In the fast globalizing world, the combined effect of small market size, weak institutions, low human development, worsening terms of trade, persistent conflict and poor investment climate, pan-African cooperation as enshrined in the African Economic Community and NEPAD has been designated by African governments as the best overall framework for accelerating African development in the 21st century. This paper analyses intra-regional trade and regional integration in selected regional groupings, with particular emphasis on measures and modalities for promoting trade and development and ensuring a smooth integration into the global economy. After noting that regional agreements have, in recent years, generated significant increases in trade, we consider the role of regional integration measures that enhance domestic policy environment, increase overall competitiveness such as to attract badly needed investments, which in turn reinforce the positive effects of regional trade agreements. Such measures will help adequately link African countries and regions together, culminating into the African Economic Community. We then turn to actions from the international community to help link Africa with itself; including in ongoing trade negotiations, particularly in rules making, trade facilitation and trade in services.

1. Introduction

1 Comments to Dominique.Njinkeu@ileap-jeicp.org. This paper has been prepared for the ADB/AERC International Conference on Accelerating Africa’s Development Five Years into the Twenty-first Century. Tunis November 22-24, 2006.

We extremely grateful for comments on an earlier version of this paper by Tesfaye Dinka, Evious Zgovu and Dirk Willem te Velde. Views expressed herein are solely those of the authors.
There is a consensus in the economic literature and the development community a consensus that says that trade liberalization is a powerful tool for stimulating growth and economic development when properly designed and implemented. Liberalization can be considered at the multilateral level based on GATT/WTO principles of non-discrimination and most favoured nation that mandates trading partners to provide similar treatment to all firms and investors regardless of whether they are domestic or foreign, and if any privileged entry is provided to one nation it becomes applicable to other GATT/WTO members.

Regional trade agreement (RTA) is a violation to the non-discrimination principles as members liberalize trade among themselves, eventually excluding non-members from markets of interest to them. Literally all WTO members are party to at least one RTA or more, and the number of RTAs has increased since the entry into force of the WTO. Two motivations rest behind the drive to regionalism. Most RTA formed by developed countries and advanced developing countries in Latin America and Asia are driven by the need to secure dynamic market opportunities and gaining competitive advantage over non-members. This trend is also due to failure by these countries to obtain multilaterally bound commitments in areas of interest; as such regionalism is a second-best option to the first best approach to multilateral liberalisation. In this vein successful regionalism would bring the international trading system in a second best solution and as such multilateralism is threatened by regionalism. Njinkeu and Gitonga (2005) argue that African RTAs are not a threat to multilateralism; they have so far not succeeded in excluding non-participating trading partners from any business opportunity, instead if properly designed and implemented RTAs by low-income countries could put in motion competitive liberalization through which countries will fast-track liberalization regionally while being exempted from selected multilateral rules in order to prepare for entering into non-discriminatory, reciprocal liberalization commitments with all trading partners in a multilateral setting. The challenge however is for African countries to select

---

2 See papers at the Bruggels conference of 2005, especially those on ASEAN, China, and India. [www.dartmouth.edu](http://www.dartmouth.edu)
the appropriate institutional arrangement for regionalism, to take binding commitments which they effectively strive to honour. We elaborate further below.

Regardless of whether RTAs is allowed or not with the multilateral rules, one question that needs to be answered is whether regional integration can lead to expanded trade in a manner that it becomes a driver in accelerating African development in the 21st century. It is useful to consider the performance of RTAs in stimulating intra-regional trade in Africa and worldwide. A growing literature exists that analyses the impacts as well as the benefits and costs of regional integration using multiple models and level of aggregation, ranging from industry and sectoral studies done in a partial equilibrium framework to a number of studies using single or multi-country computable general equilibrium. In the celebrated analysis of Viner (1950), it was shown that a customs union may cause losses because it leads to “trade diversion” instead of “trade creation” – that is, instead of specializing more and increasing efficiency, countries that form a trading bloc may substitute each others’ more expensive goods for goods from outside the bloc, leading to a loss of efficiency. Kemp and Wan (1976), however, showed that by carefully adjusting the external tariff, members of a customs union can ensure a gain if they reduce tariffs to the point at which external trade remains at its pre-union level, the countries can ensure that there is no trade diversion.

Using a model where all nations and exogenous trading blocs appear symmetrically, Krugman (1991) shows that when the number of blocs is reduced from a very large number world welfare falls. Conversely, when there are only a few trading blocs, doing only limited trade with each other, most of the expansion of intra-bloc trade, when they consolidate into a small number of blocs trade welfare could increase. Using a multi-country framework Collie (1997) found that bilateralism would be good for industrialized countries and may be good for world welfare. In a three-country two period model, Freund (2000) finds that regional trade in the first period, followed by the free trade in the second period, leads to permanently greater trade among the member nations. Other studies are less enthusiastic about RTA. Using a Heckscher-Ohlin setting, Levy (1997) shows that bilateral free-agreement can undermine political support for further multilateral trade liberalization. Frankel et al. (1995) find that the formation of several
sub-regional Preferential Trading Agreements (PTAs) on each continent could lower welfare, but PTAs with partial internal liberalization could raise welfare.

Another trend in the literature argues that countries that have similar production structures will not gain from regional integration. The main reason behind this claim is the emphasis of intra-regional trade expansion as the objective. If instead the focus is on nurturing the trade and development nexus to the extent that an RTA stimulates the kind of trade that promotes development there should not be cause for concern. Given that lack of competitiveness is the main impediment to trade regional and otherwise, regional integration that helps improve efficiency and welfare would still be desirable.

A rich literature has also evolved on quantifying the increase (if any) in trade that could be attributed to regional integration in Africa. In particular researchers have worked around dismissing or confirming the view that Africa trades “too little” and the emphasis is on intra-regional rather than overall trade. Foroutan and Pritchett (1993) find that trade flows between African countries are not below expectations. The Sub-Saharan African share of intra-regional trade is on average 8.1% while the gravity model predicts a slightly lower mean of 7.5%. Coe and Hoffmaister (1998) argue that bilateral trade between SSA countries and industrial countries in the 1990s was not unusually low. Rodrik (1998) finds that the trade/GDP ratios of SSA countries are comparable to those of countries of similar size and income, and that Africa’s marginalization is mainly due to low income growth.

The focus could then be broaden to include both the above quantification of the effect of RTA and the identification of determinants of trade expansion in search of the main policies that can be considered. Using an augmented gravity model Carrere (2004) compares the impact of regional trade agreements (RTAs) in ECOWAS, COMESA and SADC. She finds that formation of RTAs has been associated with a significant increase in trade between members. She also finds that agreement with both a trade and a currency (e.g. UEMOA and CEMAC) component is the most effective in increasing intra-regional trade. Musila (2005) also uses the gravity model to estimate the trade creation and trade diversion in COMESA, ECCAS and ECOWAS. He finds that that intensity of trade creation is higher in the ECOWAS followed by COMESA. Longo and Sekkat (2004)
examine the possibility of expanding intra-African trade with a gravity model, but also paid attention to obstacles to intra-regional trade. They show that insufficient infrastructures, mismanagement of economic policies and internal political tensions are the main obstacles to trade in African countries. Limao and Venables (2001) also show that poor infrastructure accounts for 40 percent of predicted transport costs for coastal countries and up to 60 percent for landlocked countries. In the case of Sub-Saharan Africa (SSA), Limao and Venables conclude that intra-SSA trade costs are substantially higher and trade volumes substantially lower than those for non-SSA countries. Lewis et al. (2003) use a multi-country computable general equilibrium model to analyze the impact of trade liberalization in the SADC and find that the increased imports from FTA partners exceeds the reduction in imports from non-FTA partners.

