitment and organisational coherence within government, as well as the strength of national consensus in support of regional integration. The other group falls under the broad heading of supply side constraints. It would therefore be worthwhile to consider briefly each of the two groups of country-level issues; the supply side constraints would be examined first.

### 2.1 *Supply side issues*

Increased trade among member countries is a central feature of integration. However, intra-regional trade or in other words trade within African integration groupings has hardly grown, currently averaging around 10 percent of total trade.<sup>8</sup> The only exception is the 18 percent level reached in intra-SACU trade, which reflects SACU's long history and deeper level of integration. However, intra-SACU trade is dominated by South African exports to the other members. The low intra-regional trade in Africa contrasts sharply with the situation in the EU, where even at the creation of the common market by the Treaty of Rome in 1957, trade among the original six members was already around 35 percent of their global trade, and has since grown to reach an average of nearly 70 percent among the EU 15 in recent years. Similarly, in integration schemes involving relatively more advanced developing countries, intra regional trade is significantly higher than the African average, as exemplified by the average intra trade above 20 per cent achieved by the Association of Southeast Asian Nations (ASEAN), as of the late 1990s.

An important explanation for the low level of trade among African countries is the non-complementarity of their export offerings—a typical problem of small developing economies and their integration arrangements. African countries mostly export primary commodities—and rarely the manufactured products needed by their neighbouring integration partners—and thus face the basic developmental challenge of how to achieve diversity and growth of exports. At the same time the successful exports of some manufacturing products within African integration groupings creates a perception of unequal sharing of the integration benefits. For example the relative success of Kenyan exports to Uganda and Tanzania was among the causes of the original breakdown of the EAC and even today leads to certain apprehensions. This underscores the importance of redistributive mechanisms like the tariff revenue sharing scheme of SACU.

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<sup>7</sup> This section and the following one draw on an essay that one of the authors contributed to a forthcoming book (Dinka, 2007).

<sup>8</sup> It should however be kept in mind that cross-border informal or unrecorded trade is quite important in Africa. The prevalence of high levels of such informal trade reflects continuing policy distortions and high non-tariff barriers among neighbouring countries. Informal trade also demonstrates that there is significant potential to increase official cross-border trade. Another qualification is that intra-regional trade is almost by definition larger when the partner economies are larger. As most African economies are small, the intra-trade tends to be relatively small.

The requirements that need to be met to fully address the supply side constraints range from the creation of peace and security and stable political conditions, to the implementation of appropriate policy and institutional measures, and the provision of such public goods as relevant research and essential infrastructure. Investors and producers are more likely to commit to new projects and expansion of existing capacities only where the preconditions of peace and stability are established. Understandably, the private sector—whether foreign, regional or domestic—holds back investment outlays where there is ongoing or potential conflict and instability. It is therefore of paramount importance to resolve conflicts and ensure the long term maintenance of peace and security within each country as well as across the geographic area of an integration grouping. As the root causes of instability could usually be traced to political exclusion and poor governance, it is equally important to address issues related to political openness, participation and inclusion. In short, internal integration within each member country based on political stability, inclusiveness, and equity is the bedrock for building effective regional integration.

Sound macroeconomic policies would encourage enhanced economic activity by investors, producers and traders. Conversely, economic mismanagement will certainly have repercussions on the domestic economy, and is likely to affect economic relations with neighbouring countries. It is thus incumbent for countries to adopt sound economic policies and also coordinate such policy postures, including the formulation and implementation of economic reforms, with neighbouring countries in the same integration grouping. The case for this is well illustrated by the illicit flow of cocoa between Côte d'Ivoire and Ghana. During the late 1970s and well into the 1980s, cocoa from Ghana was sold across the border into Cote d'Ivoire, as the Ghanaian currency was badly misaligned. By the late 1980s and early 1990s, the roles were reversed and the cross-border flow of cocoa was in the other direction, as Ghana had by then adopted market-determined exchange rates while the CFA franc was significantly overvalued. The devaluation of the CFA franc in 1994 did straighten matters, until around 2002 when the economic disruptions and insecurity in Côte d'Ivoire triggered a new phase of smuggling of Ivorian cocoa into Ghana. Moreover the insecurity in Côte d'Ivoire has also led to a costly rerouting of exports from landlocked countries such as Mali and Burkina Faso via Ghanaian ports.

Other well-known issues that affect the possibility and cost of doing business are institutional, structural and infrastructural in nature. Efficient, transparent and impartial legal and regulatory systems, flexible labour markets as well as a strong financial infrastructure are key requirements for business operations, including exports. In addition, the depth and adequacy of physical infrastructure, and its overall efficiency are equally critical prerequisites for country-level supply response—and for the successful functioning of cross-border economic activities. Hence investment in essential infrastructure should be a key component of a trade facilitation programme. Also, a systematic and sustained research effort targeted on product development and market analysis would help export diversification and competitiveness.

Addressing these and other factors that affect the business climate should in principle facilitate increased production and export. However, this assumes that the private sector is both prepared and capable to engage in expansion. In practice, this assumption may not hold, particularly in the least developed countries, as the private sector may lack the requisite capacity. The know-how, entrepreneurial and organising abilities of the private sector would determine whether or not the sector can produce the desired basket of marketable goods. In short, dealing with the capacity constraints of the private sector itself would also be a key factor in rising to the challenge of increasing and diversifying the export supply base.



