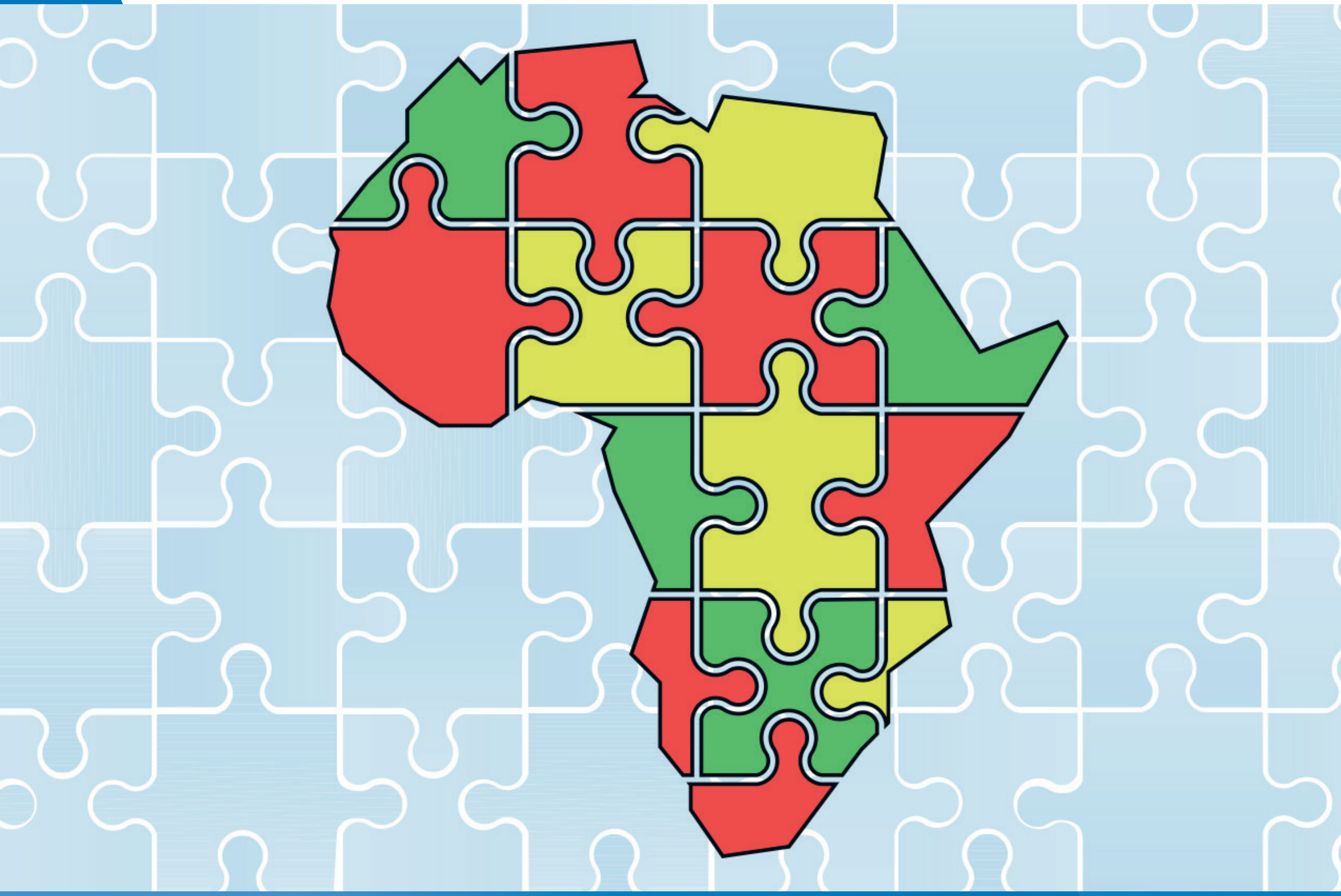
A Handbook on Regional Integration in Africa

Towards Agenda 2063

Brendan Vickers



The Commonwealth

A Handbook on Regional Integration in Africa

Towards Agenda 2063

By Brendan Vickers

The Commonwealth

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Foreword

The Commonwealth countries of Sub-Saharan Africa constitute the largest geographical grouping within our membership. They include middle income developing countries, landlocked and island small states, and least-developed countries, bringing a remarkably diverse array of perspectives, experience and approaches to our collective endeavours.

Notwithstanding continuing development challenges, Africa is widely regarded as a 'rising continent', rich in people, resources and opportunities. To unlock even more of the vast economic potential of this great continent, governments in Africa are working together to implement ambitious plans for continental integration, industrialisation and infrastructure development. The adoption of the African Union's *Agenda 2063: The Africa We Want* marks a major step towards realising the vision of a united, peaceful and prosperous continent.

The 18 African countries which have chosen to be members of the Commonwealth already make an immense contribution through their links with one another, and through the multiplicity of links they enjoy with Commonwealth countries spread across every continent and ocean. This includes building on Commonwealth advantage to facilitate trade and boost investment. Commitment to our Commonwealth Charter values of transparency in administration and high standards of probity upheld by the common law — on which international law is based — together with similarity of institutions of governance and administration, greatly ease co-operation and commerce among our member countries. Our inclusive approach leads the Commonwealth to be a strong advocate for deepening regional economic integration, particularly as a pathway towards delivering inclusive social progress, economic growth, poverty reduction and sustainable development.

The Commonwealth Secretariat provides policy support and technical assistance to member countries and Regional Economic Communities (RECs), strengthening capacity to formulate, negotiate and implement regional trade policies and agreements, and enabling greater benefits to be drawn from expanded and new market opportunities.

The Hub and Spokes Project, jointly delivered by the Commonwealth Secretariat, the European Union, Organisation Internationale de la Francophonie and the African, Caribbean and Pacific Group of States (ACP) Secretariat, also provides long-term capacity-building support to Sub-Saharan African countries and the RECs to promote deeper and more effective regional integration.

Strengthening African integration is indispensable for achieving many of the Sustainable Development Goals. This publication is therefore both timely and topical, and provides a ready reference guide to the dynamics, opportunities, challenges and policy options associated with Africa's regional integration agenda. Our hope is that this handbook will be of practical assistance to policymakers, parliamentarians, the private sector, academia and civil society, as well as to the wider public, as we work together to advance and achieve the objectives of *Agenda 2063*.

The Rt Hon Patricia Scotland QC
Secretary-General of the Commonwealth

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Abbreviations and acronyms

AEC	African Economic Community
AfDB	African Development Bank
AfT	Aid for Trade
AFTi	Africa Free Trade Initiative
APCI	African Productive Capacity Initiative
APRM	Africa Peer Review Mechanism
AU	African Union
AUC	African Union Commission
BIAT	AU Action Plan for Boosting Intra-African Trade
CEMAC	Economic and Monetary Community of Central Africa
CEN–SAD	Community of Sahel–Saharan States
CET	common external tariff
CFTA	Continental Free Trade Area
CFTA-NF	CFTA Negotiating Forum
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
DFI	development finance institution
DFID	Department for International Development
DRC	Democratic Republic of the Congo
ECCAS	Economic Community of Central African States
ECGLC	Economic Community of the Great Lakes Countries
ECOWAS	Economic Community of West African States
EPA	economic partnership agreement
EU	European Union
FDI	foreign direct investment
FTA	free trade area
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GVC	global value chain

ICT	information and communication technology
IGAD	Inter-Governmental Authority on Development
IOC	Intergovernmental Oceanographic Commissio
LDC	least-developed country
LLP	leather and leather products
LPA	Lagos Plan of Action
MAP	Millennium Africa Recovery Plan
MDG	Millennium Development Goal
MIP	Minimum Integration Programme
MNC	multinational corporation
MoU	memorandum of understanding
MRU	Mano River Union
NEPAD	New Partnership for Africa's Development
NTB	non-tariff barrier
NTM	non-tariff measure
OAU	Organisation of African Unity
ODA	official development assistance
OSBP	One-Stop Border Post
PAP	Pan-African Parliament
PICI	Presidential Infrastructure Champion Initiative
PIDA	Programme for Infrastructure Development in Africa
REC	regional economic community
RVC	regional value chain
RTA	regional trade agreement
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAPP	Southern Africa Power Pool
SDG	Sustainable Development Goal
TFTA	Tripartite Free Trade Area
UMA	Arab Maghreb Union
UNCTAD	UN Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
WACIP	West African Common Industrial Policy
WAEMU	West African Economic and Monetary Union
WTO	World Trade Organization

'Africa shall be a continent where the free movement of people, capital, goods and services will result in significant increases in trade and investments amongst African countries rising to unprecedented levels, and strengthen Africa's place in global trade.'

Agenda 2063 – The Africa We Want

Chapter 1
The Political Economy of Regional Integration in Africa

1.1 What is meant by regional integration?

Regional integration is a multidimensional process by which neighbouring countries within a demarcated geographical space increase their level of interaction with regard to economic, security, political, or social and cultural issues. In Africa, the 55 African Union (AU) member states are divided into five regions – i.e. Central, East, North, Southern and West Africa (Box 1.1).[1] Regional integration involves the joining of individual states within these regions into a larger unit or bloc. The degree of integration depends upon the willingness and commitment of independent and autonomous states to cede or share their sovereignty.

Regional integration is not an end in itself, but a means to achieve particular outcomes. For example, defragmenting Africa's small markets is the key to attracting more foreign direct investment (FDI) and boosting intra-African trade, which can help countries achieve inclusive economic growth, eradicate extreme poverty, ensure food security and improve access to essential services such as health and education. This is the meaning of 'transformative regionalism' (Figure 1.1).

There are different ways and means to advance regional economic integration. These may range from agreements to improve co-operation and connectivity (e.g. sector management, one-stop borders or cross-border infrastructure), to regional trade agreements (RTAs) that liberalise trade in goods and services, promote investment, remove non-tariff barriers, and harmonise rules and regulations. The scope and coverage of RTAs may differ depending on the ambition of the parties and their levels of development, but each agreement must be consistent with World Trade Organization (WTO) rules (Box 1.2).

The literature on regional integration has been greatly shaped by the work of economist Jacob Viner. Viner (1950) showed that RTAs could result in either 'trade creation' or 'trade diversion'.

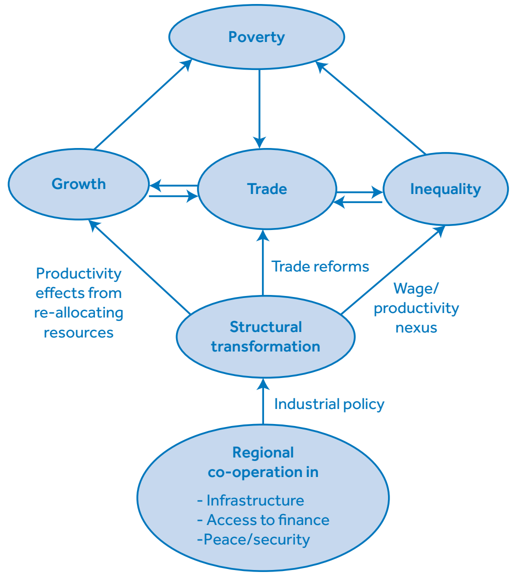
Box 1.1 Regional groups involving AU member states

Central Africa		
Burundi	Chad	Equatorial Guinea
Cameroon	Congo	Gabon
Central African Republic	Democratic Republic of the Congo	São Tomé and Principe
East Africa		
Comoros	Madagascar	South Sudan
Djibouti	Mauritius	Sudan
Eritrea	Rwanda	Uganda
Ethiopia	Seychelles	United Republic of Tanzania
Kenya	Somalia	
North Africa		
Algeria	Mauritania	Tunisia
Egypt	Morocco	
Libya	Sahrawi Republic	
Southern Africa		
Angola	Mozambique	Zambia
Botswana	Namibia	Zimbabwe
Lesotho	South Africa	
Malawi	Swaziland	
West Africa		
Benin	Ghana	Niger
Burkina Faso	Guinea	Nigeria
Cape Verde	Guinea-Bissau	Senegal
Côte d'Ivoire	Liberia	Sierra Leone
Gambia	Mali	Togo

RTAs are beneficial when trade creation outweighs trade diversion and achieves dynamic gains over the long term (e.g. greater efficiency, productivity, FDI and technology transfer). In terms of static effects:

- *Trade creation* happens when the removal of trade barriers leads to an increase of trade in goods and services among the members of the trading bloc. Trade is said to be created if the RTA shifts production from higher-cost to lower-cost producers within the region. While this has welfare benefits for consumers, less competitive producers may be displaced.
- *Trade diversion*, in contrast, is seen as a cost to the region and to the world at large. It happens when trade

Figure 1.1 Framework for transformative regionalism



Source: Osakwe (2015)

liberalisation induces a shift from lower-cost products and services sourced outside the region to high-cost producers within the trading bloc, who can sell more cheaply since they no longer have to pay any import duty. Trade diversion results in an uncompetitive environment and greater inefficiency.

Box 1.2 What are the WTO's rules for RTAs?

The WTO permits the establishment of RTAs under three specific sets of rules. These are:

- Article XXIV of the General Agreement on Tariffs and Trade (GATT);
- Article V of the General Agreement on Trade in Services (GATS);
- GATT/WTO's 'Enabling Clause'.[2]

GATT Article XXIV (paragraphs 4–10) deals with the formation of RTAs for trade in goods, while Article V of GATS specifies similar rules for RTAs for trade in services. Article XXIV primarily focuses on duties (i.e. tariffs) as the key benchmark for trade liberalisation. Although it refers to other trade barriers, these are not clearly spelt out. Article XXIV stipulates that FTAs must eliminate duties on 'substantially all the trade' within a 'reasonable length of time', yet these terms remain loosely defined in the WTO and their interpretation has been debatable. There are strong differences regarding their quantitative interpretations, particularly their optimal levels. Article V of GATS similarly allows members to enter into agreements for liberalising trade in services, if these agreements have 'substantial sectoral coverage'.

Figure 1.2 African economic integration – timeline and milestones

1963: Organisation of African Unity (OAU)
1964: African Development Bank (AfDB)
1969: Southern African Customs Union (SACU) renegotiated (established 1910)

1973: Mano River Union (MRU) (later subsumed into ECOWAS, revised in 2004)
1975: Economic Community of West African States (ECOWAS)

1980: Lagos Plan of Action for the Economic Development of Africa; Southern African Development Coordination Conference (SADCC)
1981: Preferential Trade Area for Eastern and Southern Africa
1983: Economic Community of Central African States (ECCAS)
1984: Indian Ocean Commission
1986: Intergovernmental Authority on Drought and Development (IGADD)
1989: Arab Maghreb Union (UMA)

1991: Treaty to Establish the African Economic Community ('Abuja Treaty')
1992: SADCC becomes Southern African Development Community (SADC)
1993: Common Market for Eastern and Southern Africa
1994: West African Economic and Monetary Union (WAEMU)
1996: Intergovernmental Authority on Development (IGAD) replaces IGADD
1998: Community of Sahel–Saharan States (CEN–SAD); Protocol on Relations between the African Economic Community (AEC) and the regional economic communities (RECs)
1999: East African Community (EAC); EAC Community Passport

2000: ECOWAS Passport; International Conference on the Great Lakes Region
2001: New Partnership for Africa's Development (NEPAD)
2002: African Union (AU); revised SACU Agreement
2003: African Peer Review Mechanism (APRM)
2004: Pan-African Parliament (PAP); ECCAS free trade area (FTA) launched
2005: EAC Customs Union
2008: SADC FTA launched; COMESA-EAC-SADC Tripartite Initiative; Action Plan for the Implementation of the Accelerated Industrial Development of Africa (AIDA)
2009: COMESA Customs Union; Chirundu One-Stop Border Post; Minimum Integration Programme
2010: EAC Common Market; Presidential Infrastructure Champion Initiative (PICI); NEPAD Planning and Coordinating Agency
2011: Programme for Infrastructure Development in Africa (PIDA)
2012: AU Action Plan for Boosting Intra-African Trade (BIAT)
2013: 50th Anniversary of the OAU; AU's *Agenda 2063*
2015: ECOWAS Customs Union; COMESA-EAC-SADC Tripartite FTA; Continental FTA negotiations launched
2017: Morocco joins the AU, which now covers the entire continent

Projected aims of the Abuja Treaty...
2017: Continental FTA; regional customs unions
2019: African Customs Union
2023: African Common Market
2028: African Economic Monetary Union
2034: Latest date for AEC to be completed

2063: *Agenda 2063: The Africa We Want*

Source: Updated and adapted from Mo Ibrahim Foundation (2014)

Regional integration is not only about promoting regional markets through trade preferences. Today, it is considered a process whereby deeper and effective regional co-operation allows free movement of goods, services, investment and people to enable competitive production of exports, and participation and upgrading in regional and global value chains. Strengthened regional co-operation dealing with behind-the-border measures (e.g. technical regulations), ensuring improved connectivity (e.g. transport infrastructure) and triggering structural transformation (e.g. regional value chains in goods and services) should be given the utmost consideration.

1.2 What are the main regional integration arrangements in Africa?

Africa has the most RTAs in the world. There are 14 regional economic communities (RECs) at various stages of progress and integration, and as many related associations dealing with sectoral issues such as standards or intellectual property. However, the AU recognises only eight RECs as the building blocks of the envisaged African Economic Community (see Chapter 2), namely:

- Arab Maghreb Union (UMA);
- Common Market for Eastern and Southern Africa (COMESA);
- Community of Sahel–Saharan States (CEN–SAD);
- East African Community (EAC);
- Economic Community of Central African States (ECCAS);
- Economic Community of West African States (ECOWAS);
- Intergovernmental Authority on Development (IGAD);
- Southern African Development Community (SADC).

Compared with the above AU RECs, some of the other RTAs go deeper and further in promoting economic integration. The Southern African Customs Union (SACU), formed in 1910, is the world's oldest functioning customs union. Despite many achievements, SACU however still faces challenges implementing its updated 2002 agreement, including establishing common policies and institutions.

All African countries are members of at least one REC, and most are members of two or even three. Algeria, Cape Verde and Mozambique are the only African countries that are members of only one REC. In comparison, seven countries belong to both SADC and COMESA (Figure 1.3). Multiple memberships of different RECs create a 'spaghetti bowl' effect of overlapping trade rules and regulations at the border (e.g. tariffs and rules of origin) and behind the border (e.g. investment, services and technical regulations) (see Figure 1.4). This may be confusing and costly, especially for business that must comply with different rules of origin to benefit from a tariff preference. Some of the integration priorities and ambitions of the different regional blocs may also diverge or conflict. Rationalising the number of RECs is therefore a long-standing priority in Africa.

The relationship between the AU and the RECs is mandated by the 1991 Abuja Treaty (Chapter 2) and the AU Constitutive Act,[3] and guided by the 2008 Protocol on Relations between the RECs and the AU. Each REC has its own priority programme and is responsible for delivery and implementation. The Minimum Integration Programme (MIP) was adopted in 2009 to promote harmonisation and co-ordination of programmes and projects at the sector and subsector levels. It is envisaged that this will speed up the integration process and convergence among RECs. The MIP is to be implemented by the RECs, the 55 AU member states and the African Union Commission (AUC), working in concert with Africa's development partners.