This paper will assess whether regionalism can stimulate trade and by how much. The foregoing suggests a series of questions. What do African countries gain by joining regional schemes and could they achieve the same (or higher) level of benefits for example through multilateralism? How should regional integration be structured for it to help accelerate trade and development? Which features of current approach to regional economic communities suggest pas deficiencies (e.g. equitable distribution of benefits, unrealistic commitments) will not be repeated? What is the role of the international community? To what extent multilateral trading rules could help or hinder the promotion of trade through regional integration? To address these questions we look for lessons from the literature for successful approach to regional integration that promotes the kind of trade that Africa needs in order to accelerate its development in the 21st century. The next section reviews the literature to identify those features that should be at the center of regional integration in Africa. Section III reviews the new wave of regionalism in Africa and the extent to which the main elements for stimulating intra-regional and total trade, as well as capitalising on the benefits of regional integration are properly included in African countries and regions. The last section summarizes a plan of action.

II. Features of Regionalism for development
II.1 African intra-regional trade is constrained by market size

Small and remote economies are inherently uncompetitive primarily because of the mis-fortune of diseconomies of small scale and high transaction costs. These countries cannot generate adequate quantity and quality of competitive exports; they cannot attract significant amounts of foreign investment. They can strive to overcome the constraints of small internal markets by specializing and trading internationally; however exporting at world prices would either be impossible or generate factor incomes not high enough to address their chronic poverty. Unless proactive and targeted assistance is provided by the international community free trade could mean no trade for these economies. Winters and Martins (2004) illustrate this point. A small economy can address the scale problem by buying inputs from international efficient producers and export at world prices. Trade could nevertheless still be costly. Reasons for this include: small consignment size, small-scale infrastructure and a lack of competition given that these countries’ costs of trade may be inflated, making the cost of their goods and services higher than the world minima. Accordingly consumers may have to bear a higher cost to enable producers compete internationally or the producer will abstract from absorbing the trading cost of importing inputs and focus on production for local market, but in return they would be constrained by the scale.

When the production complication is addressed the cost of delivering the product on the export market could also be prohibitive. The associated costs include both the excess cost of international transactions and the excess costs of non-traded inputs. As a result of these excess costs, incomes are likely to be lower in small economies and the range of products that firms can trade internationally is also limited. The most efficient firms in such economies may succeed in prospering into niche markets but it is possible that these would not be efficient by world standards.

For production and trade to remain a valid option it is in most case it is necessary to provide some rents and for that we consider two options. First is a non-trading flow of foreign exchange in a manner that can help sustain imports and stabilize the current account. Candidates include foreign aid, accumulated assets or remittances. Remittances

---

3 Similar arguments developed in Njinkeu (2004)
4 Although we borrow some arguments from Winters and Martins (2004), we have in mind a broader definition encompassing most countries in Sub-Saharan Africa.
could grow if movement of labor is liberalized. The second possibility is for the export prices to be kept above the world level through some kind of preferential trading arrangements, provided such preferences are sustainable.

The response to the mis-fortune of small economies is not however to subsidize business investment given that smallness does not introduce marginal distortions that need to be countervailed; these countries just face an overall feasibility constraint. While international capital transfers will clearly help to reduce costs, an important part of the problem is on the current account. Assistance could come by allowing exceptions to trading rules that could allow firms to charge substantially higher prices, as well as assistance to alleviate trade-related constraints. Countries should however develop capacity to properly exploit such exceptions from the rules. This calls into question compliance to trading rules, to which we return later.

Policies should focus on a broad range of complementary actions to limit the small size effect. Although exceptions exist such as Mauritius or Botswana, cases in the literature where smallness appears not to have mattered are those (e.g. Luxembourg, Liechtenstein, Andorra) where countries successfully integrated extremely closely with a prosperous neighborhood. Regional integration could then be the second best solution for overcoming the limitations relating to market size. Adoption of common policies e.g. a Common External Tariff (CET) could increase the market size, could reduce transactions cost and could increase economic efficiency. An even deeper integration help mobilize the human and financial resources necessary to internalize the market access benefits; it could also provide a conducive environment for the exporter to experience trading in the more competitive international market.

Using a bottom-up approach and a carefully applied subsidiary principle, individual groups of countries could cooperate around those elements that can easily be coordinated, shifting at higher levels relevant policy responsibilities. An example is through inter-regional investment projects such as in transportation, telecommunication and public utilities for wholesale provision to individual countries. The challenge is to ensure that the regional arrangement helps stimulate investment, increase productivity and competitiveness. Hence focus should be on the institutional arrangement that lock-in policies. The ideal would be that members of the regional economic community are able
to exercise peer-pressure and ensure commitments are honored. This has unfortunately been difficult to achieve so far, whereby efforts should continue on for example the African peer-review process it is also possible to assure lock-in through appropriate partnership arrangements with non-African countries or regions in such a manner as to allow protection to strategic sectors in view of the prevailing market imperfections. The choice of the strategic partner should pay attention to the need of effectively creating a conducive business environment. This in turn requires careful monitoring and prevention of corruption and other opportunistic behaviors. A coherent program needs to be implemented as part of the RECs on corruption and legal and regulatory reform, with adequate participation of the private sector and the international community. Opportunistic behaviors triggered asymmetric rules vis-à-vis international partners could be limited by providing a clear time-table for their phasing out; a pre-announced phasing out calendar would motivate firms to catch up in terms of productivity and competitiveness (Keck and Low, 2004); and there would also be a need to introduce effective and enforceable group pressure. An important prerequisite is the existence of supportive institutional framework, supportive macroeconomic policies (low inflation, stable real exchange rates, responsible fiscal policies), and human capital. The manner in which this institutional framework is put together is important. Firms could concentrate in some parts of the regions only and this uneven clustering of activities could create more divergence and hence more tension among members of the regional integration scheme (te Velde and Bezermer, 2006). In fact, based on past experiences (see the case studies in Oyejide et al. 1999), firms could locate where resources are abundant, particularly where there is larger domestic market with effective demand coupled with access to the sea or efficient transportation infrastructures hence lower transactions costs. This is the subject of the next section where we explore mechanisms that help to ensure wealth is not too much skewed towards coastal countries only.