## ***2.2 Commitment, coherence and domestic consensus on integration***

It takes political will and commitment to build and nurture Africa's regional integration arrangements toward the long-held aspiration and vision of continental union. At the country level, such commitment would be demonstrated by going beyond regular participation in meetings of integration institutions, to active encouragement and involvement in all aspects of their operations. It would imply meeting one's financial and implementation-related undertakings, and providing support to a stream-lined and rationalised integration structure. The exercise of political will could also lead to making necessary compromises regarding national sovereignty and in favour of sharing some aspects of sovereignty at the regional level. Such an approach implies the application, in some areas, of supra-nationality by the integration authority.

Policy makers need to show consistency and coherence on the objectives and policies being pursued with regard to regional integration. Within government, positions and policies on regional integration should be unified by establishing appropriate coordination mechanisms and by creating a clear focal point. Consensus needs to be developed not only among policy makers but also among all key stakeholders in government, the private sector and civil society. Such national consensus together with clarity on policies and structural issues would help advance the integration agenda at the country level. A consensus-based and focused approach should also enable countries to properly assess the costs and benefits of integration, and facilitate the formulation and pursuit of clear and well-thought positions on their rights and obligations therein.

### **3 Tasks and Constraints at the Regional Level**

As described above, integration organisations have been established in all regions of Africa. However, it is necessary that a number of constraints and obstacles at the regional level be removed if the full potential of integration is to be realized. The principal issues to be focused on at the regional level include the need to address multiplicity and overlap of institutions through rationalisation, sustainable financing of operations and programmes, the pace of implementation of the trade integration agenda, other regional programmes and opportunities, and the need to reconcile national and regional interests.

#### ***3.1 Rationalisation of institutions***

In virtually every region, there are two or more integration arrangements, resulting in varying degrees of duplication and overlap in their membership and mandates. The problem became even more acute with the revision and expansion of the mandates of the major integration institutions—and the formation of new ones—in the 1990s. Some, such as ECOWAS and UEMOA in West Africa, have taken significant initial steps toward rationalisation. However, for the most part, the issue is yet to be addressed seriously. While the proper venue for handling the problem is within each region, guidance from the AU would be both necessary and appropriate. The question of rationalisation had been placed on the agenda of the 2006 AU Summit in Banjul. The Summit's deliberations and decision did not go as far as providing a clear-cut guideline on how to move toward a rationalised integration framework within the regions. However, the Banjul Assembly did endorse the recommended moratorium on the recognition of new RECs, and called on existing communities to coordinate and harmonise their policies.

#### ***3.2 Financing of operations and programs***

Inadequate financing has been a major constraint for African integration organisations. A number of institutions depend on assessed contributions by member countries as their principal source of finance, which in practice has turned to be unreliable as countries quite often attach low priority to meeting their assessed obligations. In a number of organisations, member states have agreed to allocate to their regional institutions a small but dedicated percentage—usually about one percent—of customs revenue from trade with non-member countries.<sup>9</sup> This approach has ensured that the integration institution gets a steady and reliable flow of income. In practice, even such dedicated sources of financing have not enabled the institutions to go much beyond the coverage of staff salaries and other operating expenses. Among other things, resources are required for funding regional programmes and projects, compensating integration-related revenue losses, and assisting the economically weaker member countries. Thus, in addition to the modest tax on external trade, other contributions from member country governments, assistance from development partners, and investment finance from the private sector would have to be mobilised to meet the operational and developmental funding requirements of regional integration.

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<sup>9</sup> In UEMOA there is a one per cent solidarity levy. The same is done in CEMAC. In ECOWAS there is a levy of 0.5 per cent.

### ***3.3 Proper pacing of the trade integration agenda***

A central aim of all integration schemes is the progressive liberalisation of their trade and tariff regimes. In the case of many African countries, the process is somewhat facilitated by the parallel or prior process of unilateral liberalisation, usually inspired or encouraged by the Bretton Woods Institutions. However, there is considerable controversy as to how far such liberalisation should go, particularly in view of the competitive disadvantages that domestic producers face vis-à-vis imports from relatively more advanced developing countries. Tariff liberalisation, whether unilateral or otherwise, also has significant implications for government revenue.

The principal institutional landmarks for staged tariff liberalisation toward unimpeded cross-border trade are the step by step transitions from preferential trade area, to free trade area, customs union, common market, and economic (and monetary) union. As implied by the name, in a free trade area, member countries would remove all tariff and related barriers impeding trade among members, whereas in a customs union they additionally agree to adopt a common external tariff and a unified trade regime vis-à-vis the rest of the world. As indicated earlier, many African integration arrangements have fairly ambitious targets in terms of moving from one stage to the next level. A number of the sub regional arrangements have moved relatively further along the path of deeper integration. There appears to be ambivalence and some foot-dragging with regard to what some of the least developed countries feel is a fast pace of transition to the customs union stage.

### ***3.4 Functional cooperation opportunities***

In addition to the "classic" market integration agenda which mainly deals with elimination of policy barriers to trade and investment, regional organisations offer scope to collaborate on cross-border problems in areas like transport and communication, and the environment. Such collaboration is often referred to as functional cooperation. It is sometimes also called developmental integration.