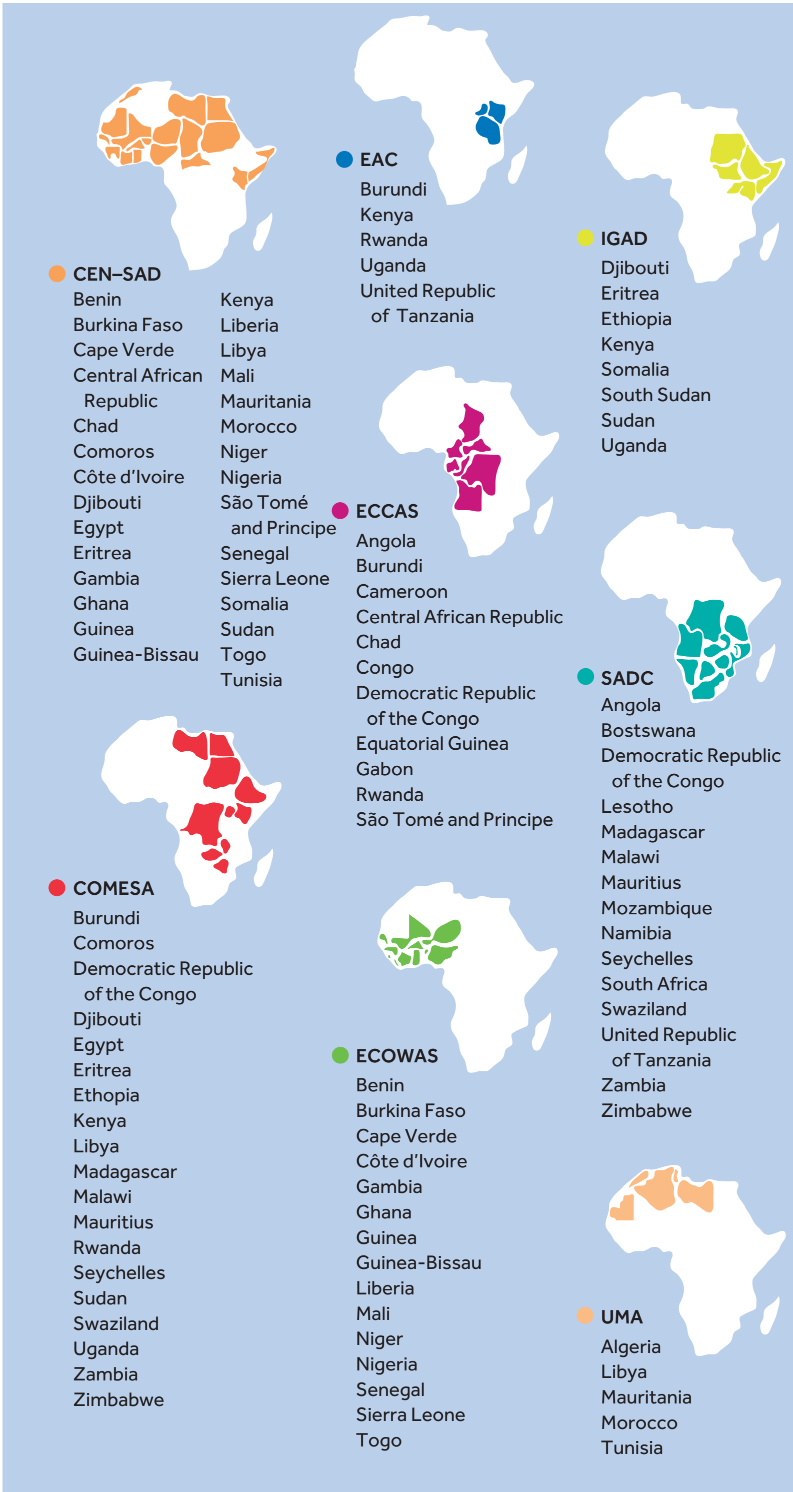
1.3 What are the main models of regional integration?

Within the policy discourse on African economic integration, there are two broad approaches.

Linear integration models

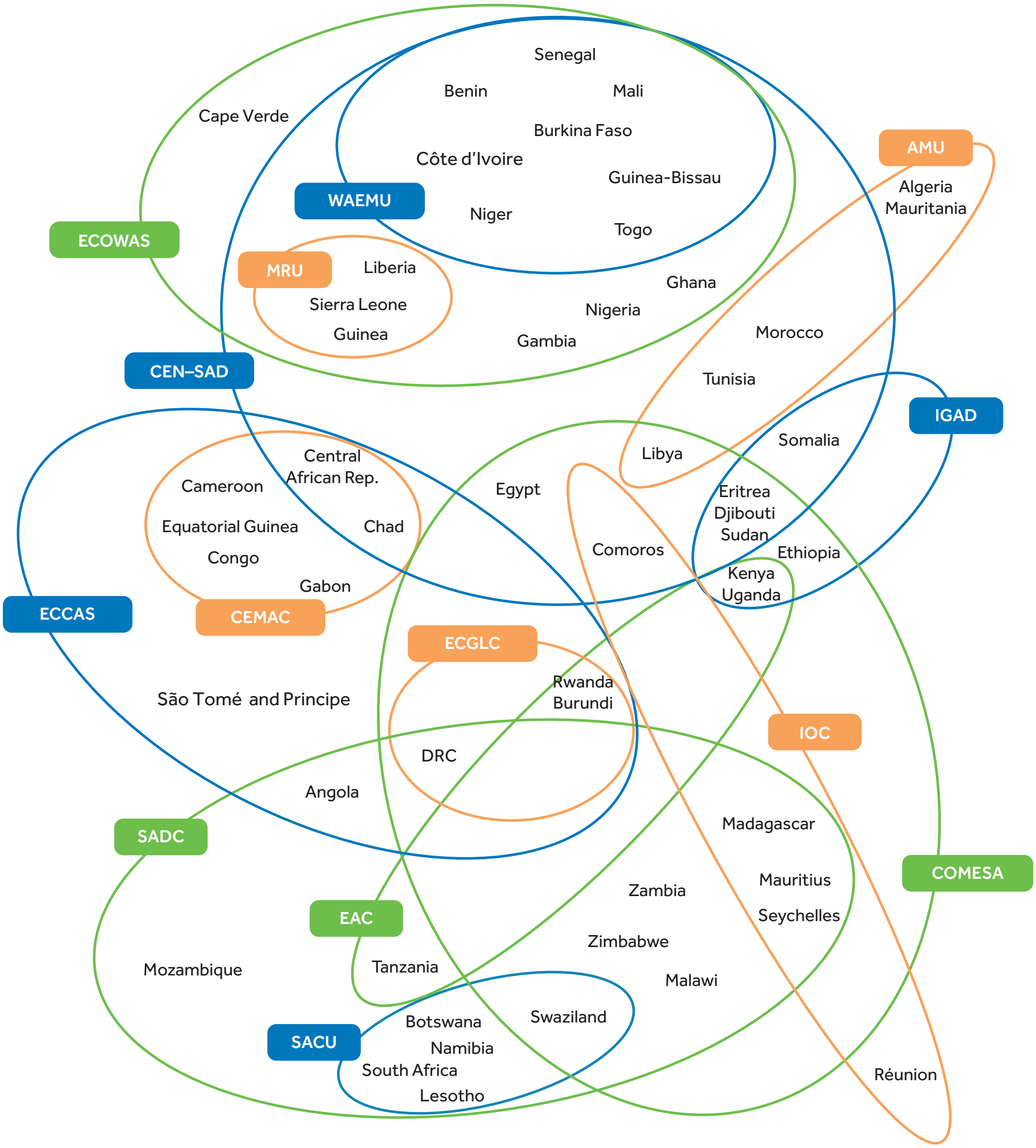
The main framework guiding regionalism in Africa has been the linear model of integration. Linear integration can be seen as the textbook model of economic integration and is attributed to the work of economists Viner (1950) and Balassa (1965). It is best viewed as a stepladder approach with five progressive stages of economic integration: from a free trade area (FTA) to a customs union, common market, monetary union and political union (Box 1.3). The European integration experience has been the leading example of this linear approach, with the European Union (EU) widely regarded as the world's most successful example of regional

Figure 1.3 Official RECs of the African Union



Source: UNECA *et al.* (2016a)

Figure 1.4 The 'spaghetti bowl' effect of multiple REC memberships in Africa



Source: ACBF (2016)

integration, at least prior to 'Brexit'.[4] This approach is also reflected in African blueprints for integration, such as the Abuja Treaty (see Chapter 2), as well as existing RECs such as COMESA, EAC, ECOWAS and SADC.

This model, with its mechanical sequencing of integration stages, has been critiqued as inappropriate for Africa. It metaphorically puts the 'cart before the horse' by prescribing unrealistic targets

Box 1.3 Hierarchy of RTAs

- Preferential trade arrangement (not to be confused with trade preferences offered by rich countries to poorer ones), the simplest form of economic integration. It requires only that participating countries grant each other preferential, but not necessarily free, access to each other's markets.
- Free trade area, in which both tariffs and quantitative restrictions are abolished among member countries. However, individual members still retain their own external tariffs (on imports from outside the FTA) and so do not have harmonised trade policies. Differences in external tariff rates generally make it necessary to impose rules of origin on intra-group trade.
- Customs union, in which members establish a common customs area. At a minimum this generally requires a common external tariff (CET) on imports from non-members and no import tariffs on trade between members. This has additional implications for the use of anti-dumping and other contingent protection measures, for rules of origin (depending on the revenue collection and distribution arrangements chosen, these may not be needed), and also for the rules governing the operation of export-processing zones and the granting of other fiscal privileges for goods shipped outside the customs area. Moreover, a country cannot belong to more than one customs union.
- Common market, which is a customs union that allows the free movement of capital and labour among members and a harmonisation of trading standards and practices, together with a common trade policy towards third parties which goes beyond simply a CET.
- Economic union, in which the members of a common market also harmonise their economic policies, including some co-ordination of monetary and fiscal policies, and also transportation and competition policies.
- Political union, the ultimate stage of integration, in which members become one nation. National governments cede sovereignty over economic and social policies to a supranational authority, establishing common institutions and judicial and legislative processes – including a common parliament.

and deadlines for integration, which often pay little heed to existing political, economic and institutional realities on the ground. The primary focus of most African integration efforts has been trade and factor market liberalisation, diverting attention and resources away from addressing the underlying constraints to greater intra-regional trade, including the lack of critical country and regional productive capacity and poor infrastructure networks (Osakwe 2015). Sub-Saharan African countries participating in RECs differ vastly in terms of their income levels, economic and social development, productive and supply capabilities, and export competitiveness. This approach also entails the progressive surrender of sovereignty at each stage of integration, which is strongly resisted by many African states. Africa thus lacks supranational institutions, like the EU, with the capacity to enforce decisions and align strategies with the national strategies of member states. For example, the AU relies on the RECs as pillars of integration and there are often very weak links between these regional organisations and national governments (Osakwe 2015).

In summary, the experience with linear integration models differs among the RECs. COMESA, EAC and ECOWAS have all launched customs unions, to be implemented in a phased process. SADC, in contrast, has not been able to achieve its customs union target (2010) or progress to a common market (2015) owing to various political, economic and institutional challenges.

Developmental regionalism

Developmental regionalism is an alternative to the textbook model of integration. In Africa, the main focus of regional trade initiatives has been on liberalising trade in goods and promoting investment. Not enough attention and resources have been directed to addressing the underlying productive and supply capabilities of countries to compete regionally and globally. This partly explains the low levels of intra-regional trade.

Box 1.4 Southern African Power Pool

Under developmental regionalism, the focus is on economic development and sectoral co-ordination, the provision of regional infrastructure, and regional industrial development. An example of this in Africa is the Southern Africa Power Pool (SAPP), established in 1995 under the auspices of SADC. The members of SAPP have created a common power grid between the countries and a common market for electricity within the SADC region. The following principles guide the vision behind the SAPP:

- facilitate the development of a competitive electricity market in the Southern African region;
- give the end user a choice of electricity supply;
- ensure that the Southern African region is the region of choice for investments by energy-intensive users; and
- ensure sustainable energy developments through sound economic, environmental and social practices.

Source: Tutwa (2016)

Developmental regionalism now recognises that the barriers to intra-regional trade in Africa are less to do with tariffs and regulatory constraints, and more to do with poor infrastructure and undiversified production structures. It holds that effective market integration through tariff liberalisation requires and should be preceded by co-operation and co-ordination programmes to address real economic constraints, as well as initiatives to promote entrepreneurship, private sector development and export competitiveness. The use of industrial policy (at national and regional levels), development corridors (for example the Maputo Development Corridor in SADC and the North-South Corridor), special economic zones[5] and regional value chains, among others, are important tools and vehicles for promoting intra-African trade within the context of developmental regionalism (UNCTAD 2013).

Developmental regionalism rests on three pillars:

- market integration;
- cross-border infrastructure development; and
- structural transformation, especially triggering regional value chains in goods and services.

This approach has been adopted notably in the Tripartite Initiative between COMESA, EAC and SADC (see Chapter 3). While the practicality of developmental regionalism is now widely acknowledged, and many RECs have strengthened efforts to promote the development of supply capacities and structural transformation, poor and inadequate implementation of action plans has made it difficult to achieve economic transformation in these regions (Osakwe 2015).

1.4 Why is regional integration important for African countries?

Regional integration has been a major objective of African governments ever since African countries gained their political independence in the 1960s. Regionalism in Africa has historically been pursued for two reasons. The first is to enhance political co-operation and unity at the pan-African level, including through the Organisation of African Unity (OAU) between 1963 and 2002 (Box 1.5), and its successor, the AU.[6] The second objective is to foster economic growth, development and poverty reduction.

In the first two decades of the post-independence era, the focus of regional integration in Africa was on political co-operation

Box 1.5 What was the OAU?

The OAU was established on 25 May 1963 in Addis Ababa, Ethiopia, with 32 members. The objectives of the OAU were:

1. to promote the unity and solidarity of the African states;
2. to co-ordinate and intensify their co-operation and efforts to achieve a better life for the peoples of Africa;
3. to defend their sovereignty, their territorial integrity and independence;
4. to eradicate all forms of colonialism from Africa;
5. to promote international co-operation, having due regard to the Charter of the United Nations and the Universal Declaration of Human Rights.

The chief objective of the OAU was to advance the development of African states through promoting co-operation and collaboration among members. The OAU was also committed to the resolution of disputes to create stability. In addition, it achieved considerable success in areas such as developing a sense of identity among African states, in particular between the Arab North and Sub-Saharan Africa (SSA). It also made a significant contribution to the struggle against apartheid and progress against other human rights abuses.

However, the OAU failed to be the initiator of regional political, economic and social co-operation in Africa and was unsuccessful in bringing stability to the continent. This was largely because of its lack of mandatory powers, its adherence to the principle of national sovereignty, and the inability to enforce recommendations made by Heads of State. The African Union (AU) succeeded the OAU in 2002, with 53 members. In 2011, South Sudan became the 54th AU member state. Morocco became the 55th AU member state in 2017.

Source: Tutwa (2016)

rather than economic integration, as African leaders sought to rid the continent of the remnants of colonialism. Since the 1980s, efforts have been made to shift the focus of regional integration from political co-operation to economic integration, as evidenced by the emphasis on economic issues in the Lagos Plan of Action (1980) and the Abuja Treaty (1991).

Since 2000, there have been vast improvements in Africa's growth and development prospects. African leaders adopted the New Partnership for Africa's Development (NEPAD) and subsequent AU plans, policies and strategies to boost intra-African trade, promote industrial development and fast-track the establishment of the Continental FTA. The AU's *Agenda 2063: The Africa We Want*, adopted in January 2015, sets out the priority areas for Africa's development over the next 50 years.

1.5 What are the economic benefits of regional integration in Africa?

A larger regional market allows domestic industries to achieve economies of scale, improve production efficiencies and enhance competitiveness – and thus compete regionally and globally

Africa, China and India all have population sizes of more than one billion people. However, whereas China and India are single markets, the African continent is a patchwork of 55 sovereign states with 'thick' national borders acting as barriers to intra-regional trade (World Bank 2009). Fragmentation of the continent also means many Sub-Saharan African countries have small domestic markets that undermine the potential for achieving economies of scale and building export competitiveness. Based on World Bank data, in 2015, 21 out of 55 African countries had a population of less than 10 million, with 18 of those 21 countries having a population of less than 5 million. For the same year, the nominal gross domestic product (GDP) of 23 countries was less than US$10 billion, with 14 countries having a GDP of less than US$5 billion. Fifteen Sub-Saharan African countries are landlocked, raising their trade costs, while national borders arbitrarily drawn during the colonial era pay little heed to the distribution of resources and natural endowments. Regional integration to overcome these market constraints and reduce costs will allow producers, traders, investors and consumers to tap into their continent's vast economic potential.

A larger and more integrated regional market is the key to attracting more FDI inflows and triggering a trade–investment nexus that supports Africa's structural transformation objectives. There also appears to be considerable potential to grow intra-regional FDI, especially if this is linked to regional value chains (Table 1.1). Intra-African FDI in the manufacturing sector has focused mainly on agro-processing, building materials, electronic and electric equipment, and textiles. In the services sector, banking and financial services, telecommunications and retail trade have been the leading sectors (ICTSD 2016).

Table 1.1 Selected intra-REC foreign direct investment flows (2003–05 and 2009–2011)

REC	Period	FDI inflows (US$ billion)		Intra-regional share
		Total	Intra-regional	
COMESA	2003–05	17.9	0.2	1
	2009–2011	34.0	2.6	8
EAC	2003–05	2.3	0.0	2
	2009–2011	9.9	1.4	14
SADC	2003–05	23.0	1.0	4
	2009–2011	32.0	3.2	10

Source: ICTSD (2016)

There is considerable potential to grow intra-African trade in goods and services

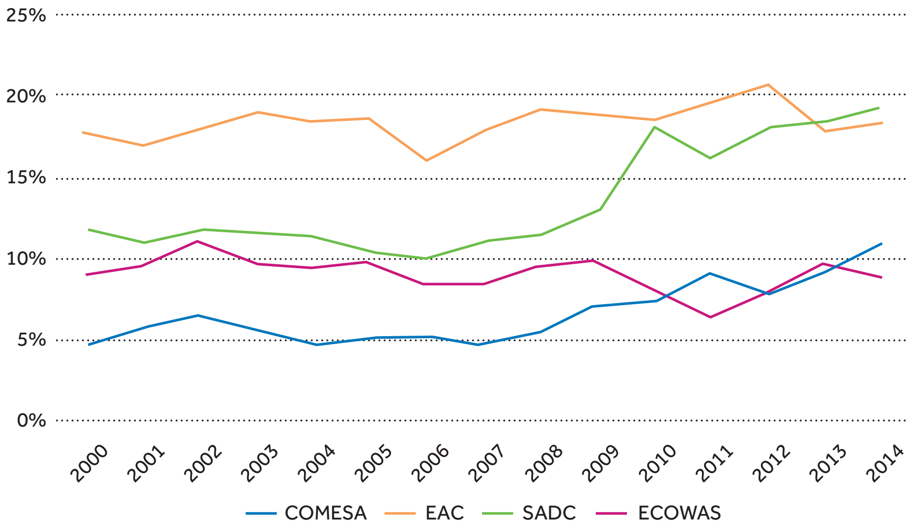
On average, formal intra-African trade is low compared with other regions of the world economy. Intra-African trade in goods accounts for about 16 per cent of total recorded African trade, compared with 17 per cent in South and Central America, 42 per cent in North America, 62 per cent in the EU and 64 per cent in Asia (Davis 2016). There is also considerable 'under-trading' among African countries, suggesting the potential for greater trade expansion (Commonwealth Secretariat 2015).