II.2 Policy integration to reinforce neighborhood growth spillovers

A potential impediment to participating in international trade is for a country to have unduly high trade cost. In Africa, although tariffs are high by world standards, it is increasingly a negligible factor limiting trade. Africa is significantly constrained by
inability to produce and supply according to international standards. Being landlocked geographically or economically by being remotely situated with respect to dynamic markets is definitely a major constraint. In the global sample used by Collier and O’Connell (2006) being landlocked reduces the growth prospects, countries that have access to the sea have 1.5 percentage points growth advantage over the landlocked countries. The development process would require that some growth poles emerge, with spillover effect on neighboring countries. A significantly high proportion of the African population (35%) lives in landlocked, resource-poor economies compared to 1% outside of Africa. Globally the performance of landlocked economies depends upon neighborhood effect where growth has a contagion effect on the neighbors. For Africa’s landlocked countries there are no significant neighborhood growth spillovers. One explanation is Africa’s higher internal barriers to trade compared to other regions, which is further compounded by the fact that the landlocked attribute raises transportation cost to global markets as well as to other African markets. It is therefore likely in such circumstances that even if other neighbors of these African landlocked countries prosper there may be no growth spillover.

Therefore, unless comprehensive regional integration program alleviates the internal barriers the growth prospects for the poorest countries of Africa are limited. Africa needs to make the larger economies work effectively to become growth poles. They also need to integrate regionally to ensure spillover effect. Coastal and landlocked countries alike are dependent upon infrastructure and trade policies that integrate their economies with their neighbors. Collier et al. (2006)\(^5\) considers conditions for harnessing opportunities to accelerate development. Avoiding policy mistakes is essential for closing the growth gap with fast-growing regions of the world. This requires each country to properly identify its opportunities and make the appropriate policy choices. The geographical disadvantages faced by a large proportion of African countries can be overcome through careful policy choices and investments.

Given the limited market size and the bad reputation arising from repeated civil wars and economic mis-fortunes, only deep regional approach can lead to improved business environment. In the integrated markets good policy by the regional growth leader may have positive spillover on peripheral countries. The spillover will be effective only if African countries foster integration in neighboring economies. Collier et al. (2006) suggest that because of integrated market the typical non-African landlocked country gains 0.6% of any one percentage growth of its neighbor while there is no growth spillover in the case of African landlocked countries; the main reason is lack of adequate integration into sub-regional markets. Cross-border trade can be promoted through appropriate trade policy towards the elimination of intra-regional trade barriers. Access to the markets is essential and depends upon regional transport infrastructure and coordinated policies. Regional integration measures should help with the provision of regional public goods.

Recent technological advances have reduced the geographical disadvantage, including for landlocked countries. Air transport is much more important than it used to be. Distance is no longer as constraining as it used to be although transport costs are still inflated by related ground activities that can fortunately be addressed through appropriately designed and implemented deregulation. E-services now have the potential to deliver rapid economic growth, provided the country has efficient telecommunications services and well trained labor force. The efficiency of telecommunications services depends upon getting regulatory and competition policies right. Many African countries have liberalized their telecommunication services and this has in particular stimulated the growth of mobile telephony and other related services, significantly increasing access to communication services and creating new business opportunities. Although access has increased significantly, prices are still too high partly because of inadequate regulatory capabilities and limited market size. With each country aiming to have its telecommunication regulatory agencies and the need to have two to three operators, the overhead cost becomes relatively high. A way out is to consolidate national regulatory agencies into one covering several countries. As such an adequate behind the border agenda, focusing of competition and regulatory capacity building is essential. There are payoffs if this is done at the regional level.
One area where policy integration could help reduce transaction cost is the move to form customs union, especially if it also includes monetary cooperation. Glick and Rose (2002) use a gravity model to analyze the effects of currency unions on 217 countries during the period 1948-1997. Their results show that countries which left currency unions experienced economically and statistically significant declines in bilateral trade. But a pair of countries that starts to use a common currency experiences a near doubling in bilateral trade. Frankel and Rose (2002), and Rose (2001) also found that the effect of currency unions on trade is positive, significant and large. Likewise, Rose and Engel (2002) find empirically that members of currency unions (such as the CFA Franc Zone) are more integrated than countries with their own currencies. In addition, currency union members have more trade and less volatile real exchange rates than countries with their own currencies; business cycles are more highly synchronized across currency unions countries than across countries with their own monies.

Carrere (2004), after controlling for the other traditional gravity equation variables (e.g. geography and transport costs) compared the relative impacts of preferential trade agreements and currency unions. She found that currency unions in Sub-Saharan Africa (SSA) have reduced the members’ exchange rate volatility with the rest of the world compared to the volatility for countries non-members of a currency union. To capture the effects of currency unions, the author, first, compares the impact of regional agreements which are only based on African (ECOWAS, COMEAS, SADC) and non-African (ANDEAN, MERCOSUR, ASEAN) regional arrangement, regional arrangements complemented by currency unions (UEMOA, CEMAC). The author also controlled for membership of the Yaoundé (1963, 1969) and Lomé (1975, 1980, 1985, and 1990) Conventions. Based on data covering 1962-1996 she shows that the ACP exports to European Union were 2.3 times higher than predicted from the gravity model over the period. Coefficients for intra-regional trade are significantly positive for all regional agreements (except for COMESA): coefficient for intra-CEMAC (UEMOA) trade indicates that members traded 3.25 (3.13) times more among themselves, than the expected level and the SADC members 3.5 times more since it was created in 1980. Nominal exchange rate volatility has a strong negative effect on bilateral trade and the regional dummy coefficients are also robust. The currency unions in the CFA zones have
an effect of trade creation effect whereas the preferential trade agreements have a trade
diversion one.

There are therefore advantages for countries to move to form customs unions and
short of including currency unions, an advanced level of policy coordination with respect
to financial issues would bring additional benefits. A complement to this could be to
capitalize on reform already achieved in this area (see Atingi-Ego, 2005; Ndiaye and
Gogue (2005)) countries could undertake coordinated commitments in the trade in
services negotiations at the WTO and complement these by assistance, for example in aid
for trade programmes, to build regulatory capacity.

II.3 Trade facilitation as a framework for reducing trade costs

The neighborhood externalities come through three channels: regional integration;
the spillovers that come if their neighbors adopt good policies; and trade facilitation\(^6\),
particularly access to markets and to the borders. The benefits of regional integration
externalities could be exploited through the cross-border trade-related infrastructure
which could be seen as a club good with significant positive externality internationally
which all countries benefit. Sub-Saharan African countries have a significant comparative
disadvantage on this front. If we take the case of Eastern and Southern Africa, cost
parameters for trading across border indicators show that whereby for the OECD and
World it takes on average 10.5 and 27.58 days to export the ESA average is 41.72 days.
The corresponding figures are 12.2, 34.47 against 52.8 days to import\(^7\). Given the time
sensitiveness of international trade these differences convert into significant loss of
competitiveness.

\(^6\) Trade facilitation can be defined broadly to encompass customs-related activities,
import licensing procedures, pre-shipment inspection, rules of origin, technical barriers to
trade issues and sanitary and phytosanitary measures. Salient characteristics of trade
facilitation in Africa include (1) Longest procedures at borders compared to other
region\(^6\), (2) Ineffective trade facilitation agreements, (3) higher cost incurred by
landlocked countries, (4) poor road transport infrastructure with inefficient transport
services significantly adding to trading costs.