Regional infrastructure programs and projects have been or are being undertaken by several integration groupings, including for example ECOWAS and SADC. NEPAD too has made regional infrastructure a major area of its focus. The establishment of regional transport networks through removal of cross-border transport bottlenecks, additional investment in missing links and upgrading of existing roads and railways are among the priority programmes and projects of most African regional integration arrangements. It would not be an exaggeration to state that undertaking the investment outlays and regulatory and administrative reforms required for ensuring the adequacy and efficiency of transport and transit systems—within and between countries—would be the single most important intervention aimed at facilitating intra-regional trade and investment. Regional electric grids and power pools, and other energy projects are other promising areas of cooperation. Examples include the West African gas pipeline project, the Southern African power pool and the planned telecommunication cable in the Indian Ocean: East African Submarine Cable System (EASSy). A regional approach to food security is another proven form of collaboration among member countries of a regional grouping. A number of regions have set up such programmes, while NEPAD's common African agricultural development programme is intended to reinforce regional efforts.

Among the many other possibilities of cooperation within the regional integration framework are those related to joint security, political and social endeavours. A number of the Regional Economic Communities as well as the AU have for quite a while been

undertaking vital interventions in conflict management and peace keeping. The AU's current intervention aimed at resolving the conflict in the Darfur Region of the Sudan is only the latest example of a rising number of AU promoted interventions.<sup>10</sup> In contrast to the OAU, which cherished the principle of *non-interference*, the AU adheres to the principle of *non-indifference*. The continental organisation also collaborates with such regional bodies as ECOWAS as happened for example in 2005 in Togo.

Environmental issues like land degradation or pollution generally do not respect borders and call for a regional approach. An example is the effect of forest fires in Indonesia on the air quality in Malaysia and Singapore. Also floods downstream may be caused by logging operations upstream. It is generally more effective to deal with environmental issues in a regional context.

To move away from a “beggar thy neighbour” mentality to an era of deep and lasting collaboration, African countries would need to promote regional cooperation in the political and governance spheres. In the long run, regional integration would require that member countries be on the same wave length on such issues as democratisation, popular participation and sound governance. Another area of opportunity for region-based cooperation and division of work is in higher education and research. To address the widening knowledge gap between Africa and other regions, Africans need to accord high priority to strengthening their institutions of higher learning and research. From both the financial and human resource points of view, regional specialisation and division of work may be the best approach in this respect. Africans in the Diaspora could also be encouraged to associate themselves with the regional higher learning and research centres that best fit their own special skills and expertise. The plan for the establishment of African institutes of science and technology is a commendable first step in this direction, but much more work needs to be done in this vital sphere of potential regional collaboration.

### **3.5 Reconciling national and regional interests**

Although member countries in an integration grouping enter willingly into agreements of collaboration and joint action, in practice most are not ready to cede power and authority to their regional bodies. Nation-states jealously guard and thus are reluctant to voluntarily relinquish a portion of national sovereignty in favour of regional entities, which in a way is understandable in the case of newly independent countries. Even in the UK, a solid and longstanding EU member, there is frequent anti-EU sniping from vocal groups commonly known as euro-sceptics, which underlines the prevalence of such sentiments almost everywhere. While ability to act jointly has a number of advantages, including enhanced bargaining power internationally, this has to be reconciled with the reality of national inclinations to retain autonomy in decision making. Over time and with the further broadening and deepening of integration, it is expected that the issue of pooling sovereignty in some areas or supranationality would gain more acceptance.

The issue of whether and how much a country benefits from integration is a closely related matter pitting national against regional loyalties. In particular, as the economically weaker countries are, at least in the short term, likely to be on the losing side of the “winners and losers” of regional integration, they would have reason to be less enthusiastic about implementing the agreed agenda of their regional bodies. In most cases, the losses of these countries are both on the trade and revenue fronts. A significant portion of government revenue in these countries is derived from customs

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<sup>10</sup> The African Union-led peace building force in Darfur is made up of military units from a number of African countries and is financially supported by donor contributions including substantial funding from the EU's African Peace Facility.

duties (or trade taxes), and the liberalisation or lowering of tariff rates would reduce their receipts. The trading disadvantages of the poorer countries usually are even more serious, as they, almost by definition, have severe limitations with respect to both the volume and variety of their export. They are net losers, and they expect to be compensated for such losses.

A recent study by Khandelwal (2004), an IMF staff member, confirms that, in the SADC/COMESA zone, Egypt, South Africa and Kenya are all significant beneficiaries in intra-regional trade. Moreover, due to agglomeration effects, the three countries would likely be preferred locations for new investment, which would further widen the gap--in production and trade--between them and the other member countries. If existing policies and relationships remain unchanged, the weaker economies would continue to be disadvantaged. In many integration schemes, special provisions and measures are made to redress the "losses" of the poorer member countries. For example, within ASEAN, Cambodia, Laos, Myanmar and Vietnam are given a longer period to implement the grouping's trade liberalisation provisions, while in MERCOSUR, Uruguay and Paraguay are permitted to have a longer list of exemptions or protected sectors. Some African integration arrangements, including SACU and the revived EAC, have provisions for compensating the poorer members or subjecting the more developed member countries to additional tariff hurdles. However, while these compensatory measures might all be worthwhile, a more effective approach would be to create opportunities for enhancing and diversifying the export base of the less developed members. Among other things, this would require the channelling of additional investment in infrastructure, in raising productivity and competitiveness, and in support for the strengthening of human and institutional capacities in the less developed countries. Over time, such targeted support should enable the poorer countries to increase the volume and diversity of their exports to the regional and global markets, and thus bring about dynamic gains from integration to all members.