Despite the low aggregate levels of intra-African trade, four points are important. First, the overall figure for intra-regional trade could well be much higher if the substantial informal trade in goods and services that takes place in Africa was included in official statistics.

Second, levels of intra-regional trade vary among the RECs. SADC has the highest trade intensity, with South Africa generating about 60 per cent of intra-regional exports (ICTSD 2016), while ECCAS has the lowest. The EAC is the second highest performer in terms of intra-REC trade intensity, although its share of intra-regional exports has remained relatively flat since 2000 (Figure 1.5). Overall, however, the 2016 African Regional Integration Index ranked the EAC as the highest-performing REC on the trade integration indicator (UNECA *et al*. 2016a).

The third point is that Africa is an important export destination for a growing number of individual African economies, driving greater intra-regional trade:

Figure 1.5 Trade intensity for select African RECs (2000–2014)



Source: ICTSD (2016)

- intra-African trade as a share of world trade is about three times higher among non-fuel exporters than among fuel exporters, which tend to trade more with the rest of the world;
- over the period 2007 to 2011, nine countries[7] exported at least 40 per cent of their goods to Africa, compared with only five countries in the period from 1996 to 2000; while
- on the import side, 11 countries[8] imported at least 40 per cent of their goods from Africa in the period from 2007 to 2011, compared with 9 countries in the period from 1996 to 2000 (UNCTAD 2013).

Fourth, intra-African trade is more manufacturing oriented than Africa's unprocessed commodity and mineral exports to the rest of the world. Manufacturing represents 67 per cent of exports to other African countries compared with 32 per cent of exports to Europe, 18 per cent to the United States and 14 per cent to China (Lopes 2016a). It also has a higher intensity of services component. There are enormous untapped opportunities for growing intra-regional trade, especially in food products, basic manufactures and services (Brenton and Isik 2012). Africa's households are projected to spend US$2.1 trillion by 2025, offering promising business opportunities in various consumer-facing industries from housing to healthcare to leisure (McKinsey Global Institute 2016).

There is also tremendous potential to grow cross-border trade in services.[9] However, data limitations hinder meaningful analysis of services in Africa and their contribution to the continent's growth and development (Dihel and Goswami 2016). In 2014, Africa imported US$183 billion in services and exported US$106 billion. As imports exceeded exports, it is argued Africa must have imported the excess from outside the continent (otherwise, these flows would have been included in recorded exports). Assuming they are competitive and efficient, this US$77 billion imported-services deficit represents business that could possibly be captured by African firms if barriers to intra-African trade in services were lowered. Imports from outside the continent were particularly strong in transport services, at US$41 billion (UNECA *et al*. 2016b).

Free movement of people is one of the most tangible benefits of integration for citizens

From the Lagos Plan of Action to the AU's *Agenda 2063* (see Chapter 2), African states have consistently placed the movement of people at the core of the continental integration project.[10] The linear model of integration places the common market as the fourth and penultimate stage of integration, in which capital and labour move freely. Africa is projected to have the biggest working-age population in the world (1.1 billion) by 2034 – larger than in either China or India (McKinsey Global Institute 2016). The continent's vast productive capacity cannot be fully unlocked if labour – skilled, semi-skilled and unskilled – is trapped within 55 national borders, or otherwise hindered from efficiently being linked with demand and opportunity wherever on the continent it exists.

Free movement has suffered a similar fate as regional integration initiatives more broadly because of political, technocratic and security-related reasons. The poor mobility of Africans in their own continent is highlighted in the 2016 Africa Visa Openness Index. The index finds that, on average, Africans need visas to travel to 55 per cent of other African countries, can get visas on arrival in only 25 per cent of other countries and do not require a visa to travel to just under 20 per cent of other countries on the continent (Tutwa 2016).

African policy-makers increasingly recognise that mobility issues are core to GDP growth, due to their importance to intra-African formal and informal trade and tourism. The AU's *Action Plan for Boosting Intra-Africa Trade* (BIAT) prioritises factor market integration, emphasising that progress on free movement of persons is required to grow intra-African trade (AUC and UNECA 2012). The AU's *Agenda 2063* proposes an 'African Passport' and abolishing visa requirements for all African citizens in all African countries by 2018. The AUC is also driving an action-oriented Joint Labour Migration Programme aimed at improving intra-regional labour mobility, in partnership with the International Labour Organization (ILO), International Organization for Migration (IOM) and United Nations Economic Commission for Africa (UNECA) (AUC and UNECA 2012).

Regional integration can contribute to poverty reduction efforts and deliver development gains

The United Nations' *2030 Agenda for Sustainable Development*[11] and the AU's *Agenda 2063* highlight the role of trade as a vehicle for development. Trade can especially contribute to poverty reduction (World Bank and WTO 2015). Although Africa has had solid average annual GDP growth of more than 4 per cent over the last 15 years, and dramatically expanded its trade with the world, Sub-Saharan Africa still confronts the challenges of poverty, inequality and unemployment, especially among women and youth (with 60 per cent youth unemployment). Despite the achievements of the previous Millennium Development Goals (2000–2015), more people in Africa are poor today than in 1990. The proportion of Africans who are poor fell from 56 per cent in 1990 to 43 per cent in 2012. However, due to population growth, still many more people are poor: more than 330 million in 2012, up from about 280 million in 1990 (Beegle *et al*. 2016). The World Bank estimates that another half a billion people will be added to the continent by 2030, culminating in a total estimated population of 2 billion people by 2050.

Trade barriers impact disproportionately on the poor. To end extreme poverty, policies to increase the contribution of intra-regional trade to growth will need to be matched with a new effort to maximise the gains of trade for the poorest. This entails tackling constraints faced by the extremely poor, including those arising from rural poverty, gender inequality, fragility and conflict, and the nature of the informal economy (Brenton 2016). The following examples, among others, illustrate how regional integration can help to maximise the benefits of trade opportunities for the extreme poor:

- linking rural communities to markets to improve access to new technologies (e.g. higher-yielding seeds) and to markets for the goods and services they produce and trade (e.g. basic foodstuffs);
- using trade and cross-border exchange to generate solidarity between communities in fragile states and enhance opportunities for sharing the benefits of growth and increasing prosperity;
- providing a route for small firms to grow and increase their capacity to leave the informal sector and prosper in the economy; and
- assisting women in dealing with poverty by providing opportunities for jobs and better returns from cross-border trading activities (Brenton and Isik 2012).

Regional co-operation can play an important role in promoting gender equality and sensitivity, especially in regional trade

International and regional trade and trade agreements may affect women and men differently, and can have significant implications for household wellbeing and for gender equality. These differential gender impacts are influenced and determined by social norms and values, as well as factors such as access to resources, endowments, skills levels, rights and entitlements (sometimes enshrined in law) and regulatory processes. Differential gender impacts can also depend on the goods and services produced within tradeable sectors, whether production occurs in the formal or informal sector, and whether or not discriminatory practices are being applied within labour markets. In turn, all these factors have implications for how women and men are employed. Understanding gender divisions implies looking at both men and women, with a special emphasis on women's subordination and the pursuit of gender equality.

Understanding and measuring the impact of trade on women is important – not only because they are typically half of any population but also because the constraints women face in developing businesses or entering the labour market make them less able to benefit from the opportunities trade creates. This differential impact may also have implications for women's social mobility and their participation in public life. An underlying factor in this process is the socioculturally derived differing roles and responsibilities of women and men within the household, coupled with differences in access to resources and entitlements. The differentiated impacts of both trade policy and trade agreements substantiate the need to recognise women not only as consumers, but also as producers and sociopolitical agents in efforts to achieve gender equality (Commonwealth Secretariat 2015).

The RECs and their member states have made commitments to promoting gender equality and ensuring the full development and advancement of women and girls. They have adopted policies, programmes and institutional frameworks (e.g. EAC Gender Equality and Development Bill, 2016), which provide guidelines for the implementation of gender equality principles and women's empowerment. While most RECs have made good progress on these fronts, there is need to focus more on effective implementation, and not mere rhetoric, of the different political commitments made on gender mainstreaming and women's empowerment. To achieve tangible results, the REC's gender departments have to play the critical role of not only sustaining the gender agenda at all levels of policy- and decision-making, but also systemically monitoring the progress on this agenda (Tutwa 2016). Practical steps should be taken to enhance women's participation in formal and informal intra-regional trade in Africa (Box 1.6).

Regional co-operation facilitates the provision of regional public goods, which may lower trade costs

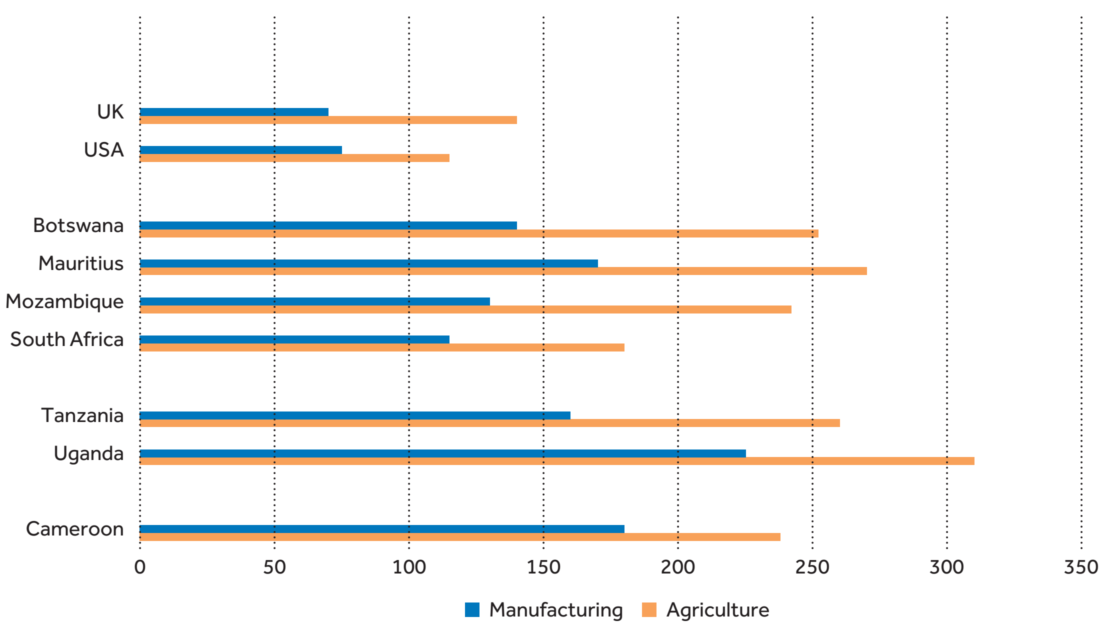
Trade costs in Africa are extremely high.[12] They may even vary significantly among members of the same REC (Figure 1.6). Average trade costs for landlocked Sub-Saharan African countries are estimated to be 100 percentage points higher than those of the developing country group (Razzaque 2016). It takes an average of 38 days to import and 32 days to export goods across borders in Sub-Saharan Africa – two of the longest wait times in the world (Munang and Mgendi 2015). This is almost twice as long as in other regions, such as Latin America, the Caribbean and South-East Asia. In fact, it costs more to move a container from Kenya to Burundi than from Belgium or the United Kingdom to Kenya (Lopes 2016b). Given the importance ascribed to regional and continental integration, it is startling

Box 1.6 Five ways African policy-makers can facilitate women's participation in trade

1. Recognise the role that women play in trade and ensure that officials at all levels understand the importance of that role.
2. Ensure that rules and regulations governing trade are clear, predictable and widely available at the border, which is critical for women traders working with very limited margins in the informal sector.
3. Prioritise the simplification of trade documents and regulatory requirements, since this will benefit women in trade given the time and mobility constraints that arise from household responsibilities.
4. Design interventions to develop trade in ways that ensure that women benefit. For example, programmes that support improved access to information will miss women traders and entrepreneurs if the support is channelled through existing male-dominated trader networks.
5. Help women address the risks that they face in their trade-related activities, given that they are typically more risk averse than men and respond to risk in different ways.

Source: Brenton *et al.* (2013)

Figure 1.6 Selected Sub-Saharan Africa trade costs (2012) (% ad valorem equivalent)



Source: Adapted from Shepherd (2016) that it is easier for Africa to trade with Asia, Europe and the Americas than with the rest of the continent.

Many competitiveness challenges are regional in nature. Africa's 15 landlocked countries depend on infrastructure being available and accessible in neighbouring transit countries for their trade. However, national development programmes will not normally consider activities with strong regional (or international) externalities, because the benefits cannot be fully appropriated nationally. Regions can better support the provision of public goods, including 'hard' infrastructure such as roads, energy and the physical networks required to support trade, and 'soft' infrastructure, including institutions to facilitate and govern trade.

A regional approach to infrastructure development can help leverage economies of scale in financing and investment, and create the foundations for greater integration efforts by reducing trade costs. To maximise impact, infrastructure investments should be accompanied by policy reforms that remove barriers and facilitate the movement of goods, investment, services and people. For example, it might be useful to combine investments in cross-border transport infrastructure with measures that lead

Box 1.7 Reducing trade costs through one-stop borders

The Chirundu One-Stop Border Post (OSBP) operates between Zambia and Zimbabwe, which are divided by the Zambezi River. Before implementation of the project, truck drivers crossing the border experienced delays that were often long: 30 per cent of truck drivers spent up to three days at Chirundu. The delays were also unpredictable, which badly hampered the ability of Zambian businesses to participate in modern supply chains, with their emphasis on 'just-in-time' inventory management. Many of the challenges were institutional in nature. The construction of the new bridge and terminals did little to expedite cross-border trade, as massive queues of vehicles waiting to cross still accumulated on both sides. However, tackling 'soft' aspects of the project – such as building the capacity of customs officials – has progressively yielded results. There has been increased efficiency and capacity to handle larger volumes of traffic within a shorter period of time.

The Taveta-Holili OSBP operates between Kenya and Tanzania. Within three months of its opening, the new OSBP reduced crossing times for trucks by 24 per cent. In East Africa, OSBPs have also been completed at Mutukula, Kobero and Mirama Hills, leading to a reduction in border-crossing times and improvement in the efficiency for the movement of goods along the Northern and Central Corridors.

Sources: Silva (2015); APPG (2016)

to faster border procedures (such as trade facilitation measures and one-stop border posts – see Box 1.7), the removal of road blocks, fewer weighbridges and greater competition among transport providers (Brenton and Hoffman 2016).

Regional integration provides a platform to build regional production networks, thereby supporting Africa's structural transformation objectives

The development of regional value chains (RVCs) in agriculture, manufacturing and services will help trigger structural transformation in Sub-Saharan Africa and improve the capacity of regional firms to participate in global value chains (GVCs). It is estimated that Southern Africa accounts for 40 per cent of Africa's total GVC participation, one-third of which is through backward integration – the share of foreign value added embedded in a country's exports (AfDB *et al*. 2014). Countries such as Ethiopia, Kenya, Seychelles, South Africa and Tanzania have made the largest strides into GVCs. Sectors such as manufacturing, agriculture and agro-business, and, to a lesser extent, textiles, tourism and transport, have benefited from integration (IMF 2016).

Southern and East Africa also have a closer production network within the region, providing a basis for further productive capacity co-operation under the Tripartite Initiative (see Chapter 3). South Africa is a key driver of RVCs, both as a supplier of inputs and as a destination market for exports. However, there are still challenges for establishing a 'Factory Southern Africa' that replicates the East Asian story (Box 1.8).

In GVCs, the fragmentation of production processes allows countries to specialise in specific tasks that contribute to the production of the finished article.[13] Services are increasingly also being disaggregated and traded as separate tasks to create service value chains. In RVCs, by comparison, a country within the region exports the end product, either globally or regionally. RVCs therefore offer opportunities to the countries in the region to climb up the value chains by using the region to boost their competitiveness and to produce and export higher-value products (Banga *et al*. 2015). Some upgrading processes may also be easier to achieve within RVCs, because these markets are less dominated by a few lead firms. For example, supplying processed and branded coffee or chocolate may be easier for firms oriented

Box 1.8 Towards 'Factory Southern Africa'?

GVCs may represent a significant opportunity for SACU to improve the region's prospects for expanding non-commodity exports. A World Bank report proposes a 'Factory Southern Africa' for SACU that is built around a 'gateway model'. The gateway model suggests that, even if the immediate region is not always ideal for GVC-oriented production, the region may still integrate with GVCs as the host of 'command-control' and facilitating (services) functions of global supply networks. Key components of a gateway are, therefore, transport infrastructure and advanced producer services, such as banking and consultancy, which enable multinational corporations (MNCs) to co-ordinate their networks. In this sense, the practical vision for a 'Factory Southern Africa' hinges not around factories at all, but around services.

The report outlines a three-plank framework with specific policy actions for supporting 'Factory Southern Africa':

1. facilitating economic density in the region by reducing distance and division;
2. improving skills, services and infrastructure for competitiveness; and
3. promoting policy and institutional co-ordination at the regional level.

The report and its recommendations have been critiqued from a developmental integration perspective – e.g. Ismail (2016).

Source: World Bank (2015)

towards intra-regional markets than more tightly controlled global markets (Keane 2015). In addition, some studies find that regionally oriented value chains perform better on some of the UN's Sustainable Development Goals (SDGs) (for example ending poverty, gender equality/empowerment and decent work) than the more globally oriented chains (ICTSD 2016).

Productive capacity development is a pillar of the AU's BIAT, which also encourages 'Buy in Africa' and 'Made in Africa' products to promote RVCs (AUC and UNECA 2012). RVC development can boost productive and supply capacities and generate higher intra-regional trade and investment flows. The leather and leather products (LLP) industry provides a good illustration of the opportunity for Sub-Saharan Africa to form RVCs and, in the process, create higher value-addition in exports and more jobs. According to one estimate, removing tariffs on LLP could almost quadruple average annual intra-regional trade in these products from US$245 million to US$997 million, whereas removing all non-tariff barriers (NTBs) could boost this figure tenfold (Banga *et al*. 2015).

Regional integration helps build economic resilience, especially against external shocks

African economies are vulnerable to external shocks – from the boom and bust cycles of international commodity markets to systemic crises such as the 2008 global financial crisis. Previous global downturns have usually dealt a hard blow to Sub-Saharan African countries' growth and development. However, the region demonstrated greater resilience during the post-2008 global recession. Growth averaged about 5 per cent during this period, except for 2009 when it plummeted to 3 per cent. That said, Sub-Saharan Africa, especially middle-income countries with strong links to the advanced economies, was still affected by the crisis: demand for their exports contracted, commodity prices fell, remittance flows weakened and investor risk aversion led to lower FDI. For others, the crisis saw the proliferation of various trade-protectionist measures, many still in place, which impaired least-developed country (LDC) exports.[14]

A big lesson from the global crisis is the need to diversify export markets. Strong and growing regional trade can be an important buffer for mitigating the impact of external shocks. The EAC, the most integrated African REC, is a prime example: it was the least affected by the economic downturn following the global financial crisis (ICTSD 2016, 24). In the shifting global trade landscape, which includes the rise of so-called 'mega-regionals', advancing pan-African market integration is indispensable for the continent's growth and development prospects. The proposed mega-RTAs include the Trans-Atlantic Trade and Investment Partnership (TTIP), the Trans-Pacific Partnership (TPP)[15] and the Regional Comprehensive Economic Partnership (RCEP), in which no African countries participate. The impact of preference erosion (a major outcome for Africa should these agreements come into force) and higher trade standards could be mitigated if the Continental FTA (CFTA) between the AU's 55 member states is already in place (UNECA 2015).