\(^7\) We use the data from the Doing Business (2006) at www.worldbank.org/doingbusiness
A policy response is then regional cooperation when it is premature to move to full harmonization. As stressed by IMF-WB (2006)\(^8\), country-driven or national development processes could result in under-investment in cross-country and regional initiatives. Regional integration can help address the competitiveness challenges in more efficient ways.

Regional cooperation could cover regulatory policies that foster integration of policies; it could also cover cooperation on multi-country infrastructure projects. Cooperation on policy integration helps reduce policy induced transactions cost as well as increasing the return to regional investments in infrastructure. Without policy integration investments in regional infrastructure could be less than optimal. A key element of a strategy for promoting African trade and accelerating development in the 21\(^{st}\) century is to identify mechanisms through which policy and infrastructure cooperation amongst countries can best be supported.

Shallow integration, based on import-substitution and physical integration has failed in Africa and a competitiveness agenda should emphasize cross-border infrastructure and policy cooperation (harmonization, mutual recognition, adoption of common regulatory systems). This is even more important for landlocked countries that are often dependent on action by neighbors, especially with respect to transport corridors. According to the *Doing Business of 2006*\(^9\), each day of delay reduces export volumes by more than 1 percent on average; if Uganda reduced factory-to-ship times from 58 to the world median level of 27 days exports could increase by 31 percent. Addressing these problems requires a regional setting. Regional cooperation can lower costs and enhance global competitiveness of exporters by removing duplication, realizing economies of scale by spreading the fixed costs of regulatory enforcement and related services over a larger area, and promoting greater competition.

Non-tariff barriers constitute another domain in which regional integration could be useful e.g. product standards, certification and accreditation systems; transport links and policies (e.g., cabotage restrictions), and customs harmonization. Freedom of transit is the cornerstone of African regional integration schemes and these encompass

---

\(^8\) IMF-WB, Doha Development Report and Aid for Trade, Report to the Development Committee, September 6, 2006

provisions on transportation, border crossing, the harmonization of relevant national regulations and the development of coherent infrastructure networks for road, rail and inland waterway transport. For example the ECOWAS Treaty mandates that each member provides for full and unrestricted freedom of transit through its territory for goods proceeding to or from a third country indirectly through that territory to or from other Member States. If this is enforced, transit can not be subject to any discrimination, quantitative restrictions, duties or other charges for member states. There are efforts at ECOWAS and other regions to develop common policies in such areas as transport and communication regimes. An interstate convention cover provides for uniform rules and formalities for transit within the region, as well as a dispute resolution mechanism. A convention harmonizes transportation in view of facilitating the movement of persons, goods and services. The particular situation of landlocked countries is addressed through a resolution mandating compliance with the UNCTAD Convention on Transit Trade of Landlocked Countries. The convention mandates, among others, elimination of custom duties, import/export duties and special taxes for transit transport. For the Francophone countries the UEMOA has a program on road infrastructure that provides for the creation of transport facilitation committees in member state that also cater for oversight of border control posts; such a process in particular encourages uniform practices in the Community.

III. Regional integration Processes in Africa

Intra-regional trade and regional integration can help to promote development if past mistakes are remedied. A selected list of these includes the following: uncontrolled and uncoordinated membership, inadequate attention to honoring own commitments, inadequate attention to distributional consequences, inadequate funding of regional projects and initiatives. The poor trade and development performances of Africa suggest that significant revision is required to the overall approach to regional integration for it to provide a framework for accelerating trade and promote development in the 21st century. This section reviews current waves of regionalism on the continent and identifies components that should be reinforced. African regional integration schemes, until the 1990s were built on import-substitution industrialization paradigm. Compounded to this
was the fact that regional integration schemes on the continent aimed at trade and factor market integration through mega projects with very little attention paid to prevailing structural constraints. The objective was to integrate production structures, including when there was nothing produced or where no private sector investor could be interested unless a near natural monopoly status is created coupled with sizable subsidy.

The new wave of regionalism is fortunately moving away from such an approach with increased emphasis on policy-integration in which progressive level of integration is considered only when the right conditions have been created. This approach to regionalism seeks "deep integration," through which members create a common market for goods, services, capital and people involving harmonization of rules. Several regions have designed and implemented programs to deepen cooperation and integration beyond trade to encompass integration in key sectors where cross-border externalities are significant such as transportation, energy, and telecommunications. Others have pushed or are pushing even further to include public finances, monetary and exchange rate, business laws, investment policies and competition. This new wave of regionalism therefore aims at reducing risks and transactions costs for private sector activities thereby leading to an open and unified regional economic area.

The African Union (AU) has been selected at the highest political level as the framework through which Africa would like to be linked together before integrating to the rest of the world. The process is expected to build from progressive stages for deepening integration in the 5 identified regions (Central, Eastern, North, Southern and West) of Africa, which in turn are expected to merge and form the African Economic Community (AEC) over a period of 34 to 40 years beginning in May 1994. The challenge is to effectively implement such a plan, hence the urgency for rationalization. Since 26 May 2001 the Act establishing the Union entered force; the continental framework for economic integration was effective on 12 May 1994 when the Treaty establishing the Community entered force. The Sirte Declaration on 1999 envisages a faster process for some of the elements.

The trend in the creation of regional schemes in Africa unfortunately follows the spaghetti bowl paradigm. There are about 30 RTAs on the continent, with each country
belonging to 4 on average. In some cases the same countries belong to two schemes with inconsistent liberalization schedules. The building blocs of the AEC are reviewed below with particular attention to the extent to which the process is consistent with the aspiration for an AEC.

**Eastern and Southern Africa**

The Southern African Development Community (SADC) comprises: Angola, Botswana, DRC Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. Some members of SADC (South Africa, Botswana, Namibia, Lesotho and Swaziland) belong to the Southern African Customs Union (SACU) that is both a customs union and the common monetary area with the lead currency being the Rand. Membership of SADC overlaps with that of the Common Market for Eastern and Southern Africa (COMESA comprising Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Swaziland, Sudan, Uganda, Zambia and Zimbabwe). COMESA States are also at an advanced stage in establishing a Customs Union, with eleven COMESA members already in a free trade area (FTA). Two of these (Kenya and Uganda) together with Tanzania which is in SADC have also reinvigorated the East African Community (EAC) with the launch in March 2004 of a process toward the creation of a Customs Union within five years from the time the Protocol entered into force. The Inter Government Authority on Development (IGAD) is also operational and comprises six member countries of COMESA (Djibouti, Eritrea, Ethiopia, Kenya, Sudan, and Uganda) and Somalia.