## 4 Regions as Links to the Global Economy

One of the most frequently mentioned rationales for regional integration is that it serves as a learning platform for competition in the global market. The regional market is a stepping stone towards the global market. There are indeed advantages when a region rather than a small economy on its own can position itself towards the rest of the world or towards another large trading block such as the EU. Regionalism makes it possible to increase competitiveness and skills in the regional market before being confronted with competition at global level. At the institutional and policy making level, regionalism also permits to pool capacities and expertise. Member countries can improve their options when they are able to jointly prepare and defend their negotiating positions in multilateral trade fora or towards a big trading partner. Such coordination becomes easier when an integration scheme adopts a common trade policy like in a customs union. Another aspect of closer integration of African regions in the multilateral system or with a large trading bloc is the effect of “locking-in” policies. While policies may be more restricted as a result of multilateral rules or bilateral agreements, they also tend to become more credible and reassuring for investors.<sup>11</sup> The discussion hereafter will focus on two issues that are currently of great relevance to Africa’s integration into the global economy: north-south economic integration agreements particularly with the EU, and using the regional framework for increased and more effective participation in the multilateral trading system.<sup>12</sup>

### 4.1 North-South Economic Partnership Agreements

During the second half of the 1990s there was an extensive debate about the future scope of development cooperation and trade relations between the EU and the African Caribbean and Pacific (ACP) group of countries. Sub-Saharan African (SSA) countries constitute by far the largest part of the ACP group. Whereas development cooperation policy could continue with relatively small modifications this was not the case for the trade regime. For a long time the ACP had been the EU’s “most preferred” trading partner, with free access for all industrial products and for most agricultural products.<sup>13</sup> However, the multilateral trading rules allow discrimination among developing countries only based on objective and transparent criteria related to development or in favour of the category of Least Developed Countries (LDCs). The majority of the SSA countries are LDCs, but in every sub-region there is a mix of both LDCs and other developing countries.<sup>14</sup>

The creation of the WTO in 1995 strengthened the dispute settlement arrangements designed to enforce the trade rules. The Latin American banana producers succeeded in establishing that the EU-ACP trade regime was not fully compatible with the WTO rules.

<sup>11</sup> This issue is linked to the notion of “policy space”. Some analysts argue that the WTO system or bilateral arrangements with major trading blocs may unduly restrict the policy space of developing countries. However, such restrictions may provide a shield against the adoption of wrong policies or the reversal of sound policies, possibly in response to powerful domestic lobbies.

<sup>12</sup> The focus is on trade relations between the EU and Sub-Saharan Africa. In the context of the Barcelona Initiative there are a series of Association Agreements between the EU and countries in North Africa as well as some countries in the Middle East. As far as North Africa is concerned such agreements are in place for Morocco, Algeria, Tunisia and Egypt. They provide for the gradual implementation of bilateral free trade arrangements and are outside the scope of this paper.

<sup>13</sup> The restrictions are for the products covered by the Common Agricultural Policy (CAP). However, for some products like sugar, beef and bananas there are important and advantageous special arrangements. In addition there are rules of origin requirements for all products that restrict exports for example in textiles and clothing. To illustrate that the ACP were the “most preferred” EU trading partner Stevens et al (1993) used the image of the “pyramid of privilege” where the ACP is at the top of the pyramid.

<sup>14</sup> There are 34 LDCs among the 47 countries in Sub-Saharan Africa. The LDC category is determined according to a set of objective development indicators and the list is officially adopted by the UN.

The implication was that the EU's banana regime had to be adapted. However, at a more general level, the banana case demonstrated that the EU-ACP trade regime was not in conformity with the multilateral rules and, that other disputes could take place. This led to a reflection on how to make the EU-ACP trade regime fully compatible with the WTO, while at the same time preserving ACP's preferential access to the EU market.

There are only two possibilities to maintain an EU import regime for ACP countries that is different and more beneficial than for developing countries as a whole: obtaining a WTO waiver or concluding a regional trade agreement in conformity with Article XXIV of the General Agreement on Tariffs and Trade (GATT). GATT Article XXIV allows WTO members to discriminate in each other's favour by establishing Customs Unions (CUs) or Free Trade Agreements (FTAs) provided that they respect certain minimum requirements. Obtaining a waiver is not a satisfactory long-term solution, because it can only be accorded in exceptional circumstances for a fixed period and it needs the support of three fourths of the WTO members. Hence the Article XXIV route seems the logical one. However, there is some ambiguity about the interpretation of this article (see box 1).

### **Box 1. Requirements of Article XXIV of the GATT**

The main requirements set out in Article XXIV of the General Agreement on Tariffs and Trade (GATT) can be summarised as follows:

1. *substantially all* trade should be liberalised between the partners;
2. barriers to third countries should *not on the whole be higher than before* and
3. the transition period should be reasonable and *may exceed ten years only in exceptional circumstances*.

The first requirement corresponds to the basic principle of reciprocity in trade relations. In other words both partners must liberalise the largest part of their mutual trade. The second is meant to ensure that a regional agreement is not designed to be more protective towards third countries than the situation before the agreement. The third prescribes that the period over which a Free Trade Area or Customs Union is established should be reasonable and not too long.