Regional co-operation increases Africa's common voice and influence on global trade and development issues

By adopting collective positions and negotiating as a bloc where possible, African countries may have a stronger voice and bargaining power in international trade negotiations. African countries have historically adopted common positions for WTO negotiations through the meetings of the African Ministers of Trade, as well as the co-ordination of the Africa Group of Ambassadors in Geneva. Combining resources and knowledge helps smaller and more capacity-constrained countries take informed positions at the negotiating table. African countries have also adopted common positions in relation to some of their external trading partners; this includes engaging the United States on the renewal of the African Growth and Opportunity Act (AGOA-IV), which was successfully extended up to 2025. It is widely recommended that African countries should also develop a strategy in relation to their southern development partners, especially to further their long-term sustainable development goals.

Regional integration may enhance economic governance by serving as an external restraint on domestic policy-making

Convergence or harmonisation of national laws and policies may be an important outcome of regional integration. However, many African countries have failed to fully 'domesticate' regional agreements, resolutions or policy decisions in national laws and policy-making. There is also lack of implementation of regional agreements. Except for the EAC, where most member states have a dedicated Ministry of EAC Affairs, there is no specialised agency within government in many African countries to monitor regional integration (ICTSD 2016, 6). Despite the strong political rhetoric regarding the importance of regionalism, many African countries do not see regional integration as an integral part of a national development strategy, while public support for integration varies by country and region (Box 1.9).

1.6 What is the role of the private sector in driving regional integration?

Successful integration in Africa needs strong and broad-based private sector support (Box 1.10). The AU's BIAT recognises this and proposes the establishment of regular platforms to enhance the role of the organised private sector, informal private sector and women in trade policy formulation (AUC and UNECA 2012). Up to this point, African governments have been the main drivers of regional integration through RTAs and other

Box 1.9 How do Africans think about regional integration in Africa?

During 2014–15, Afrobarometer undertook nearly 54,000 interviews in 36 African countries to determine the perceptions of Africans about regional integration. The findings show limited public support for integration, with wide variations by country and region.

On average across 36 countries, a majority of Africans favour free cross-border movement of people and goods, but this is not the majority view in 15 of those countries. Meanwhile, only one in four citizens say it is easy to cross international borders.

When asked to choose between respecting national sovereignty and a regional role for states in protecting free elections and human rights in neighbouring countries, most Africans emphasise national sovereignty. And, while a majority of Africans consider the AU and RECs at least 'a little bit' helpful to their countries, this is not the case in all countries; and about three in ten citizens do not know enough about these organisations to have an opinion.

Source: Afrobarometer (2016)

Box 1.10 Enterprise structure in Africa

African enterprises display several distinctive features:

- African countries have large and growing informal economies, accounting for about 38 per cent of GDP;
- the average size of African manufacturing firms is relatively small, and they tend to produce mostly for the domestic rather than the export market;
- African firms exhibit weak inter-firm linkages between the formal and informal economies, between small and large firms, and between domestic and foreign firms;
- African manufacturing firms lack export competitiveness, due to higher production costs (e.g. for electricity, credit, skilled labour and other inputs) and lower labour productivity than firms in other parts of the developing world; and
- African firms have weak technological capabilities and are embedded in fragmented learning and innovation systems.

Today, there are also home-grown African MNCs investing in Africa and the world. Seven South African MNCs and one Nigerian MNE are ranked among the top 100 non-financial transnational corporations from developing and transition economies. In addition, there are more than 400 African companies with revenue over US$1 billion per year, and these companies are growing faster and are more profitable in general than their global peers.

Source: McKinsey Global Institute (2016), UNCTAD (2013, 2016) regional initiatives. The private sector has played a limited role, even though it is business that invests, produces and supplies intra-regional goods and services.

In general, African countries perform poorly on the World Bank's ease of doing business rankings. Advancing regional economic integration starts at home with domestic policies that promote enterpreneurship, private sector development and innovation and competitiveness. These should be linked to pan-continental plans, like the AU's SME Strategy and Master Plan (2017–2021). The latter aims, among others, at improving the continental business environment, increasing business formation, supporting formalisation of growth-oriented informal enterprises and startups, increasing small and micro entrepreneurs' participation in regional and global value chains and promoting innovative financing. Without a dynamic and vibrant private sector, African countries cannot make use of existing or future trading opportunities such as the TFTA. At the regional level, several RECs are increasingly making efforts to incorporate the private sector into their structures and action plans – for example, through the establishment of business councils (e.g. East African Business Council, Association of SADC Chambers of Commerce and Industry and Federation of West African Chambers of Commerce and Industry). At the continental level, efforts are under way to bring together regional structures into the African Union Business Council. Regional business associations mirror those found at the national level, including chambers of commerce and industry, employer organisations and industry bodies (Tutwa 2016).

Although African business groups are relative newcomers to the regional integration stage, their impact on regional governance can be significant given their financial capital, business acumen and entrepreneurial know-how (Tutwa 2016). If African governments want to achieve their objective of boosting intra-African trade, investment and value chains, they have to create more space for the private sector to play an active role in the integration process. This includes establishing credible mechanisms for dialogue between the state and business. Checks and balances are also necessary to ensure that close collaboration with the private sector does not exacerbate rent-seeking behaviour or corruption. Transparency in dealings with the private sector, and the inclusion of civil society in dialogues between firms and governments, are possible ways to address these risks (Tutwa 2016).

1.7 Does informal cross-border trade contribute to regional integration?

Small informal traders, mainly women, are a familiar sight at many border posts in Africa. While most of their trading activities go unrecorded, each day these traders make a major economic contribution to the continent. While there are no systematic statistics on informal trade in goods – and growing levels of informal trade in services – these activities are substantial and thriving in Africa. For example:

- In the SADC, informal cross-border trade generates US$17.6 billion per year, representing 30 to 40 per cent of total intra-SADC trade.
- In West Africa, informal cross-border trade could represent 20 per cent of GDP in Nigeria and 75 per cent of GDP in Benin.
- In East Africa, Ugandan informal exports to the Democratic Republic of the Congo (DRC), Kenya, Rwanda, Sudan and Tanzania represented US$224 million (or 83 per cent) of its total recorded trade to these countries in 2006. In 2009 and 2010, Ugandan informal exports to its neighbours were worth US$790 million and US$520 million respectively (UNCTAD 2013).

This informal trade is hugely important, both in sustaining livelihoods and household incomes and in contributing to wider economic growth, regional integration and sustainable development. For example, most of the items traded are food products (including groceries, fresh fruits and vegetables, meat, fish and eggs) so this trade is contributing significantly to regional food security.[16]

Informal cross-border trade in Africa is characterised by the strong participation of women traders. In fact, women are responsible for more than 70 per cent of cross-border trade. Profits from informal trade often constitute the sole source of household income and economic empowerment (Brenton *et al*. 2013; Ghils 2013). However, women traders are especially vulnerable and subject to harassment and physical abuse, including sexual and gender-based violence. Corruption at the border and the extortion of bribes may significantly reduce their meagre profits. Many of these abuses are unreported. This lack of economic and physical security and safety impairs the livelihoods of these traders and compounds their lack of access to finance, information and business knowledge (Brenton *et al.* 2013).

Informal trade also flourishes across a broad range of service sectors and activities: hairdressing (braiding), housekeeping and gardening, construction, clergy, tailoring, agricultural services, education and health, including traditional healing. These informal service suppliers also confront barriers to their trade. Typical constraints affecting the movement of service providers include corruption and harassment, the high cost of passports and visas, and cumbersome host-country requirements for residency permits, licensing requirements or work permits (Dihel and Goswami 2016).

To strengthen the rights of small traders and facilitate their cross-border transactions, the World Bank, in collaboration with the governments of Malawi and Zambia, has developed a *Charter for Cross-Border Traders*. The charter enshrines a basic set of rights and obligations for traders and officials and is being piloted at the Mwami–Mchinji border.

1.8 What are some of the best practices from the regional economic communities (RECs) to resolve non-tariff barriers (NTBs)?

As the RECs reduce tariff barriers at the border, non-tariff measures (NTMs) increasingly become an important determinant of market-access conditions and trade costs. The term 'NTM' refers to a large range of policy measures. There

Table 1.2 International classification of import-related non-tariff measures

Technical measures	Non-technical measures
A. Sanitary and phytosanitary measures B. Technical barriers to trade C. Pre-shipment inspections and other formalities	D. Contingent trade-protective measures E. Non-automatic licensing, quotas, prohibitions and quantity-control measures F. Price-control measures, including additional taxes and charges G. Finance measures H. Measures affecting competition I. Trade-related investment measures J. Distribution restrictions K. Restriction on post-sales services L. Subsidies (excluding export subsidies) M. Government procurement restrictions N. Intellectual property rights O. Rules of origin

are more than 170 distinct NTMs under 15 broad categories according to the international taxonomy for NTMs, which has been developed by a multi-agency support team group initiated and co-ordinated by UNCTAD (Table 1.2). Some NTMs may reflect legitimate public health concerns, others more strategic regional or national developmental objectives. The challenge is to ensure that these types of NTM are not unnecessarily trade restrictive and so do not become NTBs.

The tripartite RECs – namely COMESA, EAC and SADC – have established an online notification mechanism where the private sector can report NTBs impacting their regional trade in Southern and East Africa.[17]

The portal increases transparency with respect to NTBs and allows easy follow-up by interested stakeholders of reported and identified NTBs and NTMs. As of February 2017, there were 550 complaints registered, 492 complaints resolved and 58 complaints unresolved on the online NTB monitoring mechanism. The top five complaints are:

1. lengthy and costly customs clearance procedures;
2. issues related to rules of origin;
3. costly road user charges/fees;
4. issues related to transit; and
5. issues related to sanitary and phytosanitary measures,

The portal is, however, not an effective mechanism for eliminating NTBs. This requires action and co-operation among sovereign governments. A dispute-resolution process, with access to private parties, may also be important. It is the private sector that produces and trades in goods and services, and when they encounter NTBs – for example goods stuck at a border post – expeditious resolution of such problems is essential (Hartzenberg 2015).

1.9 How do African countries settle trade disputes with each other?

Trade can generate disputes, especially when a member government alleges that another member government is violating its obligations under a rules-based regional agreement or treaty. However, a major challenge for trade integration in Africa is poor implementation of binding obligations coupled with the lack of robust dispute settlement and litigation over regional integration issues. Suing another government (even over a mere technicality) is seen as a sign of disrespect toward the other sovereign state. In contrast, African governments are prepared to litigate over international border disputes, which is a much more sensitive matter (Erasmus 2015).

A rules-based governance framework underpinned by effective dispute resolution provides certainty and predictability for traders and investors in the region, and removes compliance from the realm of political discretion. It disciplines the freedom of REC member states to take unilateral actions. Trade agreements do provide for exceptions under certain conditions, such as safeguards or trade remedies in order to manage emergencies. Trade remedies are in fact the primary source of WTO disputes. Technical standards, trade facilitation and customs issues all fall into the same category. Some of these have already given rise to disputes in the domestic courts. The administration of customs and NTMs are routine matters that apply universally in the implementation of trade agreements.

African governments accept that legal certainty should govern trade, and have agreed to dispute resolution as part of their WTO membership. This should be no different for trade in the RECs. Unco-ordinated national responses will lead to fragmentation, preventing the development of precedents and predictability as provided by community law (Erasmus 2015).

A number of dispute-settlement institutions related to economic integration in Africa have been established to decide cases arising from the REC's agreements or actions. Most of the recognised RECs in Africa have regional courts or tribunals set up to hear cases that range from alleged human rights violations to trade and investment disputes; they also play a key role in interpreting regional legal instruments and protocols (Tutwa 2016). These include:

- the ECOWAS Court of Justice;
- the Court of Justice of the West African Economic and Monetary Union;
- the Court of Justice of the Economic and Monetary Community of Central African States;
- the COMESA Court of Justice;

- the EAC Court of Justice; and
- the SADC Tribunal.

The COMESA Court of Justice hears private stakeholders' claims and offers a window of opportunity to challenge the non-implementation of agreements (Box 1.11). However, remedies such as those available under the COMESA regime are not available to private parties in all RECs. For example, the new Protocol on the SADC Tribunal does not provide

Box 1.11 Private company challenges government on tariff issue

In February 2012 Polytol Paints, a private company established in Mauritius, filed an application with the COMESA Court of Justice against the Republic of Mauritius. It requested a court order instructing Mauritius to give effect to the obligations on tariff liberalisation in force in COMESA, of which Mauritius is a member. The main arguments concerned the fact that, under Article 46 of the COMESA Treaty, member states were required, by the year 2000, to eliminate customs duties and other charges of equivalent effect imposed on goods eligible for Common Market treatment.

Mauritius had complied with this obligation, but in 2001 re-introduced a 40 per cent customs duty on specific products imported from Egypt (another COMESA member), which included the products imported by Polytol Paints. Only Egyptian products were targeted. Polytol requested the Ministry of Finance of Mauritius to remove the duty, but received no response. In April 2008, it took the case to the local courts without success. The Supreme Court of Mauritius determined that it could take cognisance of the provisions of the COMESA Treaty only to the extent that they had been incorporated into the national law. This court observed that it could 'only consider the validity of the regulations against the backdrop of the Customs Tariff Act and our Constitution. In the absence of any such legislation to that effect, non-fulfilment by Mauritius of its obligations, if any, under the COMESA Treaty is not enforceable by the national courts'.

Polytol then took the case to the COMESA Court of Justice. The Government of Mauritius opposed the Polytol application, arguing, among other things, that Polytol Paints lacked the necessary standing in this dispute resolution forum, and therefore could not bring this claim. The COMESA Court of Justice rejected this claim, heard the case and found in favour of Polytol Paints. The Government of Mauritius lodged an appeal against this decision, but subsequently withdrew the appeal.

This case raises a number of important issues. African regional integration has not been characterised by robust dispute settlement. Member states do not usually litigate against each other over issues pertaining to their obligations under regional agreements, and do not act on behalf of their aggrieved nationals. The Polytol judgment sets an important example on how this failure can be corrected.

Source: Hartzenberg (2015)

standing to private parties to contest such policy reversals (Hartzenberg 2015). The ECOWAS Court of Justice goes further by examining member states' non-compliance with REC norms, while not requiring from private plaintiffs their prior exhaustion of domestic judicial remedies. There are already several pan-African institutions with jurisprudence, such as the African Court of Justice and Human Rights, the AU Commission on International Law and the African Institute of International Law. An efficient dispute settlement mechanism is a prerequisite for the TFTA and CFTA (see Chapter 3).

1.10 How can regional integration promote a balanced distribution of benefits?

The implementation of RTAs may result in different trade and welfare implications for the participating parties, depending on their specific characteristics and levels of development. One of the reasons is the 'agglomeration' effect of regional integration, whereby industrial activity (i.e. increasing returns industries) tends to concentrate in the 'core' parts of the REC, to the disadvantage of poorer 'peripheral' countries (Venables 2003). The distribution of these costs and benefits will to a large extent determine the effectiveness and sustainability of regional trading blocs. For example, the collapse of the initial East African Community in 1977 was largely attributed to Kenya, the regional industrial hub, gaining the major share of economic benefits.[18] This also remains an issue in RECs with dominant economies, such as ECOWAS (Nigeria) and SADC (South Africa).

The CFTA's trade and welfare benefits are also likely to accrue unevenly, with a larger portion captured by a few countries with stronger supply capacity and export competitiveness. Presently, seven African countries account for about 60 per cent of total intra-merchandise exports, while the majority account for the remaining 40 per cent. The CFTA must address the commercial and development interests of the economically weaker members in an inclusive and credible manner (UNCTAD 2015b).

Possible policy measures or mechanisms to promote a more balanced distribution of the benefits of regional integration include, among others:

- funds to compensate potential 'losers';
- variable geometry to reduce tariffs, flexibility and special and differential treatment;

- regional industrial strategies promoting inward investment and regional value chains;
- regional cross-border infrastructure development programmes;
- regional services co-operation agreements; and
- transit trade arrangements, especially to link landlocked countries to regional and global markets.

The 1991 Abuja Treaty provides an early example of this thinking. Article 4.2 of the treaty provides for the establishment of a Community Solidarity, Development and Compensation Fund, special treatment for LDC member states and the adoption of special measures in favour of landlocked, semi-landlocked and island countries.

An example of the application of variable geometry is the SADC Trade Protocol. The protocol, which established the SADC FTA in 2008, was implemented through asymmetrical tariff liberalisation by the parties. In 2000, South Africa and its SACU partners – Botswana, Lesotho (an LDC), Namibia and Swaziland – removed most industrial tariffs. The non-SACU FTA parties were granted longer transitional periods, up to 2015 for Mozambique. Zimbabwe was granted a derogation to suspend the tariff phasedown of category C products (i.e. 'sensitive' products) from 2010–12 to 2012–14.

1.11 Is there a role for the digital economy in promoting regional integration?

The technology-driven fourth industrial revolution – underpinned by digital technologies such as the cloud and digitisation, robotics, e-commerce, 3D printing, big data, holograms, Internet of Everything and virtual currencies – is disrupting traditional patterns of trade and investment, as well as production, consumption and supply chains. The rise of e-commerce as part of the broader digital trade revolution is transforming the marketplace from 'bricks' to 'clicks' via desktop, mobile, tablet or other online devices. Global business-to-business (B2B) e-commerce transactions exceeded US$15 trillion in 2013, while global business-to-consumer (B2C) e-commerce was estimated to be US$1.2 trillion in the same year. B2C was forecast to expand to over US$2 trillion by 2016 (UNCTAD 2015c).

The 24/7/365 digital marketplace overcomes past prohibitive constraints of time, distance and scale. By increasing connectivity and reducing costs, it offers tremendous opportunities to facilitate and broaden participation of producers in domestic, regional and international trade. For example, small firms and women entrepreneurs in landlocked Lesotho can now be directly connected via e-commerce platforms to customers in neighbouring South Africa or distant Sierra Leone. One study shows a positive effect of e-commerce on intra-African trade, with more than one-third of Nigerians having purchased goods from other African countries. South Africa is the main destination, with 30 per cent of Nigerian cross-border shoppers buying from the country compared to Kenya with 2 per cent, Egypt with 1 per cent, and the rest of the continent with 3 per cent (Vickers and Peña-Méndez 2015).

The AU's *Agenda 2063* recognises the importance of technology as a catalyst for the continent's socioeconomic transformation. More than half a billion people across Africa are now subscribed to mobile services. Mobile technology plays a crucial role in promoting financial inclusion in Africa, where less than 20 per cent of households have access to formal financial services. Kenyan M-PESA has led the mobile money phenomenon to the point of becoming a global reference. Real-time market prices and the sharing of best practices from farming to services could help improve productivity and competitiveness, both essential for regional and global trade success (Vickers and Peña-Méndez 2015). Digital technology already plays a crucial role in reducing trade costs and transit times; this ranges from electronic single windows for customs clearance (e.g. Kenya, Mauritius and Mozambique) to a regional e-cargo tracking system along the Northern Corridor.