Each region has developed an ambitious program for stimulating intra regional trade and reinforcing regional integration. The COMESA situation is used as an illustration. Articles 70 and 85 of the COMESA Treaty requires, *inter alia*, that member states shall initiate and adopt trade and transport facilitation programmes with a view to simplifying, harmonizing and standardizing regulations, procedures and documentation to improve the existing links and establish new ones as a means of enhancing the integration of member states. The following areas form the COMESA trade facilitation agenda:

---

10 World Economic and Financial Surveys, “Regional Economic Outlook Sub-Saharan Africa” International Monetary Fund, May 2005; 40
Harmonization of classification and designation of goods: Member states undertake to adopt uniform, comprehensive and systematic tariff classification of goods in accordance with international standards. The Harmonized System of Commodity Description and Codification (HS 2002) has been adopted as the standard customs nomenclature, a Common Tariff Nomenclature (CTN) based on HS 2002 has been developed and provides a common framework for the classification of goods brought into the region. There is also a customs cooperation through computerization of customs procedures and capacity building of citizens of member states in relevant customs practices.

Customs Valuation of goods: Member states are required to adopt a standard system of valuation of goods based on equity and international standards; the GATT/WTO Agreement on customs valuation has also been adopted as the standard to be used through the region.

Customs Declaration Document for imports / Exports / Transit / Warehousing: COMESA has developed a customs declaration (COMESA C-D) which is a single document to be used for all forms of declaration for importation, exportation and transit procedures.

Harmonization of customs legislations and procedures: Article 64 of the COMESA Treaty provides for the regional harmonization of customs laws and procedures to facilitate and simplify trade among the member states.

Customs Integrity and ethics: A code has been developed.

Customs Cooperation: Article 63 of the COMESA Treaty provides for customs cooperation among member states which includes, inter alia, joint institutional arrangements and coordination of training programmes.

Simplified certificate of origin: This is a document that expedites the clearance of goods that do not exceed $200. Procedures for such goods are simplified and require much less processes.
All other regional economic communities have a significant part of their work program on similar trade facilitation initiatives. SADC has already accumulated significant experience on regional approach to infrastructure development. These achievements should help to inform current efforts.

The rationalization process in Eastern and Southern Africa is fraught with many intricacies. Most countries are still in the process of implementing the trade liberalization programme of COMESA with its four-band CET of 0, 5, 15, and 30% tariff rates increasingly being adopted. Some countries (Kenya, Madagascar, Malawi, Mauritius, Zambia and Zimbabwe) have implemented the intra-COMESA FTA decision by 2000; and by 2002, the following countries had achieved low simple average tariff rate within the COMESA CET range: Madagascar (5.7%), Malawi (13.4%), Rwanda (9.9%), Uganda (9.0%), and a Zambia (14.0%). Several other countries in this group have average tariffs below 20%, although their maximum rates were much higher than that specified by COMESA’s CET, i.e. Ethiopia (18.8%), Kenya (17.1%), Mauritius (19.0%), and Zimbabwe (18.3%). Within the ESA EPA sub-region, therefore, only a limited number of countries have simple average tariff rates in excess of 20%, including Djibouti (30.8%) and Seychelles (28.3%). In the SADC EPA sub-region, most of the member–countries are also SACU members. Hence, the simple average tariff rates of countries such as Botswana, Lesotho, Mozambique, Namibia, and Swaziland were uniformly 11.4% in 2002 within the range of 0-60% established by SACU’s CET. In the case of Tanzania, the simple average tariff rate in 2000 was 16.3% with a maximum rate of 25%. (ILEAP 2004)\(^{11}\)

Rationalization will need to review these levels of tariffs to ensure they quickly converge to a uniform level. A variable geometry appears the way to go for this convergence program. The case of EAC is more problematic, however, as two of its members (Kenya and Uganda) are in COMESA while Tanzania is in SADC. Despite this members of EAC have opted for a currency union and have even moved further to harmonize other policies. The three EAC countries in October 2006 subjected themselves jointly to the WTO trade policy review.

**West Africa**

The Economic Community of West African States (ECOWAS) has been designated as the building bloc to the AEC for West Africa. The members of ECOWAS are: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo. Except for

\(^{11}\) Kigali paper drafted by Oyejide
Guinea all French-speaking members of ECOWAS (namely Benin, Burkina Faso, Cote d’Ivoire, Mali, Niger, Senegal, and Togo) together with Guinea Bissau have formed a customs union and a monetary zone through the West African Economic and Monetary Union (WAEMU); this move led to further reform through the involvement of the regional central bank, the BCEAO.

WAEMU has generally been perceived as a successful experience (GCA 2006). There has been a significant increase in the development of convergence criteria with harmonization in such areas as public finances, public sector reform, budgetary and accounting classifications of local governments. The most significant progress is in the harmonization of indirect taxes, namely the Value-added Tax (VAT) and excise tax. Since November 1997, the Union has implemented the harmonization of the West African accounting system (SYSCOA). The West African Development Bank (BOAD) is the financial arm of WAEMU. Its activities concentrate on investment projects and integration-promoting infrastructure included in sectoral policies. BOAD is hoping to become the development bank of ECOWAS as well as WAEMU.

Significant progress has been achieved with respect to the free movement of people and the implementation of a common external tariff (CET) for trade. A common commercial policy has harmonized national efforts in such frameworks as the World Customs Organization (WCO), the World Trade Organization (WTO), bilateral arrangements such as within AGOA and with the European Union. A compensation mechanism has been introduced to compensate for revenue loss resulting from harmonization. At the sectoral level the Commission has elaborated regional programs in the areas of energy industry, agriculture, environment, and infrastructure. The remaining challenges are in three areas. The first area is related to financial issues where the

---

12 A group of eminent persons were tasked recently by the Global Coalition for Africa to review problems associated with harmonization of tariffs, rationalization of other policies and activities including sectoral policies. In the case of monetary issues they were to consider progress towards the coordination of macroeconomic policies, the assessment of regional projects and investment programs in infrastructures and the evaluation of peace and security issues. See GCA (2006).
challenge is adherence to the macroeconomic and financial convergence criteria. The second area and related to the first, several regional projects have been prepared but not adequately funded nor effectively implemented\(^{13}\). There is a large “financing gap” for infrastructure but the lending and assistance portfolios of the major development banks for cross-border projects tend to get less attention and financing than purely national projects. Even where there are supra-national bodies and agreement on deep integration objectives, regional cooperation is difficult to achieve (Hoekman and Njinkeu 2006). A major constraint has been lack of mechanism for funding regional projects in the donor community; we return to this later. The third area is the political dimension with the need to enhance democracy in decision-making and for the follow-up of implementation. A similar process needs to take shape in the entire ECOWAS region where a less advanced program is in place for both trade and monetary cooperation. On the trade side the difficulty is likely to come primarily from Nigeria given its economic and demographic size and the fact that its tariffs and non-tariffs profiles are significantly different from that of WAEMU. The adjustment required of the other non-WAEMU countries is negligible. However, for all these countries a major stumbling bloc is the fiscal implication of rationalization. A related issue is that of a compensation mechanism for which the experience of the WAEMU could provide some directives. The precursor of UEMOA, introduced an explicit mechanism - the *Taxe de Cooperation Regionale* (TCR) - to compensate member governments for lost tariff revenues. The establishment of a compensation mechanism helped the political sustainability of the CEAO, but its economic impact was modest. Intra-regional trade grew slowly. Over the period 1975-90, for example, intra-regional trade increased by only 6.95 per cent. It replaced all duties and taxes on goods imported from another CEAO member states, provided that products complied with the regional rules of origin (60% raw materials or 40% value added). De facto the TCR operated as a protectionist instrument as it discriminated in favor of products from poorer members of the Community. As such it promoted inefficient intra-regional specialization and eroded the international competitiveness of industries in

poorer countries. Furthermore the TCR was susceptible to fraud as the database for calculating compensation was unreliable.