There is some flexibility and a margin of interpretation for all three requirements. An informal indication about the meaning of "substantially all" is that at least 90 per cent of total trade between the partners should be liberalised. This means that certain sensitive products can be excluded from liberalisation. A further element of flexibility might be that the degree of liberalisation need not be identical for all the integration partners. A liberalisation of 90 per cent overall could mean 100 per cent for one side and 80 per cent for the other. As regards the transition period, the ambiguity is about which circumstances can be considered to be exceptional and thus be the basis for allowing a period of more than ten years.

Article XXIV is applicable whenever a regional trade agreement involves industrial countries. It is not applicable to agreements that involve *only* developing countries. The latter case is covered by the so-called *Enabling Clause*, which was part the consensus reached at the conclusion in 1979 of the Tokyo Round. Its full title is: "differential and more favourable treatment, reciprocity and fuller participation of developing countries". This Clause is designed to improve participation of developing countries in the multilateral trading system.

The preferred option for the future EU-ACP trade regime as set out in the Cotonou Agreement of June 2000 was to negotiate Economic Partnership Agreements (EPAs) between the EU and the ACP in conformity with the WTO requirements (Article XXIV). Even though the text does not exclude the possibility of an EPA between the EU and a single ACP state, the wording favours EPAs between the EU and ACP regional integration bodies. In this way the EPAs are also designed to strengthen ACP regional integration.

The Cotonou Agreement stipulated that EPA negotiations should start in 2002 and that they should be completed by the end of 2007. In the mean time the existing non-reciprocal EU-ACP trade regime will continue until EPAs would enter into force. During the Doha ministerial conference of the WTO in 2001 the EU and the ACP obtained a formal waiver to continue their trade regime until the end of 2007.<sup>15</sup>

In order to clarify the context of the EPA negotiations it is necessary to take into account the Generalised System of Preferences (GSP). In conformity with the WTO agreements and like most other developed countries the EU provides a GSP towards all developing countries (see box 2). The EU's GSP generally implies less preferential market access than the EU-ACP regime. Therefore ACP countries, which are all eligible for the GSP, normally make no use of it. At the same time, if there would be no EPAs, the GSP would be the alternative for the ACP.

However, the availability of the *Everything But Arms* (EBA) trade arrangement, which is a sizeable improvement of the standard GSP, (see box 2) to the majority of African countries that are also LDCs affects the assessment of the costs and benefits of EPAs for this group of countries. LDCs that would enter into an EPA with the EU would not improve their market access to the EU, but they would still have to accord some reciprocity towards the EU, although within the important flexibilities explained above that the WTO permits (see box 1). For the non-LDCs in Africa the situation is very different. They have the prospect to achieve a situation comparable to EBA market access only within an EPA. In other words they have a real incentive to negotiate in order to improve their market access. The existence of EBA may have implications for the regional integration groupings, where membership is made up of both LDC and non-LDC countries, because both groups face different incentives. It should be added that, however attractive EBA may be, it remains a unilateral preference scheme and not a product of negotiated agreements. Also EBA will end as soon as an LDC graduates and becomes non-LDC. The recent creation of GSP+ (see box 2), which is in some way between the standard GSP and EBA, may affect the attractiveness of reciprocal EPAs for the non-LDCs in Africa. But still, there is another dimension of the EPAs to be considered when assessing the effect of EBA or possibly GSP+. According to the Cotonou Agreement EPAs should not cover only trade in goods, but also trade in services and trade related matters such as trade facilitation. Services trade can offer new opportunities and trade-related matters have often become more important for trade than the classic instruments of tariffs or quotas.<sup>16</sup>

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<sup>15</sup> This waiver was part of a bargaining process at the time of the launching of the Doha Development Agenda. The EU agreed to a fisheries tariff quota in favour of some developing countries (Indonesia, the Philippines and Thailand) that might claim to suffer from the favourable treatment of the ACP. By obtaining the waiver, the ACP group supported the launching of the Doha Development Agenda.

<sup>16</sup> It is not possible to cover in detail all the aspects of the EPA negotiations. Over the past few years there has been a lot of debate about these negotiations, resulting in a steady flow of documents. Some relevant papers include Bilal (2002), Bilal and Grynberg (2007), Bilal and Rampa (2006) and Hinkle and Schiff (2004).



## Box 2 The EU's Generalised System of Preferences

The Generalised System of Preferences (GSP) goes back to the calls during the 1960s for better access of developing countries to the markets of the industrial states. The legal basis of the GSP is the Enabling Clause, which also exempts developing countries from the standard requirements for Free Trade Areas and Customs Unions as explained in box 1. It is important to add that the GSP is a unilateral and non-reciprocal arrangement. It is not comparable to a negotiated regional agreement between a number of partner countries.

In addition to the *standard GSP* that is applicable to all developing countries, the EU installed an improved GSP arrangement in terms of market access for the Least Developed Countries (LDCs). An important change took place in 2001 when this special import regime for LDCs was further improved by the *Everything But Arms (EBA)* initiative. Under EBA any LDC can export all products (except arms) duty and quota free to the EU. Only for three sensitive products (rice, bananas and sugar) there is a phasing in period, which ends in 2009.