The use of mobile technologies and services across Africa generated US$153 billion in economic value in 2015, equivalent to 6.7 per cent of the region's GDP. This contribution is expected to increase to US$214 billion by 2020 (7.6 per cent of expected GDP) as countries in Africa continue to benefit from the improvements in productivity and efficiency brought about by increased take-up of mobile services. Africa's mobile ecosystem also supported 3.8 million jobs in 2015 and made a US$17 billion contribution to the public sector via general taxation. The number of jobs supported is forecast to rise to 4.5 million by 2020, while the tax contribution is expected to increase to US$20.5 billion (GSMA Intelligence 2016).

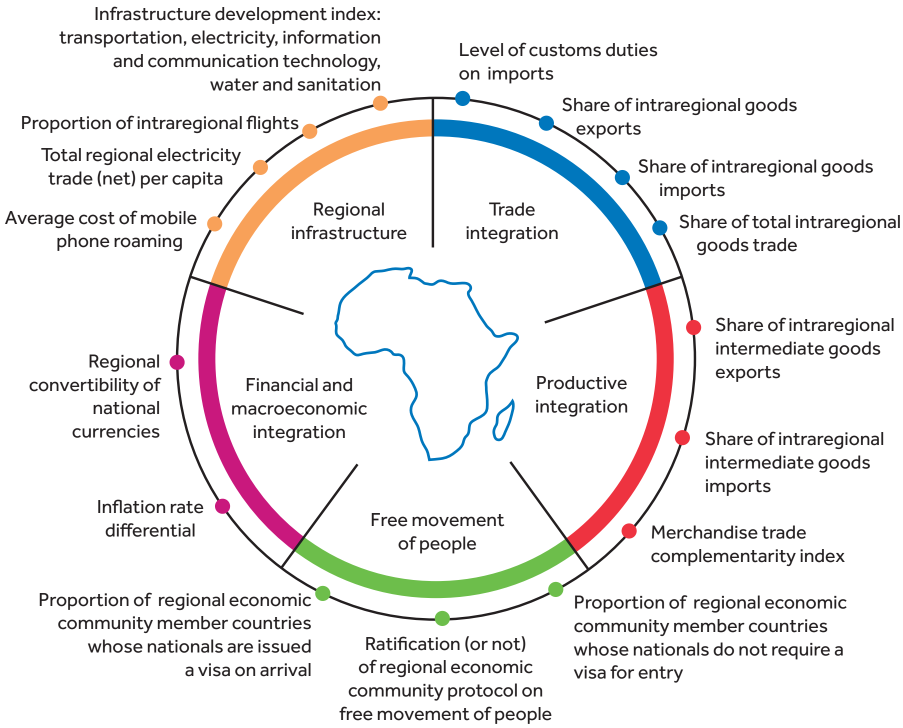
To unlock further opportunities, Sub-Saharan African countries need to effectively tackle the policy, regulatory, infrastructure, educational and cultural constraints that stifle their transition to both the digital era and the e-economy. Bilateral donors and multilateral agencies have a key role to play in helping to achieve the SDG target of providing universal and affordable access to the internet in LDCs by 2020 – and by extension, helping improve the e-commerce ecosystem. Extending such access could help place the African continent, home to the world's most LDCs, on a new development trajectory, including improved trade performance and competitiveness.

1.12 Is it possible to measure progress on regional integration in Africa?

The African Regional Integration Index is a multidimensional matrix that allows some quantification, comparison and ranking of performance on economic integration by Africa's RECs and the individual member states. The index is produced by the AU, the African Development Bank and the United Nations Economic Commission for Africa (UNECA). It measures five different dimensions: trade integration, productive integration, free movement of people, financial integration and macroeconomic integration. These dimensions build on an overview of the key socioeconomic factors that are fundamental to integration. Sixteen categories, cutting across the five dimensions, are used to calculate the index (Figure 1.7). The index showcases the high performers and highlights what is needed to accelerate progress.

The 2016 African Regional Integration Index finds that the EAC is the overall top-performing REC, followed by SADC and COMESA. EAC has higher-than-average scores across each dimension of regional integration, except for financial and macroeconomic integration. SADC and ECOWAS have higher-than-average REC scores on regional integration overall. SADC has higher-than-average REC scores across the dimensions of regional infrastructure, free movement of people, and financial and macroeconomic integration. ECOWAS has higher-than-average REC scores across the dimensions of free movement of people and financial and macroeconomic integration. The

Figure 1.7 Gauging progress: the African Regional Integration Index



Source: UNECA *et al.* (2016a)

findings reveal that each REC, and each member country, scores higher than average on at least one priority area of integration. This is a strong basis for each region to build on and for sharing lessons and insights to encourage greater policy reforms across the continent (UNECA *et al.* 2016a).

Notes

1 The five groups were defined by the Organisation of African Unity (OAU) in 1976. In addition, the AU recognises a sixth region of the continent, namely the African diaspora. The diaspora are people of African descent who live outside the African continent, irrespective of their citizenship and nationality, and who are willing to contribute to the development of the continent and the building of the AU.

2 The Enabling Clause is more formally known as the 'Decision on Differential and More Favourable Treatment, Reciprocity, and Fuller Participation of Developing Countries', GATT Document L/4903, 28 November 1979, BISD 26S/203.

3 Prior to the establishment of the AU, OAU members signed a Protocol on Relations between the African Economic Community (AEC) and the RECs in February 1998. This protocol served as an instrument and framework for close co-operation, programme harmonisation and co-ordination, as well as

integration among the RECs on the one hand (horizontal integration) and between the AEC and the RECs on the other (vertical integration).

4 The United Kingdom (UK) intends to withdraw from the EU, a process commonly known as 'Brexit', as a result of a June 2016 referendum in which 52 per cent of UK eligible voters voted to leave the EU. Withdrawal from the EU is a right under Article 50 of the 2007 Lisbon Treaty – 'Any member state may decide to withdraw from the Union in accordance with its own constitutional requirements'.

5 Such zones can take different forms, depending on their intended purpose, including export-processing zones, free-trade zones, enterprise zones and free ports. Mauritius is an example of a successful export-processing zone.

6 The Assembly of Heads of State and Government of the OAU adopted the Constitutive Act of the AU in 2000 and established the Union the following year.

7 Benin, Djibouti, Kenya, Mali, Rwanda, Senegal, Togo, Uganda and Zimbabwe.

8 Botswana, Burkina Faso, the Democratic Republic of the Congo, Lesotho, Malawi, Mali, Rwanda, Sierra Leone, Swaziland, Zambia and Zimbabwe.

9 Services comprise a wide variety of economic and social activities, embracing communications, transport, finance, energy, distribution, construction and business services, as well as final-demand services such as tourism, recreation, education, health and environmental services.

10 Free movement of persons is typically articulated in policy instruments as comprising three main freedoms: right of entry and abolishment of visas, for short visits up to 90 days; right of residence, including to seek and carry out income-earning employment; and right of establishment, the ability of business owners and self-employed persons to render and sell services unimpeded, without discrimination based on nationality (Tutwa 2016).

11 Unlike the Millennium Development Goals (MDGs), the *2030 Agenda* provides an elaborate role – both direct as well as crosscutting – for international trade for achieving many of the specific Sustainable Development Goals (SDGs) and targets. Indeed, trade has been directly referenced 9 times in the 17 SDGs compared with just once in the MDGs. The 17 SDGs, linked to 169 targets, progress on which is to be measured against hundreds of indicators, provide a much more ambitious framework than that of the MDGs.

12 The UNESCAP-World Bank Trade Costs Database provides information on bilateral trade costs inferred from the observed pattern of production and trade using a theoretically grounded approach. Trade costs include all factors that drive a wedge between the producer price in an exporting country and the consumer price in an importing country. This includes factors such as international transport, tariff barriers, non-tariff measures and behind-the-border issues such as domestic distribution and the business environment.

13 Fostered by trade liberalisation, along with the revolution in information and communication technology (ICT) and services trade, GVC trade has fundamentally changed the traditional concept of one firm located in one country undertaking an entire production process. For example, the production process of a typical T-shirt could comprise cotton being grown in one country, yarn and fabric manufactured in another, and cut, make and trim undertaken in a third country, with required accessories procured further from different countries before the final products are shipped to retailers.

14 According to a study commissioned by the Government of Sweden (Evenett and Fritz 2015), about 500 such measures, including tariff increases, export subsidies and other fiscal incentives for domestic

suppliers, were implemented by different countries, affecting the commercial interests of LDCs. G20 countries together are found to be responsible for two-thirds of these measures. The study finds that the total amount of forgone LDC exports caused by trade distortions implemented between 2009 and 2013 is US$264 billion, which is equivalent to 31 per cent of the total value of LDCs' exports during the same period. The measures implemented by G20 nations were together responsible for 89 per cent of export losses. This shows that, despite all preferential trade packages securing sustained market access, there remains a critical challenge for LDCs – with important implications for trade and industrial growth.

15 The future of the TPP is uncertain following the decision of the United States to withdraw from this agreement. The UK's withdrawal from the EU, known as 'Brexit', also poses challenges for TTIP.

16 The *2030 Agenda*'s Sustainable Development Goal (SDG) 2 specifically aims to end hunger, achieve food security and improved nutrition, and promote sustainable agriculture.

17 It is located at: www.tradebarriers.org

18 Although the Kampala Agreement had sought to establish an even distribution of industries across the region, as a means of ensuring balanced development and mutual benefits from the EAC, each partner country looked out for its own interests. (See *Daily Monitor* (2012)).

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Chapter 2
Formal Frameworks and Policies for African Economic Integration

2.1 What was the Lagos Plan of Action (1980)?

The Lagos Plan of Action (LPA) for the Economic Development of Africa (1980–2000) and the Final Act of Lagos was the first major pan-continental initiative, backed by the OAU, to develop a regional strategy for African development.[1]

The LPA was based on an inward-looking, self-reliant and self-sustaining development approach, which sought to utilise fully Africa's abundant resources. It outlined short-, medium- and long-term actions and targets covering a broad range of issues related to the continent's socioeconomic development, including food and agriculture; industry; natural resources; human resource development and utilisation; science and technology; transport and communications; trade and finance; economic and technical co-operation; the environment; LDCs; energy; women and development; and development planning, statistics and population.

Overall, the plan envisioned linking Africa's five main economic regions into a continent-wide economic space, an African common market, by the year 2000. However, the plan failed to deliver on many of its targets and outcomes, since most African countries were focused on the Structural Adjustment Programmes at the time.

2.2 What is the Abuja Treaty (1991)?

The Treaty Establishing the African Economic Community (AEC) – more popularly known as the 'Abuja Treaty' – was the second major blueprint for Africa's economic integration and socioeconomic development, incorporating some of the LPA commitments. It was signed in 1991 and entered into force in 1994, after the requisite numbers of ratifications.

Using a typical linear integration approach, the Abuja Treaty lays out a roadmap to establish the AEC through six stages

Figure 2.1 What are the six stages of the AEC?

Phase 1 (1994–99)	• Strengthen existing RECs and create new RECs in regions where they do not exist.
Phase 2 (2000–07)	• Ensure consolidation within each REC, with a focus on liberalising tariffs; removing non-tariff barriers (NTBs); harmonising taxes; and strengthening sector integration regionally and continentally in trade, agriculture, money and finance, transport and communications, industrial development and energy.
Phase 3 (2008–17)	• Set up in each REC a free trade area (FTA) and customs union (with a common external tariff and a single customs territory).
Phase 4 (2018–19)	• Co-ordinate and harmonise tariff and non-tariff systems among the RECs with a view to establishing a continental customs union.
Phase 5 (2020–23)	• Set up an African common market.
Phase 6 (2024–28)	• Establish the AEC, including an African monetary union and Pan-African Parliament, by 2028 and 2034 for all transitional periods.

extending over a period of 34 years, up to 2028. It was envisaged that the AEC would be achieved through the co-ordination, harmonisation and progressive integration of the activities of existing and future RECs in Africa. Today, the eight RECs that constitute the building blocks of the AEC are UMA, ECOWAS, EAC, IGAD, SADC, COMESA, ECCAS and CEN–SAD (Chapter 1). Some of these RECs have overlapping memberships and are at varying levels of progress and integration. Like the LPA's experience, the Abuja Treaty has raised some concerns for African countries about deep integration and ceding their sovereignty to a regional body.

2.3 What progress has been made implementing the Abuja Treaty?

Implementation of the Abuja Treaty is currently at the third phase, namely establishing regional FTAs and customs unions by 2017. The launch of the Tripartite Free Trade Area (TFTA) on the one hand, and the CFTA negotiations on the other hand, both in June 2015, are indicative of the progress made during this third phase. The 2017 deadline for establishing the CFTA is extremely ambitious, but is mandated in the Abuja roadmap.

Because of the ongoing negotiations, complex technical issues and political economy dynamics in individual African countries, realising this indicative milestone is far from certain. However, the CFTA is the trigger for progressing to the fourth phase, namely an African customs union by 2019. The latter will be even more complex and challenging to achieve.

Although the AU's *Agenda 2063* only mentions the CFTA and does not directly reference the Abuja Treaty, the roadmap towards the AEC remains relevant. *Agenda 2063* is a strategy and aspirational document, whereas the Abuja Treaty is a legal instrument that has been ratified by most African countries. It also has a strong historical and political resonance that most African leaders find difficult to ignore.

Table 2.1 compares the integration calendar of the RECs and the Abuja Treaty. COMESA, EAC and ECOWAS are clearly ahead of the schedule to create customs unions in each REC by 2017.

Seventeen years remain to establish the AEC by the latest date of 2034, including an African monetary union and Pan-African Parliament (PAP). There has been some progress here:

- The PAP was set up earlier than the Abuja Treaty envisaged,[2] with the first parliament running from March 2004 to October 2009. The fourth parliament is currently in session. The PAP's purpose, as outlined in the AU Constitutive Act (Article 17), is 'to ensure the full participation of African peoples in the development and economic integration of the continent'. The PAP is hosted in Midrand, South Africa.
- The establishment of the key continental financial institutions – namely the African Investment Bank (Libya), the African Monetary Fund (Cameroon) and the African Central Bank (Nigeria) – is also being accelerated.

Figure 2.2 Overall deadline for establishing the AEC by the latest date of 2034

Table 2.1 Status of implementation of the Abuja Treaty per REC

	Phase 1 (1994–99)	Phase 2 (2000–07)		Phase 3 (2008–2017)		Phase 4 (2018–19)	Phase 5 (2020–23)	Phase 6 (2028; latest 2034)
	Strengthen existing RECs and create new RECs where they do not exist	Co-ordination and harmonisation of activities	Gradual elimination of tariff and non-tariff barriers	Free trade area	Customs unions	Continental customs union	Establishment of an African common market	Monetary and economic union
UMA	X	X	In progress	In progress	Not yet	This stage will be achieved when all RECs have achieved customs union and harmonised their respective common external tariff (CET), with a view of creating a single continental CET	This stage will be achieved when all RECs have achieved continental customs union as well as free movement of labour and capital	This stage will be achieved when all RECs have achieved African common market, at which time there will be a common currency, issued by the African Central Bank
IGAD	X	X	In progress	Not yet	Not yet			
SADC	X	X	X	X	Not yet			
CEN-SAD	X	X	Not yet	Not yet	Not yet			
ECOWAS	X	X	X	X	X			
COMESA	X	X	X	X	X			
ECCAS	X	X	X	X	No date fixed			
EAC	X	X	X	X	X			

Source: Adapted and updated from UNECA *et al.* (2012)

2.4 What is the AU's *Agenda 2063*?

Agenda 2063: The Africa We Want was adopted by the Heads of State and Government at the 24th Ordinary Session of the Assembly of the AU, which was held in January 2015 in Addis Ababa. It was prepared through a consultative process involving member states and a wide range of stakeholders, including the African diaspora, faith-based groups, the private sector, young people and women, planning experts, think tanks and the RECs.

Agenda 2063 has three key components: the vision, the transformation framework and the five 10-year plans. The vision consists of seven key aspirations, namely:

1. a prosperous Africa based on inclusive growth and sustainable development;
2. an integrated continent, politically united and based on the ideal of pan-Africanism and Africa's renaissance;
3. an Africa of good governance, democracy, respect for human rights, justice and the rule of law;
4. a peaceful and secure Africa;
5. an Africa with a strong cultural identity, common heritage, shared values and ethics;
6. an Africa where development is people-driven, unleashing the potential of women and young people;
7. Africa as a strong, united and influential global player and partner.

The transformation framework sets out the specific goals, priority areas and targets of *Agenda 2063*, and the strategies for achieving these. Where appropriate, the targets for each priority area have national, regional and continental dimensions. The framework also broadly covers the institutional arrangements for implementation, monitoring and evaluation, financing and partnerships, capacity development, and communication strategies required for their implementation.

The AUC has prepared the *First Ten Year Implementation Plan of Agenda 2063 (2013–2023)*, and the AU Summit adopted this in June 2015. The first plan has 20 goals and 35 priority areas (and 289 targets) that contribute towards achieving the seven aspirations. Most of these targets are national, with the continental/regional bodies playing other roles. Under the plan, *Agenda 2063* has 13 fast-track or flagship projects (Box 2.1).

Box 2.1 The first 10-year plan's flagship projects

- Integrated high-speed train network: aims to connect all African capitals and commercial centres.
- Pan-African virtual university: designed to accelerate development of human capital, science and technology, and innovation.
- African commodities strategy: aims to enable African countries to develop a vibrant, socially and environmentally sustainable commodities sector.
- Annual Africa forum: designed to bring together Africa's political leadership, private sector, academia and civil society to discuss *Agenda 2063*.
- Continental FTA by 2017: aims include to double intra-African trade by 2022, strengthen Africa's common voice in global trade negotiations and operationalise the African Investment Bank (2025) and Pan-African Stock Exchange, the African Monetary Fund (2023) and the African Central Bank (2028-34).
- African Passport and free movement of people: aims to fast-track continental integration by enhancing free movement of all African citizens from all African countries by 2018.
- Silencing the guns by 2020: aims to end all wars, conflicts and violations of human rights.
- Grand Inga Dam Project: aims to boost Africa's energy production.
- Pan-African E-Network: designed to transform e-applications and services in Africa.
- African outer space programme: aims to bolster African development in various fields, including agriculture, disaster management, remote sensing, climate forecast, banking and finance, defence and security.
- Single African air-transport market: aims to deliver a single African air-transport market to facilitate air transportation in Africa.
- African continental financial institutions: aims to accelerate integration and socioeconomic development on the continent. The institutions include the African Central Bank, African Monetary Fund and African Investment Bank.
- Great Museum of Africa: the Museum, to be established in Algiers, Algeria, was added to the flagship projects in July 2016.

Source: AUC and New Zealand Ministry of Foreign Affairs and Trade (2017), 14

2.5 What is the New Partnership for Africa's Development (NEPAD)?

NEPAD is the pan-African strategic framework for the socioeconomic development of the continent. It was adopted in 2001 with the objective of promoting and consolidating peace and stability, democracy, sound economic management and people-centred development on the continent (Box 2.2).