Peace and stability are essential in West Africa, for the sub-region’s economic integration and development to progress without hindrance. Despite wide recognition of this fact, vested interests could still delay peace and security in the region for many years.

**Central Africa**

The Economic Community of Central African States (ECCAS) is the recognized regional bloc for Central Africa. ECCAS is comprised of Angola, Burundi, Cameroon, Central African Republic, Chad, Congo Democratic Republic, Congo Republic, Equatorial Guinea, Gabon, Rwanda, and Sao Tomé and Príncipe. There is also a variable geometry approach in the ECCAS region, with six members belonging, since 1994, to a customs union and monetary zone, the Economic and Monetary Community of Central Africa (CEMAC). The members of CEMAC are: Cameroon, Central African Republic, Congo Republic, Gabon, Equatorial Guinea, and Chad. CEMAC also shares several economic institutional cooperation arrangements with other French speaking West African countries on such policies as exchange rates, insurance, business law and intellectual property rights.

In the Central African region intra-regional trade is small. Trading between members follows a hub-and-spoke pattern. Smaller and poorer members of the regions relied on regional trade from wealthier and larger members who primarily trade with non-regional members. This is partly due to the design and implementation of policy instruments for promoting trade namely the common external tariff (CET), the *taxe unique* (TU) on goods traded between members, and a compensation fund. The equivalent of the CEAO’s TCR was the TU which likewise was meant to foster intra-regional trade. Firms were required to apply to the TU and each application was supposed to be vetted by a UDEAC Management Committee. The functioning of this committee was so flawed that an instrument designed to expand trade became a means of protectionism that distorted resource allocation within UDEAC. Exports from within the region faced increasing discrimination, and as a result the TU tended to discourage rather than encourage intra-regional trade. One of the main ingredients for this situation was
also the absence of an efficient compensation scheme. A solidarity fund and regional distribution of projects were the main elements for ensuring compensation of losers. The solidarity fund was financed by revenues from contributions from all member states. The contributions were fixed annually; when they were forthcoming, they were significantly delayed and the fund collapsed by 1991. The distribution of projects was directed at the regional; private sector-led investments went primarily to Cameroon and regional projects to be created by other governments never materialized. The failure of the solidarity fund and failure to launch regional projects reinforced the reliance by member states on the TU to alter relative price which further led to misallocation of resources at the regional level.

Most of the features of West Africa described above apply in this case. Rationalization is least problematic in Central Africa. CEMAC is well established and with the recent decision by the Democratic Republic of Congo to join the CEMAC EPA negotiation group a CEMAC-DRC FTA (or later customs union) could for the framework for rationalizing trade and economic liberalization. ECCAS would have a comparative advantage in peace and security issues. A variable geometry would work with least impediments.

**Northern Africa**

The Arab Maghreb Union (UMA), comprising Algeria, Libya, Morocco, Mauritania, and Tunisia is the building block in for North Africa. A particular feature of the AMU is that Arab countries outside Africa could apply for membership. This region is not negotiating and Economic Partnership Agreements (EPA) but separate agreements already link some of the countries to the European Union.

The Community of Sahel-Saharan States (CENSAD) has also been established, covering some members of UMA, ECOWAS, COMESA and CEMAC (Burkina Faso, Central African Republic, Chad, Djibouti, Egypt, Eritrea, Ethiopia, the Gambia, Libya, Mali, Morocco, Niger, Nigeria, Tunisia, Senegal, Somalia, and Sudan). All these regional schemes, except the AMU, have signed the OAU (now the AU) Protocol on Relations between the AEC and the Regional Economic Communities (RECs). The pattern of overlapping membership complicates the co-ordinated and progressive process that
would lead to timely realization of the AEC. To that effect the African Ministers in charge of regional economic integration in March 2006 in Ouagadougou and those of Trade in April 2006 in Nairobi, followed by the Banjul summit of August 2006 for the AU heads of states and governments started a process that would eventually eliminate unnecessary overlaps and reinforce synergies. They have also urged the RECs to take the lead in the rationalization by immediately starting to harmonize their policies, their customs and trade instruments and to coordinate their programmes with a view to seeking convergence. The ongoing negotiation of EPA between Europe and groups of African countries that aims to conclude Free Trade Areas (FTA) could help accelerate the above consolidation.

In Central Africa the six member countries of CEMAC were joined by Sao Tome and Principe (through an FTA with CEMAC), and recently the Democratic Republic of Congo. In West Africa, the Economic Community of West African States (ECOWAS) is an FTA, although eight countries also forming the UEMOA are involved in a customs union. The problems of overlapping and multiple memberships are particularly problematic in Eastern and Southern Africa. An Eastern and Southern Africa (ESA) regional EPA negotiation group operates alongside a SADC group. The ESA group comprises Burundi, Comoros, Democratic Republic of Congo, Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Uganda, Zambia and Zimbabwe.

The core of the ESA group is, COMESA, although not all of its member-countries are in the group; not all members of COMESA (e.g. Egypt) involved in EPA. The SADC group’s membership also overlaps with EAC (through Tanzania) and COMESA (through the inclusion of Angola, Namibia and Swaziland). In addition, the SADC group includes all the countries in SACU, except South Africa which has already signed an FTA with the EU. Countries in ESA and SADC groups encounter other technical problems such as simultaneously managing several trade agreements which impose different obligations on the same countries within the same region. In each African EPA the process is also constrained by existence of LDCs and non-LDCs that is the critical elements of granting preferential market access conditions.
For promoting convergence of tariff to form the AEC ILEAP (2004) proposed a simple average tariff rate reduction of about 15% within the range of 0-30% by the time the EPAs become effective in 2008. This target should not pose a particular problem in CEMAC and UEMOA regions; the West Africa, only Ghana and Nigeria need to make further efforts to comply with the envisaged ECOWAS CET. More efforts are required in Eastern and Southern Africa. Within the SADC EPA sub-region this requires that the maximum tariff of SACU be brought from 60% to 30%. In COMESA countries (such as Djibouti, Ethiopia, Kenya, Mauritius, Seychelles, Sudan, and Zimbabwe) will need to reduce their tariff rates substantially. Should the African EPA sub-regions introduce such a tariff structure with an average tariff of about 15% in the 0-30% range when the EPAs become effective in 2008, a simple linear reduction method involving six step-wise reductions of 5 percentage points from the maximum rate every two years would accomplish the elimination of tariffs against EU imports by the year 2020. To liberalize intra-regional trade each sub-region will need to fast tract its customs union timetable. This will not pose a problem for CEMAC, SACU, and WAEMU; as they already have an effective customs. As such the timetable for the EPA negotiations provides the opportunity for necessary incentive for fostering regional integration of the entire African continent with common external tariffs within the range of 0-30% by the end of 2007. In addition the various sub-regions, particularly in ESA should consider revising the date of entry into force of their various customs unions. Such harmonization of entry into force of the various customs unions could help address the specific problem posed by EAC.