The EU's GSP was further reformed and improved in terms of market access in 2005. This led among other things to the introduction of the so-called *GSP+*, which is a special incentive arrangement for sustainable development and good governance. The market access conditions of the *GSP+* fall between those of the standard GSP and EBA. But unlike for EBA, there are special eligibility conditions for *GSP+*. Countries can become eligible for *GSP+* upon request and only when they have ratified and effectively implemented a range of international conventions on core human and labour rights as well as on environment and governance. The *GSP+* regime is open to most developing countries, including those in Africa. The bulk of the countries that have duly requested and obtained *GSP+* are in Central America and in the Andean region. Sri Lanka also became a beneficiary. The possibility of *GSP+* may influence the attractiveness of a reciprocal trade regime between the EU and those non-LDCs in Africa, which have ratified the conventions that are required for eligibility.

One of the delicate issues concerning EPAs is about geographic configuration. The Cotonou Agreement does not prescribe which regions should negotiate EPAs. It is only indicated that EPAs should preferably build on the existing integration initiatives. These can be FTAs or CUs. Because the EU is also a CU it is advantageous when an African negotiating region is also a CU. It was left to the African countries to decide under which configuration they wish to negotiate. However, the above discussion of overlapping membership of regional organisations demonstrates that building on existing regional organisations may be difficult. Logically an African country can only negotiate in one EPA. At the time of writing (end of 2006) the African states were negotiating EPAs according to the following four geographic configurations:

1. West Africa: all ECOWAS members plus Mauritania;
2. Central Africa: all CEMAC members plus Sao Tomé & Principe and DRC;
3. Eastern and Southern Africa or ESA: all COMESA members except Angola, DRC, Egypt, Libya and Swaziland;
4. SADC minus: all SACU members including South Africa as an observer, plus Angola, Mozambique and Tanzania.

One can observe that all four configurations build on one or more existing regional organisations, however none of the configurations fully corresponds with an existing regional body.

A point of debate is whether the EPA negotiations are in fact promoting African regional integration. In West Africa, there are indications that the preparations for the EPA negotiations may have encouraged more coherence or convergence between ECOWAS and UEMOA. While UEMOA has been a CU since 2000, ECOWAS has recently adopted the UEMOA CET rates for its own CU, which should be in place in 2008. For the other three configurations the situation seems more complex. One effect that might result from the EPAs could be that the issue of overlapping membership would receive greater attention.

Overall, for African countries and their regional bodies, the timeline for achieving reciprocity, development/investment cooperation, trade facilitation support and raising the export supply capacities are among the key issues that need to be properly and adequately addressed. While both sides would agree that full reciprocity should be achieved only after a transition period, the length of this period is likely to be a matter of debate. The African side would normally insist on a long period of asymmetric reciprocity. But the EU side and other WTO members may refer to the rule that the transition period may exceed ten years only in exceptional circumstances. The transition period for the EPAs should also be reconciled with the African programme of continental integration. It would be politically and economically difficult to justify liberalizing trade between Europe and each of the African groups, ahead of full intra-Africa liberalisation. Two other issues are likely to be raised by African (ACP) negotiators. First, African countries could call for the retention of a residual external tariff for purposes of revenue and to provide protection for local producers. This point is linked to the length of the transition period and to the possibility of backloading ACP tariff reductions. Second, they would like to see simplification and relaxation of the EU's rules of origin, so as to improve the likelihood of their realising the full benefits of access under the EPAs.

A north-south free trade arrangement like the EPAs between African countries and the EU looks logical from the point of view of trade complementarity, as the EU remains the largest trading partner for many African countries. The link with the EU will provide a signal to prospective investors about the credibility, transparency and stability of the African trade regimes. This should make African countries more attractive for investors. But actual investment will not only depend on the trade regime, but also on other aspects of the investment climate such as macroeconomic stability, good governance and management of natural resources, adequate infrastructure and availability of support services such as energy and water supplies.

An issue that should be kept in mind by the African negotiators is the remaining trade and non-trade barriers between the countries belonging to different regional groupings or EPAs. While the African Union endorsed the objective of Pan-African free trade, the present situation and likely evolution over the medium term is still removed from that goal. An investor in Europe may be able to export to all of the new EPA regions with little or no customs duty, while exporters based in each of the African EPA regions have unrestricted trade to the EU only. This is the so-called hub-and-spoke effect. This effect can be counteracted by closer integration of the spokes, or in other words, by moving towards Pan-African integration as envisaged by the AU.

Economic partnerships between African regions and other parties are also currently being explored. The US has been engaged in negotiations with SACU, and it is likely to do the same with other African integration groupings. Meanwhile, trade and economic cooperation between the US and Africa has been favourably influenced by the introduction of African Growth and Opportunity Act (AGOA) (see box 3). Beyond the EU and the US, there are also hints of MERCOSUR entering into talks with the same African

grouping. It should not be surprising if similar proposals came from one or more potential Asian partners.

### **Box 3 The African Growth and Opportunity Act (AGOA)**

Like other developed countries and regions, the US grants non-reciprocal market access to developing countries through the Generalised System of Preferences (GSP). The African Growth and Opportunity Act (AGOA) was adopted in 2000 and became operational in 2001. Exclusively focused on Africa, it is a significant improvement on the GSP. AGOA provides improved access to the US market to African countries designated as eligible. Eligibility criteria include progress towards elimination of trade barriers, rule of law, protection of human and worker rights and adherence to policies to reduce poverty.