Box 2.2 How did NEPAD evolve?

NEPAD is a merger of two plans for the economic regeneration of Africa: the Millennium Africa Recovery Plan (MAP), led by then Presidents Thabo Mbeki of South Africa, Olusegun Obasanjo of Nigeria and Abdelaziz Bouteflika of Algeria; and the OMEGA Plan for Africa developed by President Abdoulaye Wade of Senegal. At an OAU Summit in Sirte, Libya, in 2001, it was agreed that the MAP and OMEGA Plans should be merged. The UN Economic Commission for Africa (UNECA) developed a 'Compact for Africa's Recovery' based on both these plans and on resolutions on Africa adopted by the United Nations Millennium Summit in September 2000, and submitted a merged document to the Conference of African Ministers of Finance and Ministers of Development and Planning in Algiers, May 2001. In July 2001, the OAU Assembly of Heads of State and Government meeting in Lusaka, Zambia, adopted this document under the name of the New African Initiative (NAI). The leaders of the G8 countries endorsed the plan and other international development partners, including the EU, China and Japan, also made public statements indicating their support for the programme. The Heads of State and Government Implementation Committee (HSGIC) for the project finalised the policy framework and named it the *New Partnership for Africa's Development* on 23 October 2001.

Source: Tutwa (2016)

It features sector-specific programmes such as the Comprehensive Africa Agriculture Development Plan (CAADP), Programme for Infrastructure Development in Africa (PIDA) and the African Peer Review Mechanism (APRM).

The NEPAD Secretariat initially co-ordinated the implementation of NEPAD programmes and projects. In 2010, the NEPAD Planning and Coordinating Agency (the NEPAD Agency) was established following an AU decision to integrate NEPAD into AU structures and processes. The NEPAD Agency is now an AU technical body that co-ordinates and administers NEPAD activities. It is mandated to facilitate and co-ordinate the implementation of regional and continental priority programmes and projects, and to push for partnerships, resource mobilisation and research and knowledge management.

The governance structure of NEPAD comprises the AU Assembly of Heads of State and Government, the NEPAD Heads of State and Government Orientation Committee (HSGOC), the high-level personal representatives who make up the NEPAD Steering Committee, and the Chairperson of the AU Commission. The NEPAD Agency is financed through the statutory budgets of the AU Commission, voluntary contributions from AU member states, and additional budgetary support from development partners and the private sector.

2.6 How relevant is NEPAD for Africa today?

The AU's *Agenda 2063* is now the pre-eminent common continental framework for Africa's social and economic transformation over the next 50 years. The NEPAD Agency is the implementing arm for this development strategy. It is also widely used by international financial institutions, United Nations agencies and Africa's development partners as a mechanism to support African development efforts.

NEPAD plays a complementary role to *Agenda 2063*, especially through its trade-related investment programmes (Box 2.3), the African Peer Review Mechanism (Box 2.4) and delivering bankable projects through the NEPAD Infrastructure Project Preparation Facility hosted by the African Development Bank. The NEPAD Agency has established four Investment Programmes to address new and emerging opportunities and challenges in Africa:

- Skills, Youth, Employment and Women Empowerment;
- Industrialisation, Science, Technology and Innovation;
- Regional integration, Infrastructure and Trade; and
- Natural Resources, Governance and Food Security.

Box 2.3 Selected NEPAD investment priorities

Industrialisation, Science, Technology and Innovation: A key consideration of the programme is the harmonisation of country- and regional-level industrialisation policies to ensure synergies with continental policy. Capacity enhancement in science, technology, innovation and entrepreneurship, together with the establishment of an industrial development index, are integral components of this programme.

Regional Integration, Infrastructure and Trade: The harmonisation of regional and national policies on infrastructure, market development and trade, and improved regional infrastructure in information and communication technology (ICT), transport, water and energy, are cornerstones of this programme.

The programmes under this area of work are:

- Continental Business Network (CBN);
- Sustainable Energy for All (SE4ALL);
- Infrastructure for Skills Development (IS4D);
- Programme for Infrastructure Development in Africa (PIDA);
- Presidential Infrastructure Champion Initiative (PICI);
- E-Africa Programme;
- Power Africa.

Box 2.4 What is the African Peer Review Mechanism?

Launched in 2003 as part of NEPAD, the African Peer Review Mechanism (APRM) is a voluntary African assessment tool, designed to diagnose governance deficiencies, promote adherence to African and international codes and standards, and develop remedies through a National Programme of Action (NPoA). Under the oversight of a multistakeholder and non-partisan National Governance Council, a Country Self-Assessment Report, guided by a comprehensive questionnaire, must be developed by independent technical research institutions, in consultation with citizens and civil society. The country then hosts a team of experts, led by a member of the APR Panel of Eminent Persons, which conducts its own assessment. The Head of State is then peer reviewed by his or her counterparts in the APR Forum. Thereafter, the final Country Review Report is published and the state pledges to implement its NPoA and report on progress periodically, before undergoing further review cycles.

One of the four thematic areas of assessment focuses on economic governance and management, covering these six broad objectives:

- develop economic policies promoting sustainable development;
- foster public participation in economic policy-making;
- practise sound public finance management;
- fight corruption and money laundering;
- promote regional integration; and
- implement growth-promoting trade and investment policies;

Subsidiary issues include the country's economic blueprint; macroeconomic indicators; economic diversification strategies; resilience to shocks; infrastructure development and maintenance; budget transparency; revenue collection; policy harmonisation with respective RECs; intra-regional trade patterns; and governance of extractive industries. At the time of writing, 35 AU member states had acceded to the APRM, and 20 of these had completed self-assessments and 19 had been peer reviewed by the Forum, most recently Chad and Senegal. Kenya was set to be the first state to complete a second APRM review by January 2017.

Source: Tutwa (2016)

2.7 What is the AU doing to promote greater intra-African trade?

The RECs have all crafted their own plans and strategies to bolster intra-regional trade in goods and services and to facilitate investment. In addition to the regional approaches, there are important efforts at the pan-continental level.

In January 2012, the AU Summit of Heads of State and Government convened under the theme of 'Boosting Intra-African Trade'. The summit endorsed an *Action Plan for Boosting Intra-African Trade* (BIAT). The plan sets the target of growing intra-African trade by 25 per cent or more within the next decade, especially through the establishment of the CFTA (AUC and UNECA 2012).

BIAT revolves around seven priority clusters, which have built-in targets that are aligned to existing milestones and objectives under the Action Plan for the Implementation of the Accelerated Industrial Development of Africa, the Minimum Integration Programme (MIP) and the Programme for Infrastructure Development in Africa (PIDA) (UNCTAD 2015). The seven clusters are trade policy, trade facilitation, productive capacity, trade-related infrastructure, trade finance, trade information and factor market information. Secondary factors include addressing inconvertibility of currencies, promoting the free movement of people and enhanced trade in services (Box 2.5).

Services does not form a cluster in itself, although elements of trade-enabling services are integrated into some of the seven

Box 2.5 Action Plan for Boosting Intra-African Trade

Priority programme cluster	Programme/activity
Trade policy	• Mainstream intra-African trade in national trade and development strategies. • Enhance the role of the organised private sector, informal private sector and women in trade policy formulation. • Boost intra-African trade in food products. • Undertake commitments to liberalise the trade-related services sectors: transport, professional, financial and ICT services. • Commit to harmonise rules of origin and trade regimes. • Promote 'Buy in Africa' and 'Made in Africa'.
Trade facilitation	• Reduce roadblocks. • Harmonise and simplify customs and transit procedures, documentation and regulations. • Establish and operationalise One-Stop Border Posts. • Integrated Border Management (IBM).
Productive capacity	• Prioritise the implementation of continentally agreed programmes, including Accelerated Industrial Development of Africa (AIDA), African Productive Capacity Initiative (APCI) and African Agribusiness and Agroindustry Development Initiative (3ADI). • Establish integrated and interconnected trade information systems. • Encourage investments/FDI through established frameworks for the strengthening of regional and continental complementarities, and the development of regional enterprises and value chains. • Establish regional centres of excellence for technology development, adaptation and diffusion.

(Continued)

Box 2.5 Action Plan for Boosting Intra-African Trade (*cont.*)

Trade-related infrastructure	• Prioritise the implementation of PIDA. • Mobilise resources for the preparation of multicountry infrastructural projects. • Prepare high-quality multicountry infrastructural projects. • Promote an enabling environment for private sector participation in the development of infrastructure. • Develop innovative legal, financial and other mechanisms for multicountry infrastructure and industrial projects.
Trade finance	• Strengthen/enhance capacity of existing regional and continental financial institutions. • Improve payment systems. • Promote an enabling environment for financial service companies to supply export credit and guarantees. • Speed up the process of establishing the three functional institutions.
Trade information	• Create inter-connected centres of trade information exchange.
Factor market integration	• Operationalise existing policies and protocols on free movement of people and of labour migration. • Encourage and facilitate policies that increase the freedom of movement for business people. • Harmonise rules on cross-border establishment. • Establish agreements on mutual recognition of qualifications.

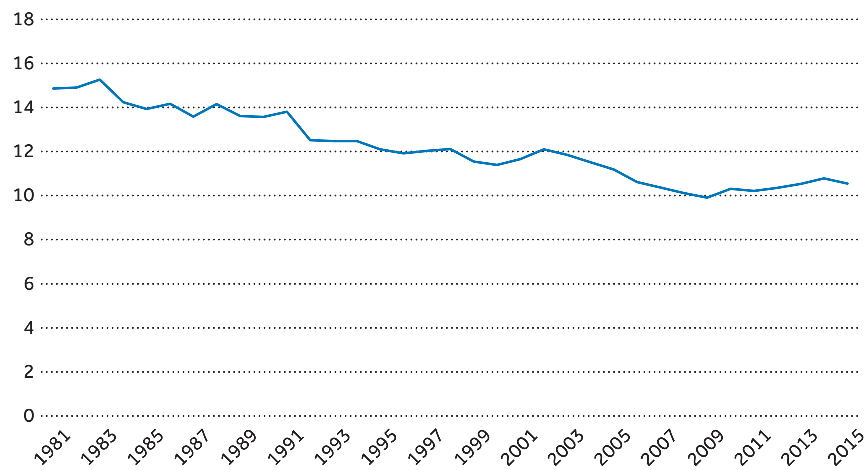
Source: AUC and UNECA (2012)

clusters. While there has been some progress at the continental level to bring a regional dimension into services trade, the AU still lacks a comprehensive services vision document or strategy.

2.8 What are the major initiatives to promote industrial development in Africa?

Africa is the least industrialised continent in the world. After independence in the 1960s, there was a period of industrial growth driven primarily by state investment and import substitution. This growth proved unsustainable and Africa's industrial sector has been on a downward trajectory. The share of manufacturing in total Sub-Saharan African value added over the past three decades has declined from 15 per cent to around 10 per cent (Figure 2.3). African countries that exhibit relatively higher levels of economic complexity, producing (and exporting) manufactured products can be divided into two groups: 1) countries with an established manufacturing base such as Egypt, Morocco, South Africa and Tunisia; and 2) countries with emerging manufacturing sectors such as Kenya, Mauritius and Uganda.

Figure 2.3 Sub-Saharan Africa's manufacturing, value added (% of GDP)



Source: World Bank

Sub-Saharan Africa's rapid economic growth between 2000 and 2010, driven by, among other factors, exports of raw materials and commodities (amid formerly high prices), reinforced the continent's specialisation as a commodity producer.[3] Strong economic growth did not trigger structural transformation onto a more diversified and sustainable industrial development path. Structural transformation involves a decrease in the share of agriculture and an increase in the share of industry and services in output. With 7 to 10 million young people entering the continent's labour force each year, productive jobs and livelihoods for Africa's youth will need to be delivered by the manufacturing and modern services sectors, rather than by traditional primary exports.

Moreover, it is estimated that, by 2025, Africa could nearly double its current manufacturing output to US$930 billion (growth of about 6.4 per cent, triple the rate achieved since 2000). Three-quarters of this growth would come from meeting intra-African demand and substituting imports of manufactured goods (McKinsey Global Institute 2016).

The services sector also has the potential to become a significant driver of sustained economic growth and structural transformation in Africa. However, this requires improved policy co-ordination and alignment to build complementarities between the services sector and other sectors of the economy, especially manufacturing. Several services are likely to exert positive spillover effects on other sectors of the economy (e.g.

ICT, finance and infrastructure, distribution and logistics). For example, Botswana has generated higher benefits from its diamonds industry since it promoted downstream linkages with cutting and polishing activities; similarly, the Nigerian oil industry has created some strong upstream linkages with exploration, project and construction services (UNCTAD 2015).

The AU's *Agenda 2063* identifies industrialisation as one of the key pillars that will drive social and economic transformation in Africa over the next 50 years. The Action Plan for the Implementation of the Accelerated Industrial Development of Africa (AIDA), which built upon the earlier NEPAD-focused African Productive Capacity Initiative (APCI), was adopted in February 2008. The action plan sets the major priorities for accelerating Africa's industrialisation, namely:

- product and export diversification, natural resources management and development;
- infrastructure development;
- human capital development and sustainability, innovation, science and technology;
- development of standards and compliance;
- development of a legal, institutional and regulatory framework;
- resource mobilisation for industrial development.

The plan lists specific actions and measures at the national, regional, continental and international levels to promote Africa's industrial development. To monitor implementation of the plan, regional high-level panels on industrial development, representing Heads of State and Government, were established and required to report to the AU Summit every two years.

Several RECs, including EAC, ECOWAS (Box 2.7) and SADC, have adopted regional industrial policies and strategies. Industrial development is also one of the three pillars of the Tripartite Initiative. However, to date there has not been much discussion in the TFTA on concrete industrialisation objectives or policies. The focus has been on implementing the TFTA and to a lesser extent pursuing regional infrastructure development (especially along the transport corridors).

The provision of finance is a key aspect of implementing industrialisation initiatives at the regional level. The African Development Bank, the East African Development Bank,

Box 2.6 Four reasons why Africa and LDCs must industrialise

1. Without industrialising, it is unlikely that Africa and LDCs can meet the Sustainable Development Goals by 2030, particularly SDG 9 on industry, innovation and infrastructure.
2. Inclusive and sustainable industrial development is associated with job creation, sustainable livelihoods, innovation, technology and skills development, food security and equitable growth, which are some of the key requirements for eliminating poverty by 2030.
3. Rarely has a country evolved from poor to rich without sustained structural transformation from an agrarian or resource-based economy towards an industrial or service-based economy. This transformation is important to ensure wealth creation through increased economic integration and productivity.
4. Millions of young people enter the labour market in Africa and LDCs every year. Industry, by providing decent jobs and expanding the fiscal revenues needed for social investments, can boost capacity for much-needed inclusive development.

Source: UNIDO (2016)

Box 2.7 Case study: The West African Common Industrial Policy

On 2 June 2010, in Abuja, Nigeria, the ECOWAS Council of Ministers adopted the West African Common Industrial Policy (WACIP) and directed the ECOWAS Commission to take steps to ensure its implementation. The adoption of WACIP was a bold step by ECOWAS member states looking to exploit their comparative advantages and complementarities, and to promote industrial development. The specific objectives of WACIP are as follows:

- to diversify and broaden the region's industrial production by progressively raising the processing of export products by an average of 30 per cent by 2030;
- to progressively increase the manufacturing industry's contribution to regional GDP to an average of more than 20 per cent in 2030, from its current average of between 6 and 7 per cent;
- to improve intra-community trade from the present 13 per cent to 40 per cent by 2030; and
- to expand the volume of exports of manufactured goods from West Africa to the global market from the current 0.1 per cent to 1 per cent by 2030.

Source: UNCTAD (2011, 80)

the Development Bank of Southern Africa, the West African Development Bank and other regional development finance institutions (DFIs) and networks are likely to be important actors in the future. It will be useful to involve DFIs in discussions at an early stage so as to align industrialisation plans with their priorities, such as the development of regional infrastructure.

2.9 What are some of the major infrastructure initiatives in Africa today?

Africa is the world's second largest continent. With a landmass of more than 30 million square kilometres, Africa is as big as India, China, the United States and most of Europe combined. The DRC alone is about half the size of the EU.[4] Connecting Africa's people and markets through reliable, efficient and interoperable transport infrastructure, nationally and regionally, is understandably a mammoth challenge.

Poor infrastructure hinders Africa's regional and global competitiveness and raises trade costs.[5] The World Bank estimates that Sub-Saharan Africa's infrastructure deficit is US$93 billion per year. Power is by far Sub-Saharan Africa's largest infrastructure challenge, with 30 countries facing regular power shortages (Box 2.8). By another estimate, annual infrastructure investment in Africa needs to double to US$150 billion over the next decade (McKinsey Global Institute 2016). However, the funding gap is significant: US$74.5 billion was

Box 2.8 Africa's infrastructure deficit

- Infrastructure has been responsible for more than half of SSA's recent improved growth performance and has additional untapped potential.
- SSA's infrastructure networks increasingly lag behind those of other developing countries.
- SSA's economic geography presents a particular challenge for infrastructure development.
- The continent's infrastructure services are twice as expensive as elsewhere, reflecting diseconomies of scale in production and high profit margins due to lack of competition.
- Power is by far SSA's largest infrastructure challenge, with 30 countries facing regular power shortages.
- SSA's infrastructure needs are costed at around US$93 billion a year, about one-third of which is for maintenance.
- The infrastructure challenge varies greatly by country type – fragile states face an impossible burden while resource-rich countries also lag despite their wealth.
- A large share of SSA's infrastructure investment is domestically financed, driven primarily by central government budget allocations.
- Even if major potential efficiency gains are captured, SSA would still face an infrastructure funding gap of US$31 billion a year, mainly in power.

Source: Foster and Briceño-Garmendia (2009) committed to infrastructure development in Africa in 2014, with the most funding going to the transport sector (US$34.3 billion: 46 per cent) and energy (US$22.4 billion: 30 per cent) (AAPG 2016). Two of the major infrastructure initiatives in Africa are the Programme for Infrastructure Development in Africa (PIDA) and the Presidential Infrastructure Champion Initiative (PICI).

Programme for Infrastructure Development in Africa

PIDA is a framework for meeting Africa's infrastructure demand up to 2040 (2020 for ICT). The African Development Bank is the executing agency for this infrastructure programme.

PIDA is organised on the basis of short- and medium-term targets running up to 2020 and 2030, and long-term projections to meet demand up to 2040. Short-term projects and programmes are in a Priority Action Plan, which includes 21 programmes broken down into 273 sub-projects in four sectors: energy, transport, trans-boundary water and ICT. The capital cost over 2012–20 is estimated at US$68 billion (about US$7.5 billion annually over the nine years). Mobilising these funds is a major challenge.

Presidential Infrastructure Champion Initiative

PICI aims to accelerate regional infrastructure development, including PIDA projects, through the political championing of projects. The NEPAD Agency is the executing agency for PICI.