A similar process should be considered focusing on elimination of tariffs against inter-regional imports to enable the smooth realization of the African Economic Community. It is unlikely that this inter-regional program could be effective by the current date of end of 2007 of the EPA negotiations. The much needed rationalization and coordination by the African Union should pick this issue with the European Union. It is important, in keeping with the aspiration of the AEC, that the inter-regional program is realized before full reciprocal liberalization with the EU in the suggested date of 2020. A process such as the phase approach for converging the various CET could be followed. A possibility is to aim for elimination of all tariffs on intra-African imports within 4 to 5years of coming into force of the EPAs, i.e., around 2012 or 2013.

24
It is important that a similar approach is followed on services trade liberalization. Regional services markets will need to be consolidated with full liberalization among African countries. Once this is achieved, with the impulsion of the African Union, an inter-regional liberalization program would have to be agreed and implemented. Only following successful implementation of this inter-regional liberalization and upon merging the regions into one African market, full liberalization with the global economy and the EU should be considered. A similar approach has been suggested by the European commission (see EC (2005)) that states “A controlled and gradual increase in openness, first regionally and then towards the wider world, is therefore needed as a basis for a significant acceleration of growth and development.”

IV. A Plan of Action
A plan of action for stimulating intra-regional trade, promote regional integration as a way of accelerating African development could be considered in four points.

(1) Make only commitments that can be honored
African governments will not be taken seriously by the private sector (domestic and foreign) is they continue the proliferation of RECs that largely are under-funded, are given conflicting mandates, or have no concrete actions on the ground. The rationalization process needs to be concluded urgently. As discussed above there is no generalization. In some cases (e.g. Central and West Africa) a variable geometry approach could work, in a second category (e.g. COMESA and SADC) each of the schemes has accumulated experienced that should be factored into the consolidation, in a third where by there is an inconsistency (e.g. membership to two customs union) political decisions will have to be made with respect to membership.

(2) Deepen the policy reform at the national and regional level to create dynamic regional markets. Fast-tract liberalization on the African continent with focus


15 This approach does not necessarily rule out the possibility of some regions taking a faster approach, either as part of FTAs or at the multilateral level. It is however essential that consistent be secured.
on intra-regional, then inter-regional trade liberalization towards the formation of the African Economic Community

A transparent, predictable and rule-based global trade and economic system fosters growth and development in Africa, hence the need for an active engagement in the globalization process. There should, however, be proper sequencing in the liberalization process. Given the level of vulnerability of economic and social institutions, immediate application of multilateral international rules could curtail long-term development. African countries need to ensure involvement in the global economy is coherence with their overall development objectives. This would require trading rules that promote rather than undermine economic opportunities. African trade is constrained by market imperfections that also explain the high cost of doing business. Having an overall coherent trade strategy with proper sequencing between building the relevant export base before further ambitious liberalization on the import side is crucial.

Regional integration and cooperation as presented earlier could be an acceptable framework. African regional integration will, however, need to address their core trade and development problems for regionalism to be a building bloc to openness to the rest of the world. Regional integration need to promote convergence of macroeconomic policies that will help provide a more stable economic framework; it should involve a concerted process for removing official and unofficial impediments to intraregional merchandise trade.

In all sub-regions there are grounds for optimism. The institutional framework should include credible mechanisms that foster a healthy business environment. Credibility could be reinforced with carefully negotiated additional commitments in bilateral or multilateral negotiations. What is essential is to introduce in each region an “agency of restraint”. Various forms could be considered. One is to rely on the WTO, by committing or at least pre-committing in the critical areas of the Doha Development Agenda (DDA) negotiations. The second possibility is to make credible commitments in the framework of ongoing Economic Partnership Agreement (EPA) negotiations between

---

16 The emerging consensus in the developing world is that should Africa receive special treatment it does not come as a cost to other developing countries, making the aid for trade debate a more appropriate framework compared to definition of rules that will apply to Africa, excludes other developing countries without undermine the trade interest of these developing countries.
17 See Collier and Gunning (1999)
African regions and the European Union. Third is to have regionally agreed targets in critical policy areas such the NEPAD peer review mechanism or macroeconomic convergence criteria of CEMAC and UEMOA.

As highlighted above the EPA could be use as a framework for accelerating the liberalization process. A continental timetable was provided above that would enable the various CET to quickly converge. This, as indicated, would require negotiation with the international community on a new timetable for the entry into force of the EPA. African countries could use the mandated review in the EPA process due to be completed in 2006 or early 2007.

(3) Proactive engagement in rules making at the global level

Once a coherent strategy has been agreed to, there would be a need to ensure legal security of the process adopted. In particular, for smooth integration into the global economy the WTO has rules that govern the formation of RTAs that will need to be supportive. This requires multilateral rules pertaining to regional trade agreements that are consistent with African aspirations on regionalism. The RTAs rules negotiations in the ongoing DDA risks undermining the interest of Africa. These negotiations have focused on transparency and systemic issues in GATT 1994 Article XXIV, the Enabling Clause and GATS Article V. The major deficiency of Article XXIV is the absence of explicit Special and Differential Treatment (SDT) provisions for developing countries. Part IV of GATT provides a set of SDT provisions for developing countries since 1964; a WTO dispute settlement case has established that Part IV of GATT is not applicable in conjunction with Article XXIV of GATT 1994. This situation rules out a North–South RTA with non-reciprocity.\(^\text{18}\) The Enabling Clause has provided since 1979 a flexible framework of rules for developing countries in forming regional integration agreements among themselves (‘South–South RTAs’). The Enabling Clause does not, for example cover the EPA arrangement that will involve developed and developing countries. The Enabling Clause does make mention of the non-reciprocity principle as enshrined in Part

---

\(^{18}\) As argued in Njinkeu and Gitonga (2005) African RTA and others where the objective is not to exploit dynamic market opportunities require flexible rules. Other RTAs, such those in Asia that are recent phenomenon and primarily created to secure markets should be subjected to more restrictive rules at the multilateral level.
IV of GATT and would have provided a useful link to Article XXIV discussions on non-reciprocity.

Regional trade in services is permitted under WTO rules by the GATS Article V, and allows more flexibility than in the case of trade in goods. Article V: 3(b) in particular recognizes a distinction between North–South RTAs and South–South RTAs by providing additional favorable treatment for developing countries in the case of the latter. This inconsistency in the availability of SDT between goods and services highlights the need for SDT in the context of North–South RTAs.

Reciprocity needs to be progressively pursued, taking into account the individual trade, development and financial needs of the parties. A priority for African countries in the Rules negotiations in the WTO on RTAs will be to include specific asymmetrical provisions in terms of scope, speed and coverage the relevant provision pertaining to RTA.