In comparison to the standard GSP, AGOA expands the list of products eligible for preferential treatment and relaxes the rules of origin for eligible products. The key improvement is on the rules of origin for apparel. The special rule for apparel is applied to 24 countries. The relevant provisions permit African producers to use fabrics from third countries for making apparel destined for the US market. This has been a major reason for the rapid growth over the past few years of African exports of apparel to the US. Unfortunately, this relaxation of the rules of origin may expire in September 2007, and, unless extended, will result in significant reversal of the gains made. The phasing out of quotas on textiles and apparel trade has also negatively affected African apparel exports. Presently 38 Sub-Saharan African countries are AGOA eligible. (Brenton and Hoppe (2006) provide a more complete background on AGOA.)

## **4.2 Regionalism and participation in the global economy**

Until the Uruguay Round (1986-1994) of the GATT, African countries did not participate much in multilateral trade negotiations; and even in the Uruguay Round negotiations, no more than a dozen African countries actively took part. Developing countries were more active for example in the United Nations Conference on Trade and Development (UNCTAD) that advocated an approach of non-reciprocity and special and differential treatment. Following the creation of the WTO in 1995 the situation changed dramatically. Most developing countries joined the WTO or applied for membership. Presently more than two thirds of the 150 WTO members are developing countries. In Africa, there are only eleven countries outside the WTO, and most of these are in the process of negotiating their entry.<sup>17</sup>

But membership does not necessarily translate into effective participation in terms of setting the multilateral negotiation agenda and influencing the formulation of new trade rules in view of perceived interests. There are many explanations, including the increasing complexity and scope of the negotiations (comprising not only goods trade, but also for example services trade, intellectual property, sanitary and phytosanitary measures, technical barriers to trade and trade facilitation) and the lack of capacity in developing countries to deal with all these issues. Many African countries cannot afford a representation in Geneva and even those with offices cannot afford large representations with expertise across the range of subjects on the multilateral trade agenda. There is thus a case for regional organisations to play a bigger role in promoting

<sup>17</sup> African countries outside the WTO are: Algeria, Cape Verde, Ethiopia, Eritrea, Equatorial Guinea, Liberia, Libya, Sao Tomé and Príncipe, Seychelles, Somalia and the Sudan.

effective participation of their members in the WTO system. This approach will be briefly explored. A more detailed presentation may be found in Kennes (2001).

During the current Round of trade negotiations that started in Doha in 2001, there has been a significant evolution in the role of the developing countries. In particular, starting at the 2003 Cancun ministerial meeting, two large developing country groupings have emerged as key players: the G20 and the G90. The G20 brings together most of the large emerging economies including for example Argentina, Brazil, China, India, Indonesia, Malaysia, Mexico, Nigeria, Thailand and South Africa. The G90 comprises the member countries of the African Union, the ACP and the LDC groupings. There is a bit of overlap between the G20 and G90.

African countries have increased their visibility and influence within the G90, which could strengthen their hand in the multilateral trade negotiations.<sup>18</sup> However, while there are many common interests among the G90 membership, the group is still confronted by a high degree of heterogeneity and divergent interests on specific points. The common (denominator) positions of the G90 tend inevitably to be rather general. In practice therefore, the AU and the regional communities would be the more effective articulators of the common positions of African countries.

The members of a regional or sub-regional body would have a much greater commonality of interests. Hence integration groupings can play important roles in promoting the trade interests of their members. Although many regional bodies have strengthened their capacities in the trade policy area, there are still serious limitations in this regard, because only a few regional initiatives have reached the higher stages of integration that enables the formulation and adoption of common policies.

A more relevant and pragmatic possibility in the short run would be for the African regional bodies to promote informal collaboration among their members with a view to enhance their influence in the WTO.<sup>19</sup> Regional integration institutions could and should serve as the focal point for the analysis, coordination and preparation of joint negotiating positions of their member countries in multilateral trade talks. For this purpose, they ought to pool, organise and develop the skills and capacities of regional trade experts. It would be appropriate for the AU to coordinate the consolidated African position, but the Regional Economic Communities should provide the detailed inputs as they would be closer to and more reflective of the trading interests and negotiating strategies of their members. A number of African regional organisations are already providing assistance and advice to their member states in the trade negotiations. For example during the recent WTO ministerial conferences officials and experts from African regional organisations were registered as members of the delegation of some of the member states. This made it possible for regional organisations to take part in the negotiations and to be influential without being WTO members. In other words regional integration organisations can help achieving more effective participation of African countries in the world trading system. This will increase the chances that new trade rules are in the interest of the African countries.

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<sup>18</sup> It is interesting to observe that in the 2005 Hong-Kong ministerial of the WTO three African countries intervened on behalf of the G90. Zambia represented the LDCs, Mauritius spoke for the ACP and Egypt did so for the AU.

<sup>19</sup> See for instance Bilal and Szepesi (2006).

## 5 Concluding Comments

The key argument in support of liberalisation and openness both regionally and globally is that it will stimulate specialisation according to comparative advantage. This will improve competitiveness and increase trade and economic growth. The regional framework allows regional producers and exporters to be subjected to openness and competition *within* the region before full exposure to the rigors of global competition. It serves as a stepping stone or learning platform for economic operators, as the regional market would be large enough to enable them to realise efficiency gains through specialisation and economies of scale. While the reluctance of Africa's fragile economies to fully open to the rest of the world is understandable, there is no solid case for continuing to protect national enterprises from regional competition. But openness should go together with a strategic industrial policy stimulating innovation and facilitating adjustment. There should also be an adequate safety net to protect vulnerable population groups during the transition.