The role of the Presidential Champions is to bring visibility, unlock bottlenecks, co-ordinate resource mobilisation and ensure project implementation. PICI has nine projects for which there are eight champions or 'host' countries (UNECA *et al.* 2016):

1. missing links of the Trans-Sahara highway (Algeria);
2. optical fibre link between Algeria and Nigeria via Niger (Algeria);
3. Dakar–Ndjamena–Djibouti rail and road (Senegal);
4. Nigeria–Algeria gas pipeline (Nigeria);
5. Kinshasa–Brazzaville rail, road and border post (DRC);
6. Great Lakes optical fibre network (Rwanda);

7. North–South Corridor rail and road (South Africa);
8. Navigational route between Lake Victoria and the Mediterranean Sea (Egypt);
9. Lamu Port–Southern Sudan–Ethiopia transport corridor (Kenya).

2.10 How can international partners support regional integration in Africa?

The AU's *Agenda 2063* calls upon the international community to respect Africa's vision and aspirations and to align their partnerships appropriately. The Addis Ababa Action Agenda, which mobilises resources to implement the Sustainable Development Goals, furthermore urges the international community, including international financial institutions and multilateral and regional development banks, to increase its support to projects and cooperation frameworks that foster regional and subregional integration, with special attention to Africa. International partners can support and help drive Africa's integration agenda through trade, investment and aid, especially Aid for Trade (AfT).

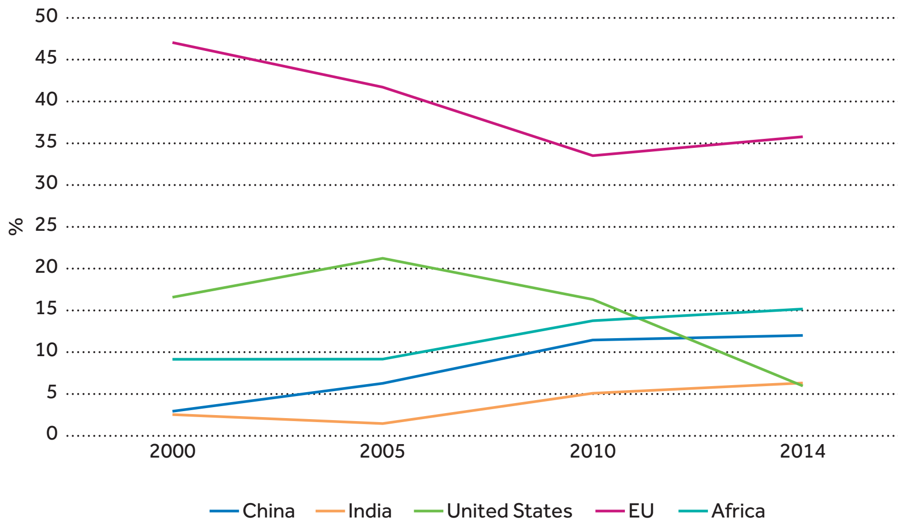
Trade and investment

Besides advancing this continental integration agenda, African countries are also deepening trade and investment relations with their established partners, such as the EU, Japan and the United States, and emerging economies, especially China and India. Distinct shifts in trade flows are taking place in which the relative significance of trading with developing country partners has increased remarkably.

China now accounts for 12 per cent of Africa's total goods exports to the world, although the bulk of these exports are minerals and commodities, which have reinforced Africa's role as a producer of primary rather than processed products. India has doubled its share, from 2.5 per cent in 2000 to just over 6 per cent in 2014. By comparison, the shares of the EU and the United States have both declined over this period. The EU's share of Africa's world exports fell from 47 per cent in 2000 to 36 per cent in 2014, while the share of the United States contracted from 16.5 per cent in 2000 to just under 6 per cent in 2014 (Figure 2.4).

Managing these multiple trading arrangements and external partnerships will be a key challenge for the coming decades.

Figure 2.4 Share of major partners in Africa's exports (2000–2014)



Source: Author's calculations using data from UNCTADStat

African countries can take advantage of the following specific arrangements:

- reciprocal but asymmetrical trade agreements (such as the EU's economic partnership agreements – Box 2.9);
- unilateral non-reciprocal trade preference schemes (such as AGOA-IV [2015–2025] covering about 7,000 tariff lines[6], and the Generalised System of Preferences granted by advanced economies, including Australia, Canada, the EU, Japan, New Zealand and the United States);
- non-reciprocal trade preference schemes for LDCs (such as the EU's Everything But Arms scheme and the duty-free schemes of China and India); and
- co-operation frameworks and strategic partnerships with the AU, RECs or individual countries (such as the Forum on China-Africa Cooperation [Box 2.10], India-Africa Forum, Tokyo International Conference on African Development, and Trade and Investment Framework Agreements and other United States initiatives like Trade Africa and Power Africa).

Trade agreements and preference schemes can support regional diversification initiatives by: aligning with existing REC plans and priorities; providing 100 per cent free market access for all LDC

Box 2.9 Sub-Saharan Africa and the economic partnership agreements

The economic partnership agreements are reciprocal but asymmetrical agreements between the EU and five Sub-Saharan African regional groupings: Central Africa, EAC, Eastern and Southern Africa (ESA), SADC and West Africa. These groupings and their member states do not correspond to the official AU RECs, thereby undermining regional integration (Chapter 1). Under these agreements, the EU undertakes to grant immediately 100 per cent free market access to Sub-Saharan African countries (with the exception of South Africa), whereas African economies are required only to progressively make free of duties not less than 75 per cent of their imports from the EU. The agreements are expected to deliver benefits to both sides but the gains for Africa are expected to be concentrated in just a few non-industrial sectors (for example rice, milk, sugar and meat) and to accrue mainly to African non-LDCs. Gains for the EU would be more generalised, largely owing to initial asymmetrical protection structures. The projected increase in Africa's exports to the EU would also come at the expense of intra-African trade, and African governments would suffer a sharp drop in tariff revenues. Compensation to African countries under the EPA Development Programme is expected to offset at least some of the possible costs of the agreement's reforms. In addition, deepening African economic integration in the context of the CFTA prior to the full implementation of the economic partnership agreements could offset the adverse impact of those agreements on intra-African trade.

Source: UNECA *et al*. (2016)

Box 2.10 The Forum on China-Africa Cooperation Johannesburg Action Plan (2016–2018)

The Johannesburg Summit and the 6th Ministerial Conference of the Forum on China-Africa Cooperation (FOCAC) were held in South Africa from 3 to 5 December 2015, with 50 African countries represented. The resulting action plan covers six broad areas: political co-operation; economic co-operation (including agriculture and food security, industry partnering and industrial capacity co-operation, infrastructure development, energy and natural resources, ocean economy, tourism, investment, trade and finance); social development co-operation; cultural co-operation and people-to-people exchanges; security co-operation; and international co-operation.

The trade-related actions and targets include, among others:

- increasing China-Africa trade from US$220 billion in 2014 to US$400 billion by 2020, including through concessional loans and export credit lines;
- providing duty-free market access for most commodities exported by African LDCs to China, provided they have diplomatic relations with China;
- implementing 50 trade promotion programmes to showcase African products in the Chinese market;
- scaling up Chinese investment in Africa and increasing the stock of direct investment from US$32.4 billion in 2014 to US$100 billion by 2020;
- encouraging Chinese enterprises to process minerals and commodities and manufacture goods in Africa in order to ensure local employment, technology transfer and human capacity development;

(Continued)

Box 2.10 The Forum on China-Africa Cooperation Johannesburg Action Plan (2016 -2018) (*cont.*)

- improving co-operation on food safety and phytosanitary measures and promoting the entry of food and agricultural products into each other's markets;
- co-operating to strengthen Africa's capacity in the services sector, including the outsourcing industry;
- establishing customs co-operation mechanisms to facilitate bilateral trade, combat smuggling and fraud, and improve the quality of goods exported from China to Africa; and
- co-operating on e-commerce, including developing electronic certificates of origin.

In addition, China undertakes to enhance co-operation with the African Development Bank and sub-regional development finance institutions by utilising the China-Africa Development Fund, which will be gradually expanded from US$5 billion to US$10 billion, as well as the Africa Growing Together Fund and Special Loans to Support Small and Medium Sized Enterprises in Africa.

Source: The Forum on China-Africa Cooperation Johannesburg Action Plan (2016-2018), available at: https://www.focac.org/eng/ltda/dwjbzjjhys_1/hywj/t1327961.htm (accessed 10 February 2017.

exports; extending product coverage to include agro-processing and manufactured goods in the case of non-LDCs; relaxing and simplifying rules of origin; eliminating unnecessary NTBs; and integrating and mainstreaming development-friendly provisions (e.g. 'regional cumulation' in rules of origin to trigger regional value chains, AfT, capacity-building and technical assistance).

A major priority for Sub-Saharan African countries in their relations with the emerging economies is to shift the structure of trade, reducing their dependence on primary commodities and natural resources for exports. Sub-Saharan African countries should seek to attract investment that refines and processes minerals and commodities at source and develops value chains in the continent. Many African governments have already signed trade, investment and development co-operation agreements or entered into deals that 'barter' infrastructure for minerals, although these are not without controversy. Some Sub-Saharan African countries already attract export-oriented manufacturing investment from China to take advantage of EU and United States trade preferences. China is now preparing to relocate millions of light manufacturing jobs from higher-income East Asian economies to Africa. African countries should set in place the foundations to attract these jobs and factories (Chapter 1).

Aid

Official development assistance (ODA) provides an important source of financing, particularly for LDCs and Sub-Saharan African countries. Although every high-income country is committed to contributing the agreed international target of 0.7 per cent of its GDP as ODA, so far only a few have met this. One particular component of ODA, AfT, has become increasingly important for reducing the cost of trading and increasing trade capacity, income and growth in recipient countries. The main components of AfT support include trade policy and regulation; trade development; trade-related infrastructure; productive capacity; and trade-related adjustment.

AfT can be disbursed through bilateral or regional projects and programmes (Box 2.11) or through multilateral channels

Box 2.11 Case study: The United Kingdom's AfT initiatives

The United Kingdom (UK) is one of the few high-income countries to achieve the international target of providing 0.7 per cent of its GDP as ODA. The UK is also a strong advocate and a leading donor of AfT as a means for helping developing countries with supply-side capacity-building. The Department for International Development (DFID) released a new Economic Development Strategy in 2017, which prioritises and seeks to strengthen the UK's approach to AfT.

The UK has contributed over US$1 billion a year to help developing countries and LDCs to boost their regional and world trade. UK bilateral AfT disbursement to Africa has increased from US$497 million in 2011 to US$790 million in 2014. The top three UK AfT recipients (2011–2014 average) were Nigeria, South Africa and Kenya, which collectively account for around 45 per cent of the UK's exports to Africa. While not the top bilateral donor, the UK has consistently had the highest level of AfT disbursements to Africa through multilateral channels (APPG 2016).

At the regional level, DFID has operated or participated in three key AfT programmes supporting trade reforms, regional integration and trade facilitation in Africa: TradeMark Southern Africa (2010–2014), TradeMark East Africa and support to the West African Regional Integration Programme (2010–2016). DFID's Regional Infrastructure Programme for Africa aims to increase the supply of priority regional project preparation studies and encourages financiers to take them to implementation stage. The Trade Advocacy Fund provides support for trade policy formulation and trade negotiations.

In 2011 the UK Coalition Government of 2010–15 launched the Africa Free Trade Initiative (AFTi). The AFTi programmes focused on cutting tariffs, harmonising regional trade arrangements, improving both hard and soft infrastructure, and cutting red tape by modernising customs systems, procedures and facilities. Assistance has been provided both to individual African governments and to RECs. DFID and the AFTi are both supporting the ratification of, and notifying commitments under, the WTO Trade Facilitation Agreement.

Source: AAPG (2016); Department for International Development at: https://www.gov.uk/government/organisations/department-for-international-development (accessed 10 February 2017).

Box 2.12 The WTO's Trade Facilitation Agreement

National and regional trade facilitation programmes have helped African countries reduce trade costs by simplifying customs procedures and upgrading border systems, including through one-stop borders (Chapter 1). A number of SSA countries ranked on the World Bank's Logistics Performance Index improved their overall scores between 2014 and 2016. These countries include Botswana, Kenya, Mozambique, Rwanda, South Africa and Tanzania.

The WTO's Trade Facilitation Agreement (TFA), adopted at the Bali Ministerial Conference in December 2013, is the first multilateral agreement successfully negotiated at the WTO. Having entered into force on 22 February 2017, the TFA will anchor and support the implementation of national and regional trade facilitation initiatives. According to one estimate, the TFA has the potential to increase global merchandise exports by up to US$1 trillion per annum, while also reducing WTO members' trade costs by an average of 14.3 per cent, with most of the gains to developing countries. African countries and LDCs are expected to see the biggest average reduction in trade costs (in excess of 16 per cent) from full implementation of the TFA.

The TFA focuses on 'soft' procedures and processes rather than 'hard' trade-enabling infrastructure. It contains approximately 35 technical measures that aim to expedite the movement, release and clearance of goods, including goods in transit. It also sets out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. The TFA is unique in the history of multilateral trade agreements in that it allows each developing country and LDC member to self-determine when it will implement the respective provisions and what it needs in terms of related capacity building support. To ensure that developing countries and LDCs receive the support they need to implement the Agreement, the Trade Facilitation Agreement Facility was established in 2014. The TFA Facility acts as a focal point to provide trade facilitation-related technical assistance and capacity-building support for implementation efforts, complementing existing efforts by regional and multilateral agencies, bilateral donors, and other stakeholders.

Source: WTO (2015)

such as the AfDB, the International Development Association and the World Bank. Bilateral donors extensively support the regional integration process in Africa, although some RECs have been criticised for being overly dependent on non-African donor funding. Traditional partners include, among others, Australia, Belgium, Canada, France, Germany, Japan, Netherlands, Norway, Sweden, the United Kingdom (DFID - Box 2.11) and the United States. The EU is also a major donor through facilities like the European Development Fund, EU-Africa Infrastructure Trust Fund and the EPA development programmes.

Emerging donors, especially Brazil, China (Box 2.10) and India also support Africa's regional integration initiatives. In addition, these countries could mobilise support for regional industrial capacity and infrastructure development under new institutional and policy initiatives such as the BRICS New Development Bank (with an Africa Regional Centre in South Africa), Asian Infrastructure Investment Bank and China's Belt and Road Initiative, with first bilateral agreements signed with South Africa in 2015 and Egypt in 2016.

Notes

1 Other landmark strategies over this period included Africa's Priority Programme for Economy Recovery (APPEC) 1986–1990, which became the UN Programme of Action for Africa's Economic Recovery and Development (UNPAAERD), the African Alternative Framework to Structural Adjustment Programme for Socio-Economic Recovery and Transformation (AAF-SAP) 1989, the African Charter for Popular Participation for Development (ACPAD) 1990 and the UN New Agenda for the Development of Africa in the 1990s (UN-NADAF) 1991.

2 The PAP originated with the Abuja Treaty (1991), which called for the establishment of a parliament to ensure that the peoples of Africa were fully involved in the economic development and integration of the continent. The Sirte Declaration (1999) repeated the call for early establishment. The Protocol Establishing the Pan-African Parliament was adopted at the 2001 OAU Summit in Sirte, Libya.

3 Overall, the African continent achieved average real annual GDP growth of 5.4 per cent between 2000 and 2010, adding US$78 billion annually to GDP (in 2015 prices). Since 2010, there has been a deceleration of growth, largely among oil exporters and North African countries still rebuilding after the political convulsions of the Arab Spring. Growth slowed to 3.3 per cent, or US$69 billion, a year between 2010 and 2015. See World Economic Forum (2016).

4 The standard Mercator map projection of the world belies the actual geographic size of the African continent.

5 The Africa Infrastructure Development Index (AIDI) presents selected indicators that comprise the index's major components, namely transport, electricity, ICT, water and sanitation.

6 AGOA-IV directs the United States Trade Representative to begin the process of negotiating reciprocal trade agreements with SSA countries. However, given the domestic political environment in the United States, the short-term prospects for any new trade agreements are not auspicious.

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Chapter 3 The Tripartite and Continental Free Trade Areas

3.1 What is the Tripartite Initiative?

The Tripartite Initiative is a framework for inter-regional co-operation, co-ordination and integration among three regional economic communities (RECs): COMESA, EAC and SADC (Figure 3.1). Launched in 2008, the initiative is overseen at the highest political level through Summits of Heads of State and Government of the three participating RECs (Box 3.1). So far, there have been three summits:

1. the First Tripartite Summit in Kampala, Uganda, on 22 October 2008, which launched the Tripartite Initiative;
2. the Second Tripartite Summit in Johannesburg, South Africa, on 12 June 2011, which endorsed the Tripartite Vision and Strategy document and launched the TFTA negotiations;
3. the Third Tripartite Summit in Sharm El Sheik, Egypt, on 10 June 2015, which launched the Tripartite Free Trade Area (TFTA).

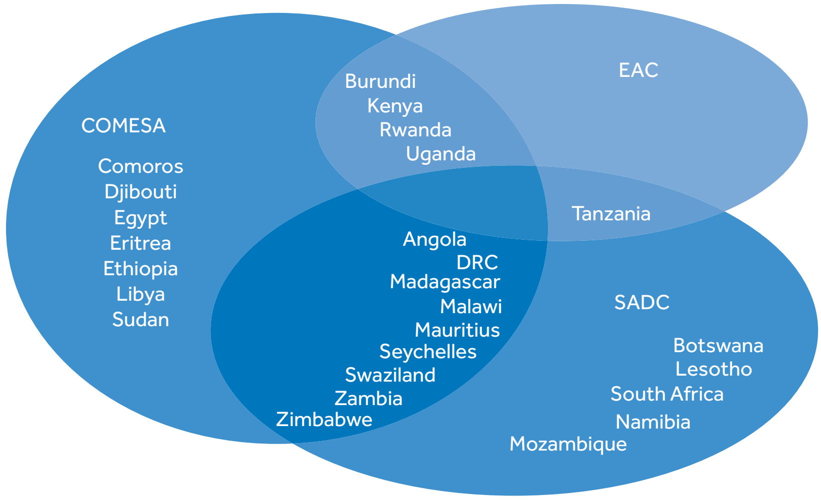
It is noteworthy that tripartite integration is to be based on a 'developmental regionalism' approach (Chapter 1), which is anchored on three pillars:

1. market integration based on the TFTA;
2. infrastructure development to enhance connectivity and reduce trade costs (e.g. North-South Corridor);
3. industrial development to address productive capacity constraints;

The Tripartite Vision and Strategy will be operationalised through a work programme, whose main pillars include the following:

- harmonisation and improvement of functionality of RTAs and programmes, including establishing the TFTA;

Figure 3.1 The Tripartite RECs



Box 3.1 COMESA-EAC-SADC Tripartite Institutional Framework

The COMESA-EAC-SADC Memorandum of Understanding (MoU) underpins the legal and institutional framework for the tripartite process and establishes the Tripartite Coordination Mechanism, consisting of the following organs:

- Tripartite Summit – consisting of the Heads of State and/or Government of COMESA, EAC and SADC, who shall meet at least once every two years and shall be the highest organ of the tripartite arrangement;
- Tripartite Council of Ministers – meeting at least once every two years;
- Tripartite Sectoral Ministerial Committee on Trade, Finance, Customs, Economic Matters and Home/Internal Affairs, which shall meet at least once a year;
- Tripartite Sectoral Ministerial Committee on Infrastructure – meeting at least once a year;
- Tripartite Sectoral Ministerial Committee on Legal Affairs – meeting at least once a year;
- any other ministerial committees that the Tripartite Council of Ministers may establish – meeting at least once a year;
- Tripartite Committees of Senior Officials and of Experts – meeting at least once every year; and
- Tripartite Task Force of the Secretariats of the three RECs – meeting at least twice a year.