Rules of Origin (ROO) in preferential schemes tend to be more restrictive than non-preferential rules; rules for agricultural products and textiles tend to be more restrictive than for other sectors. While harmonization of ROO would enable the convergence towards a single global preferential ROO regime, there is within RTAs, particularly with developed countries, the need to provide for simpler and less restrictive ROO than exists today with the EU including a liberal cumulative process and transformation requirement, that allows for regional and diagonal sourcing of inputs.

Conformity with mandatory health, safety and labeling standards, as well as market-driven voluntary standards in overseas markets, is a serious impediment to trade. Divergent product standards and duplicative systems for assessing conformity with those standards can constitute substantial barriers to trade. To reduce the dampening effect of divergent standards on international trade, WTO Members have agreed to discipline the use of mandatory standards by governments, resulting in relatively modest provisions on transparency and non-discrimination. A possibly more effective approach would require cooperation agreements amongst RTA Members to upgrade standards through the creation of formalized technical institutions, monitoring mechanisms and gradual enforcement. Regional conformity assessment institutions must be created or

---

strengthened if harmonization of standards and mutual recognition is to occur in Africa and with the rest of the world. African countries should therefore give priority to rules of origin that fosters the emergence of the AEC as well as participate actively in the international standards organizations and at the WTO. This will need to be complemented by enhanced capacity to cope with ever increasing trade standards.

(4) **Address core problems of competitiveness**

A significant constraint to African trade expansion is related to behind the border agenda issues with focus on infrastructure (soft and hard) and institutional deficiencies. There would also be a need to develop a regional framework in key policy areas such as investment and competition. We focus in turn on three aspects: trade facilitation, regulatory reform, funding mechanism.

The agenda on trade facilitation is primarily that of implementation. All RECs have trade facilitation projects. The following is a selected list of regional projects in transport and trade facilitation, where the objectives is improved access of land-locked countries to export markets and thereby reduce trade costs and transit times: West Africa Road Transport and Transit Program; East Africa Road Transport Program; Central Africa (CEMAC) trade and transport facilitation project, West Africa Power Pool; Southern Africa Power Pool; West Africa Gas Pipeline, Senegal River Basin Development; Nile River Basin development, Regional WAEMU Communications Infrastructure Program, WAEMU Partial Risk Guarantee Facility; African Trade Insurance Agency, Southern Africa Productivity Program in agriculture; West Africa Productivity Program in agriculture. These projects and programs are based on NEPAD Short Term Action Plan priorities and the Africa Action Plan (AAP) (Hoekman and Njinkeu 2006)

---

20 Global Economic Prospects 2005 World Bank
21 These issues are also elaborated in Hoekman and Njinkeu (2006).
22 Trade facilitation programs focus on raising awareness among national and regional policymakers about the need to bring transport costs down in Sub-Saharan Africa, and how effective policies can be worked out to address this issue. This will be achieved through design and implementation of systematic regional/corridor data collection and management systems, making it possible to produce and disseminate reliable statistics on cost-efficiency of transport services along major regional corridors and for main traded commodities. Identification of recurrent bottlenecks, be it administrative, regulatory, informal or due to infrastructure shortcomings, will then lead to the elaboration of corresponding action plans that the Program will help implement in the following stages
An important element of the plan of action is implementation and these could be articulated around the following elements:

1. Setup of an appropriate infrastructure to support the movement of goods;
2. Harmonization and simplification of legislation, procedures and formalities related to imports, exports and transit;
3. Modernization of all relevant actors and procedures through increased automation;
4. Alignment of the rules and procedures with international standards;
5. National, cross-border and permanent regional coordination; and
6. Establishment of a mechanism of effective information dissemination between the authorities and users.

Diagne (2005) therefore points to the urgency for a regional Transit and Facilitation Agency in each of the African sub-region. Such an agency would oversee the installation and the management of material infrastructures and services necessary to ensure smooth transit of goods in the region. While such an agency is useful for all, the landlocked countries should benefit more as it would definitely tackle transit-related problems. The agency could also provide a golden opportunity to consider previous decisions not yet implemented aiming at facilitating transit of goods including the juxtaposed border posts, the harmonization of customs information processing systems. Regional trade facilitation committees that already exist in most regions could be generalized and their structures and operations harmonized.

With respect to regulatory reform and competition policies, there is a need to facilitate efficient services in core infrastructure-related services such as finance, telecommunication, energy and transportation. The EU (see (EU 2005)) for example, has established an EU-Africa Partnership for Infrastructure to support and initiate programmes (Trans-African Networks) that facilitate interconnectivity at continental level for the promotion of regional integration. This framework helps with, among others, harmonization of transport policies, development of integrated water management,

---

development of cross-border and regional energy infrastructure and promotion of efforts to bridge the digital divide at all levels including through initiatives to develop sustainable low-cost electronic communications. Specific programs have also been designed such as the Sub-Saharan Africa Transport Programme (SSATP) that facilitates the harmonization of sustainable transport policies between regions and efficient operations along regional and trans-African corridors; the Forum of Energy Ministers in Africa (FEMA) for developing cross-border and regional energy infrastructure, and a specific program aiming at bridging the digital divide that supports the development of advanced and low-cost technologies for electronic communications and the development of regulatory frameworks to create a sound business environment for innovation, growth and social inclusion.

Such a behind the border agenda will go a long way in addressing the core trade and regional integration constraints facing African countries and regions. There is a need for African countries to ensure these programs are implemented. They should also approach others donors, to join such programs instead of creating alternative ones.

Finally, it should be noted that several comprehensive processes have identified most of the problems identified in this paper, including the NEPAD, individual RECs, or the Blair Commission. Unfortunately funds were either undersupplied or fragmented and thereby not allowing implementation. Part of the problem was the lack of funding mechanism for multi-country projects. The situation is slightly changing. The World Bank has launched the Africa Catalytic Growth Fund (ACGF) in March 2006. This Fund is expected to provide rapid, targeted support to countries with credible programs to accelerate growth, poverty reduction, and attainment of the Millennium Development Goals (MDGs). ACGF seeks to complement other aid programs in harmonized and effective way. It, among others, will fund multi-country cross border issues, with explicit focus on constraints to growth that are shared by at least two countries and thereby bring together fragmented investments, and support missed opportunities in a regional context. Beneficiaries of the Fund could be regional institutions or individual countries.

To complement the its strategy towards Africa (see EU 2005) that emphasizes regional integration the EU has also made progress towards the design of mechanisms for funding multi-country or regional project. For example as a component of the
Infrastructure and Adjustment Facility, COMESA members States have ratified the COMESA Fund that explicitly and exclusively targets infrastructure-related supply side constraints. It is expected to be used to leverage funds and will be flexible enough to accommodate a combination of grants, concessional loan and private sector contribution. (ECDPM 2006) COMESA aid for trade resources as well as funds to be agreed in the development cluster of the EPA negotiations will be channeled through the above Facility. African countries and RECs should ensure that the Africa Catalytic Growth Fund, the EPA related funding schemes and others are properly funded and efficiently managed.

REFERENCES


Collier and O’Connell (2006)


World Economic and Financial Surveys, “Regional Economic Outlook Sub-Saharan Africa” International Monetary Fund, May 2005; 40.