The creation of sizeable regional markets in Africa opens the way for entry into mutually beneficial cooperative arrangements with the North such as envisaged with the EPAs and more generally for successful integration into the world market. The key is to make the economy more attractive for investment. In addition to supplying the regional market, (foreign) investors could use the region as a base for production and export to global markets. The opportunities for benefiting from the positive spillover effects of such new operations could be considerable. These include ancillary activities to supply inputs and other outsourcing possibilities, skills acquisition both directly by the new operation's workers and indirectly by its suppliers, new regional ventures that could learn to produce similar products, and the incorporation of local or regional producers into the global value chain of the foreign producer. All of these spillover possibilities would contribute to the further integration of regional countries into the global economy.

Despite the foregoing implicit and explicit advocacy, regional integration should not be taken as a panacea. It can be a valuable addition to the variety of efforts, approaches and strategies needed to plan, promote and implement African development. Leaders and other members of the political class, assisted by civil servants and trade policy experts, have an important role in building domestic consensus in support of integration, and in effectively pursuing their country's interest, while also reconciling the same with the collective interest, at the regional level. The private sector is obviously a key stakeholder as are the various constituents of civil society.

The objective and rationale for regional integration is also political, and in this context solidarity should play a role. This aspect has not been given much consideration in this paper, because the focus was more on the economic logic and achieving greater efficiency. But member countries need to realise that unbalanced gains, or a perpetual situation of winners and losers cannot be sustainable. Developmental integration aimed at addressing the key supply constraints of the least developed member countries should be pursued. It makes sense for the relatively more developed and dynamic partner countries to contribute to the transformation of weaker partners.

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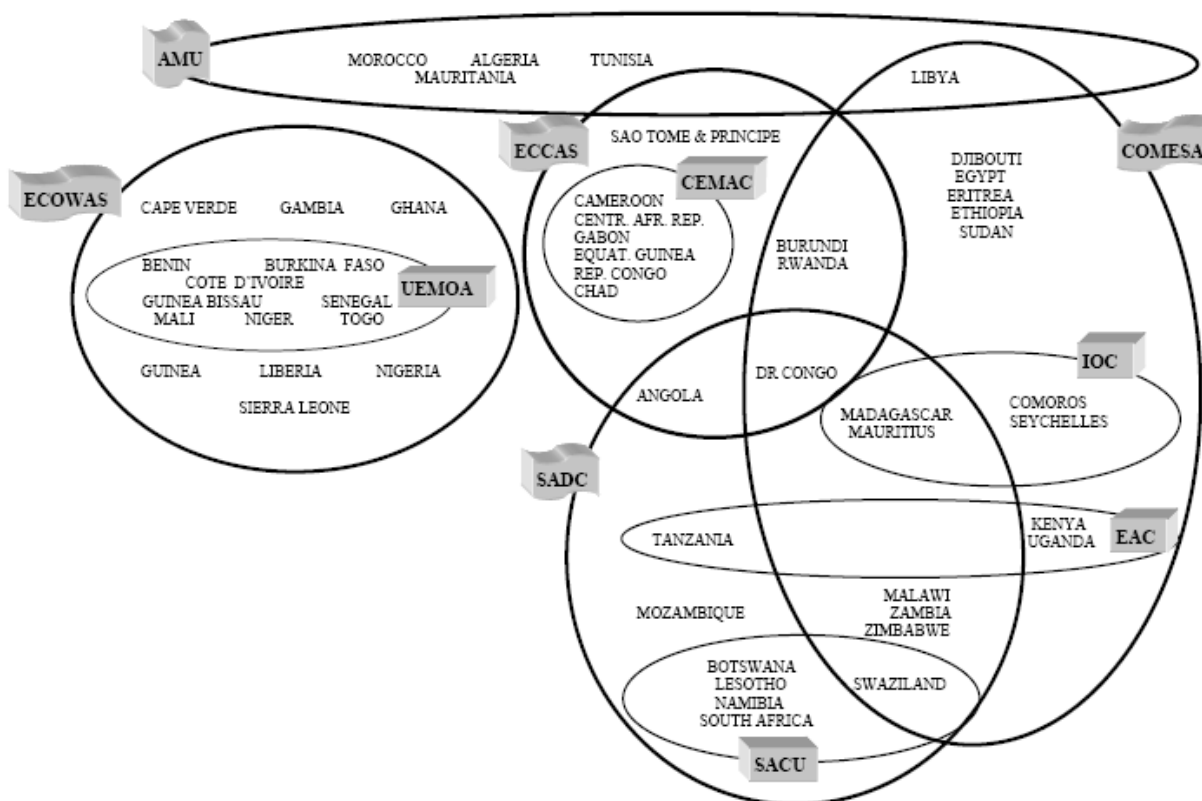
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## Appendix: African Regional and Sub-Regional Economic Integration Groupings (end of 2006)



- CEMAC: Communauté Economique et Monétaire de l'Afrique Centrale
- COMESA: Common Market for Eastern and Southern Africa
- EAC: East African Community
- ECOWAS: Economic Community of West African States
- ECCAS: Economic Community of Central African States
- IOC: Indian Ocean Commission
- SACU: Southern African Customs Union
- SADC: Southern African Development Community
- UEMOA: Union Economique et Monétaire Ouest Africaine
- AMU: Arab Maghreb Union





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