The COMESA-EAC-SADC MoU also stipulates that each party shall establish a permanent unit within its Secretariat for the co-ordination of the mechanism for the harmonisation of the agreed programmes. Tripartite Coordination Units have since been established in each of the three RECs: COMESA, EAC and SADC.

Source: SADC, Continental and Inter-regional Integration, Tripartite Cooperation, available at: http://www.sadc.int/about-sadc/continental-interregional-integration/tripartite-cooperation/#Vision [accessed 30 January 2017]

- enhancement of trade facilitation to improve the flow of goods along regional transport corridors by lowering transit times and the cost of trading;
- joint planning and implementation of infrastructure programmes, which mainly comprise surface (road, rail, border posts, seaports) and air transport, ICT and energy;
- development of joint programmes for agricultural development and food security; and
- free movement of businesspersons within the tripartite region.

3.2 What is the Tripartite Free Trade Area?

The TFTA will be the largest free trade zone in Africa, linking 26 countries through their membership of three RECs: COMESA, EAC and SADC (Box 3.2). The TFTA was launched at the Third Tripartite Summit in Sharm El Sheik, Egypt, on 10 June 2015, with the signatures of 16 of the 26 countries participating in the negotiations.[1] Zambia signed the agreement on 17 June 2016, bringing the total number of signatories to 17.[2] Although the TFTA was formally launched, there is still outstanding technical

Figure 3.2 Africa's Tripartite Free Trade Area (TFTA)

Box 3.2 What's the Tripartite 'Grand' FTA?

The TFTA stretches from Cape Town to Cairo, creating an integrated market among 26 African countries (almost half the AU membership). The combined GDP of the 26 countries amounted to US$1.2 trillion in 2013, representing slightly more than half (52.5 per cent) of Africa's total GDP. The combined populations of 638 million people represented 59 per cent of Africa's population in 2013. This collective market makes the TFTA the sixteenth largest economy in the world. Merchandise exports within the tripartite region grew from US$14.3 billion in 2005 to US$42 billion in 2015. Such trade actually reached a peak of US$52.7 billion in 2013 before the global trade slowdown caused some decline.

Source: Author's calculations using data from UNCTADStat

work on the tariff liberalisation schedules, rules of origin and trade remedies.

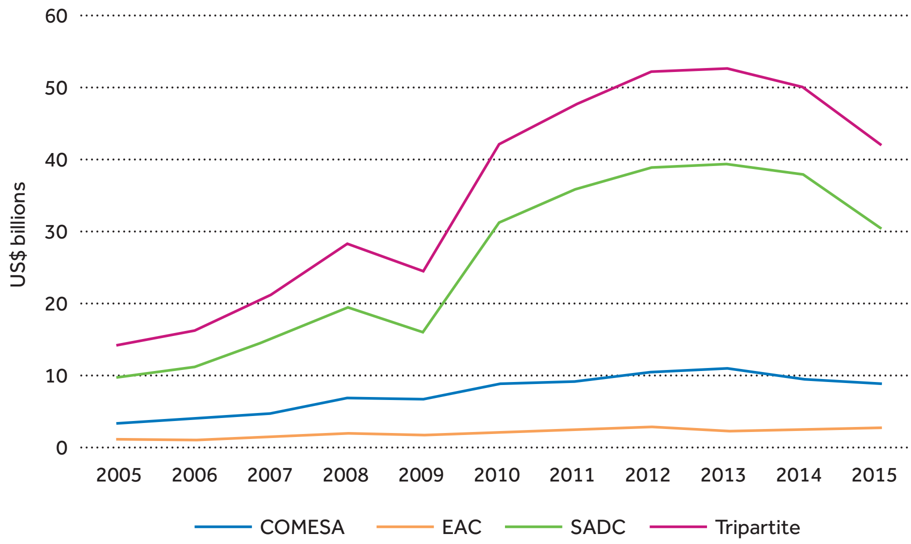
The TFTA is an important milestone towards rationalising the RECs and establishing the CFTA in 2017 and an African customs union by 2019. The TFTA's market integration agenda is being pursued in two stages or sequences:

1. Phase I covers trade in goods and its associated rules, and was officially concluded in December 2014. Preliminary discussions on the movement of businesspersons have been held as a parallel track to the first phase of the negotiations. This subject is expected to be an area of 'early harvest' under the second phase.
2. Phase II covers services and other trade-related areas. The TFTA Agreement provides a timeframe of 24 months to conclude the second-phase negotiations on trade in services, competition policy, intellectual property rights, movement of businesspersons and other trade-related matters.

The TFTA, if fully and effectively implemented, could have a substantial impact on intra-regional trade within East and Southern Africa. According to simulations by Mold and Mukwaya (2015) these effects could include:

- an increase of US$8.5 billion in intra-regional trade (or a one-third increase from current levels);
- major trade gains for industrial goods, especially light and heavy manufacturing and processed food; and

Figure 3.3 Intra-regional merchandise exports in the tripartite region (2005–2015)



Source: Author's calculations using data from UNCTADStat

Box 3.3 What are the key provisions of the TFTA Agreement?

The TFTA Agreement consists of 45 articles and 10 annexes. The core of the agreement covers tariff liberalisation, disciplines on non-tariff barriers, rules of origin, trade remedies and provisions for dispute settlement. Other provisions include elimination of quantitative restrictions, customs co-operation, trade facilitation, transit trade, infant industries, balance of payments etc.

Tariff liberalisation: The TFTA aims to liberalise 100 per cent of tariff lines (with general, specific and security exceptions). Between 60 and 85 per cent of tariff lines are to be liberalised upon entry into force of the agreement, while the remaining 15 to 40 per cent will be negotiated over five to eight years.

Non-tariff barriers: Article 10 and Annex 3 of the TFTA Agreement provide for the harmonisation of the COMESA, EAC and SADC non-tariff barrier (NTB) arrangements into a single mechanism and a process for identifying, categorising, reporting, monitoring and resolving NTBs in the tripartite region. The institutional framework includes a tripartite subcommittee on NTBs, as well as national monitoring committees and focal points.

Rules of origin: Article 12 and Annex 4 of the TFTA Agreement set out the criteria and conditions for goods to qualify for preferential rules of origin, based on a product list of rules. At the time of the launch, however, only about 25 per cent of the product list had been negotiated and agreed. The Third Tripartite Council of Ministers undertook to finalise the tripartite rules of origin within 12 months following the TFTA launch.

Trade remedies and dispute settlement: Articles 16–20 and Annex 2 of the TFTA Agreement provide for the application of anti-dumping, countervailing

(*Continued*)

Box 3.3 What are the key provisions of the TFTA Agreement? (*cont.*)

and safeguard measures to address dumping, subsidisation, import surges etc., but the technical details are yet to be finalised. There is a commitment to complete this body of work within 12 months following the launch. Article 30 and Annex 10 of the TFTA Agreement provide for a Dispute Settlement Body and its powers, which include, among others, the establishment of panels and an appellate body, surveillance over the implementation of rulings, and recommendations of panels and the appellate body.

Other provisions: Other provisions include those on the elimination of quantitative restrictions, customs co-operation, trade facilitation and transit trade, infant industries and balance of payments, among others. These are generally consistent with obligations under the WTO and international best practices. Article 29 details the organs for the implementation of the Tripartite FTA. These include, among others, the Summit of Heads of State and Government, the Council of Ministers, the Tripartite Task Force (made up of the Secretariats of the three RECs), the Tripartite Sectoral Ministerial Committee, the Tripartite Committee of Senior Officials and the Tripartite Committee of Experts.

Source: Luke and Mabuza (2015)

- a welfare increase of US$2.4 billion, although some tripartite member states are likely to gain more than others and these unequal benefits need to be carefully managed (see Chapter 1).

It should be noted that these estimates do not include potential gains if the TFTA were to be extended to cover trade in services, as envisaged under the second phase of the negotiations.

3.3 What is the Continental Free Trade Area?

In June 2015, African Union (AU) member states officially launched negotiations for the establishment of the CFTA, which is a priority initiative under the AU's *Agenda 2063*. In launching the CFTA negotiations, the summit clarified the scope, institutional arrangements, guiding principles and other practical arrangements to guide the negotiations.[3]

The CFTA is envisaged to be a comprehensive and mutually beneficial trade agreement in goods and services among the AU member states. If successfully concluded, the CFTA would constitute the largest FTA in the world, with 55 member states, a combined population of more than one billion people and a combined GDP in excess of US$3 trillion. In line with the deadline set in the Abuja Treaty, the negotiating parties aim to establish the CFTA by the 'indicative date' of 2017.

The CFTA negotiations are being conducted in two phases:

1. Phase 1: simultaneous negotiation of trade in goods and trade in services (separate tracks);[4] and
2. Phase 2: trade-related issues (competition, investment, intellectual property rights).

According to UNECA (2015), the CFTA is expected to bring wide economic benefits to Africa:

- the CFTA could increase intra-African trade by as much as US$35 billion per year, or 52 per cent above the baseline, by 2022;
- imports from outside the continent would decrease by US$10 billion per year, and agricultural and industrial exports would increase by US$4 billion (7 per cent) and US$21 billion (5 per cent) above the baseline, respectively; and

Box 3.4 What are the CFTA negotiating objectives?

AU member states have set out the objectives for the negotiations:

- an agreement to address the challenges posed by multiple and overlapping memberships of RECs;
- reservation of the acquis (building on what has already been agreed through existing agreements);
- variable geometry (different countries may reduce tariffs at different speeds), flexibility and special and differential treatment;
- most-favoured-nation treatment (countries must extend the preferences that they grant under the CFTA to all African countries equally);
- national treatment (once import tariffs have been paid, goods and services from other African countries will be treated the same as domestic goods and services by domestic regulations and internal taxes);
- reciprocity;
- decisions in the negotiations to be taken by consensus (unanimity); and
- adoption of a detailed Indicative Roadmap on the Negotiation and Establishment of the Continental FTA.

Source: UNECA *et al.* (2016)

Box 3.5 Case study: Potential impact of CFTA on the EAC

There is potential for the EAC to gain significantly from a CFTA. While intra-EAC trade has grown significantly, trade between the EAC and other African countries, particularly those outside the tripartite area, remains limited. However, there has been renewed interest in expanding trade and investment links with Nigeria and the ECOWAS subregion. In 2012, EAC exports to ECOWAS amounted to US$132 million. West Africa currently relies on extra-African imports of coffee and tea, and EAC could be in a position to tap into this market if high tariffs and weak transport links can be addressed. In May 2014, Kenya and Nigeria signed trade pacts aimed at deepening trade ties, following high-level political meetings and several large Nigerian business delegation visits to East Africa. Trade with neighbouring ECCAS has shown significant growth, with exports to the region expanding by close to 40 per cent between 2010 and 2012, from US$1.2 billion to almost US$1.7 billion. The CFTA would further open doors to West and Central Africa, through the reduction and eventual elimination of tariffs and improved trade facilitation and infrastructure.[5]

- if coupled with complementary trade facilitation measures to boost the speed and reduce the cost of customs procedures and port handling, the share of intra-African trade would more than double over the baseline, to 22 per cent of total trade by 2022.

As of March 2017, five meetings of the CFTA Negotiating Forum (CFTA-NF) have been held. The CFTA-NF has, among other actions, considered and adopted definitions, principles, approaches and modalities for the CFTA negotiations. The first meeting of the CFTA Technical Working Groups was also held in Rwanda in February 2017.

During the 27th AU Heads of State and Government summit, in Rwanda in July 2016, it was decided to establish a High-Level Panel of five eminent persons (one from each region) to champion the fast-tracking of the CFTA, ahead of its proposed launch in 2017. They also called on member states to 'speak with one voice' on all issues related to trade negotiations with third parties (see Chapter 1).

3.4 Is there a roadmap for establishing the CFTA?

In January 2012, AU Heads of State and Government agreed on a roadmap for establishing the CFTA. The roadmap proposed that the CFTA be built on two regional blocs:

1. The first is the 26-member TFTA (COMESA, EAC and SADC).

Box 3.6 What is the role of the AU Commission in the CFTA?

The CFTA Negotiating Forum was established by the Assembly of the AU and comprises officials from the AU member states and RECs that are recognised by the AU. It has the responsibility of conducting trade negotiations at the technical level and reports to the Committee of Senior Trade Officials on its negotiation activities. The CFTA Negotiating Forum also has responsibility for preparing quarterly reports on progress made in the negotiations, highlighting areas requiring higher-level intervention to the Committee of Senior Officials, ministers for trade, the High-Level African Trade Committee and the Assembly.

The AUC provides and co-ordinates technical and administrative support to the member states and RECs. The AUC also serves as the Secretariat to the CFTA Negotiating Forum. In playing its support and harmonisation role, the AUC closely collaborates with the RECs, the UN Economic Commission for Africa (UNECA) and the African Development Bank (AfDB), which are members of the Continental Task Force on the CFTA, operating at the level of Chief Executive Officers and at the technical level.

Sources: African Union (2016a,b)

2. The second is a combined bloc of RECs (ECOWAS, ECCAS, CEN-SAD and UMA), which would emulate the TFTA. Initial consultations took place in April 2013, and the first negotiation meeting on the second bloc occurred in December 2013.[6]

Given recent dynamics, including lack of progress on the second bloc, this roadmap no longer appears feasible. Instead, the CFTA is moving straight to continental liberalisation. For goods trade, the member states have agreed to liberalise between 85–95 per cent of their tariff lines over a period of 5–10 years. They have also agreed to allow for flexibilities through exclusion and sensitive lists to accommodate countries that may face challenges during liberalisation. A CFTA Template Agreement has been prepared as a basis for text-based negotiations. Services negotiations will be more challenging. It is paramount that a developmental integration perspective frames the overall CFTA process (Chapter 1).

Notes

1 Countries that have signed the TFTA are Angola, Burundi, Comoros, the Democratic Republic of the Congo, Djibouti, Egypt, Kenya, Malawi, Namibia, Rwanda, Seychelles, Sudan, Tanzania, Uganda, Swaziland and Zimbabwe.

2 TRALAC (2016).
3 The Negotiating Principles for the CFTA, Institutional Arrangements for the CFTA negotiations, the Terms of Reference for the CFTA-NF and the Indicative Roadmap for the CFTA negotiations.
4 Unlike the TFTA's two-phase sequencing of goods and services trade negotiations.
5 International Centre for Trade and Sustainable Development (2014).
6 A formal Memorandum of Understanding outlining how decisions will be made and establishing co-ordination mechanisms still needs to be signed, along with the launching of work on technical studies and key institutional preparatory work on the formation of this second bloc.

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Chapter 4
Way Forward: The Road to 2063

Agenda 2063 anchors and advances the pan-African vision of a united, peaceful and prosperous continent. Strengthening African integration is indispensable for enhancing political co-operation at the pan-continental level, and for promoting economic growth, development and poverty reduction to help achieve many of the Sustainable Development Goals. Notwithstanding continuing development challenges, the African continent has enormous economic potential. Looking ahead, four factors could have a transformative impact on the continent's growth and development prospects:

- Africa has the fastest urbanisation rate in the world. Over the next ten years, 187 million more Africans will live in cities, equivalent to half the United States population today.
- Africa will have the biggest working-age population in the world of 1.1 billion in 2034, larger than in either China or India.
- Africa has the world's largest reserves of many key natural resources (e.g. 60 per cent of the world's unutilised but potentially arable agricultural land, and the largest global reserves of diamonds, gold, managanese, platinum group metals, vanadium and many others).
- Africa can leapfrog old technologies using mobile and digital technologies (e.g. penetration of smartphones expected to hit 50 per cent in 2020 compared to 18 per cent in 2015) (McKinsey Global Institute 2016).

To unlock the continent's vast potential, African governments are working together to implement ambitious plans for continental integration, industrialisation and infrastructure development. *Agenda 2063* aims to grow intra-African trade to about 50 per cent of total world trade by 2045. However, it is not only intra-regional trade that needs to grow: the sophistication of the products and services traded must also be enhanced.

Despite African leaders' strong declaratory commitments to regionalism, there remain many political, economic and institutional challenges to deeper integration and effective

Box 4.1 Five key messages from the World Bank on *De-fragmenting Africa*

1. Effective regional integration is more than simply removing tariffs – it is about addressing on-the-ground constraints that paralyse the daily operations of ordinary producers and traders.
2. Defragmenting Africa calls for regulatory reform and capacity building among the institutions that are charged with enforcing the regulations.
3. The integration agenda must cover both goods and services. Services are critical, job-creating inputs into the competitive edge of almost all other activities (e.g. the role that transport plays in manufacturing).
4. Simultaneous action is required at both the supranational and national levels. While RECs can provide the framework for reform (e.g. bringing together regulators to define harmonised standards or to agree on mutual recognition of the qualifications of professionals), responsibility for implementation lies with each member state.
5. International donors should refocus their efforts towards helping countries understand the political economy behind resistance to integrative reforms.

Source: Brenton and Isik (2012)

implementation of regional trade agreements. There is an extensive literature on the obstacles and challenges for Africa's trade integration agenda.[1] These reports and studies propose a range of concrete measures and action plans to ensure more effective integration in Africa (for example Box 4.1). The following is a summary of some of the major obstacles to trade integration:

- lack of political will to advance integration, including concerns about loss of sovereignty, policy space and tariff revenue;
- overlapping memberships of RECs, with different tariff reduction schedules, rules of origin and ambition regarding regional integration;
- failure to respect and implement regional trade agreements and their obligations;
- higher tariffs on intra-regional African exports compared with the rest of the world,[2] even though the total elimination of tariffs on goods is foreseen in almost all RECs;

- persistence of NTBs that impede trade, from import licenses, additional fees and surcharges to stringent sanitary and phytosanitary measures;
- inefficient or corrupt customs and border management impacting both formal and informal trade;
- lack of mutual recognition arrangements and other restrictive policies in regional services markets, ranging from nationality requirements to regulatory heterogeneity for licensing, qualification and educational requirements;
- lack of adequate infrastructure, from transport to ICT, to support both physical and digital cross-border trade in goods and services;
- lack of robust dispute settlement on issues pertaining to obligations under regional trade agreements, including legal remedies for private traders and service providers when their rights are violated;
- lack of support for entrepreneurship, private sector development and export competitiveness, especially for small and medium-sized enterprises (SMEs); and
- external dynamics, including the potential impact of mega-RTAs and increased import competition from advanced and emerging economies, which has contributed to Africa's deindustrialisation.

For the African continent to achieve its full economic potential, national governments, RECs and the AUC, working with the private sector, civil society and international partners, should begin to effectively tackle the above constraints. Building on the developmental integration approach, the three priorities should be to promote deeper and effective market integration; develop cross-border infrastructure (transport, communications and energy networks); and promote industrial development and structural transformation including through regional value chains in goods and services.

Notes

1 See, for example, APPG (2016); Brenton and Isik (2012), UNCTAD's *Economic Development in Africa* series; UNECA's flagship reports; and the UNECA/AU/AfDB annual reports on regional integration entitled *Assessing Regional Integration in Africa.*

2 Tariff protection within Africa averages about 8.7 per cent, but only 2.5 per cent to the rest of the world (Lopes 2016).

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