

# The AfCFTA: A stepping stone for Regional Public Goods

2019 BNR Research Day, June 10, 2019

Jaime de Melo

IGC, FERDI, and University of Geneva

# Outline

## **PART I The Africa Continental Free Trade Area**

- The Three Margins of worldwide RTA expansion
- Inserting the Africa Continental free Trade Area (AfcFTA) in AU agenda
- Architecture of AfCFTA....
- ....and many key features call for delegation of sovereignty

## **PART II Challenges Ahead**

- An African Integration Trilemma
- Small markets and the provision of Regional Public Goods (RPGs)
- Examples of RPGs, their aggregation technologies, and their benefits/externalities

## **PART III Dashboard at Market integration**

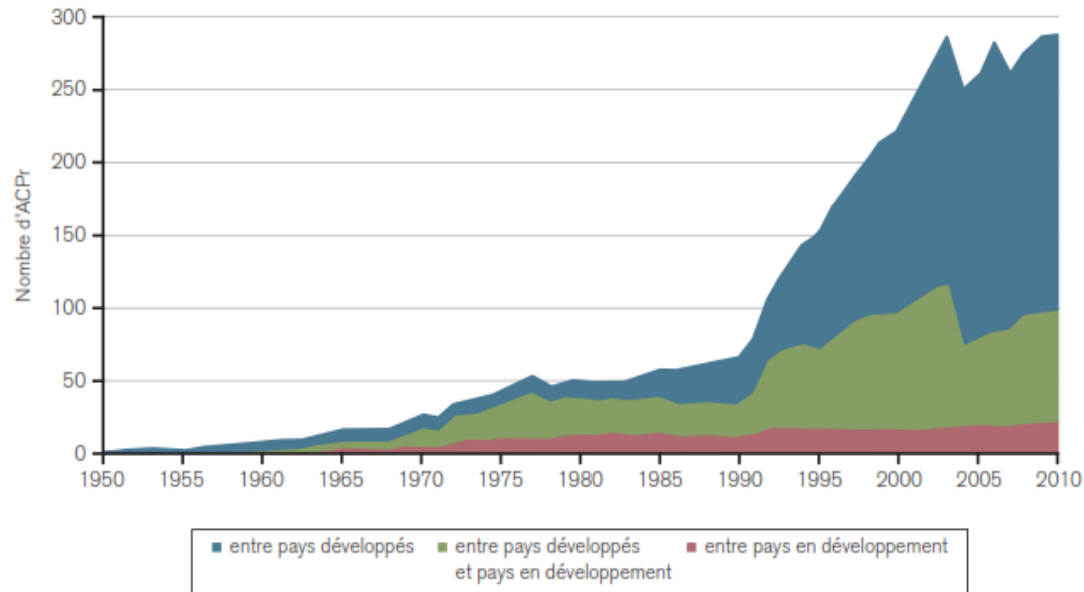
- Average applied intra-regional tariff mostly still close to MFN levels (1)....
- Uneven progress at tariff reduction across RECs and comparators (2)
- .... And high frequency of Non-tariff Measures
- Estimated trade restrictions in Services still high (more so in AU countries) ...
- ...but night lights (2000 vs. 2013) shows thickness of borders falling

## **PART IV Sketch of examples of RPGs (see AEO2019)**

- Hard and Soft infrastructure

# The three Margins of RTA expansion (1)

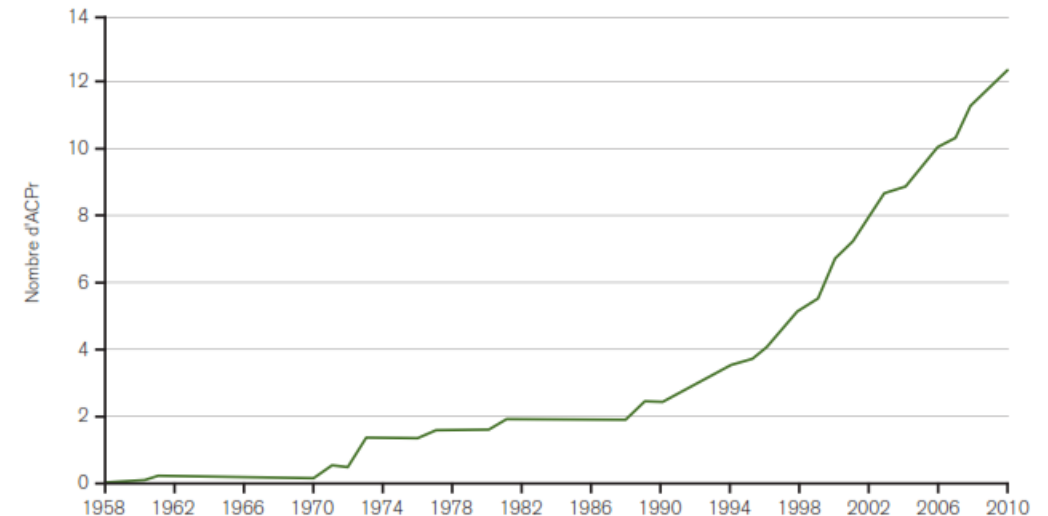
Figure B.1 : Nombre cumulé d'ACPr en vigueur, 1950-2010, notifiés et non notifiés, par groupe de pays



**Increase** in number of memberships per country (2) →

← **(1) Increase** in number of RTAs notified to WTO (mostly N-S and S-S)

Figure B.1b : Nombre moyen de participants à des ACPr par Membre de l'OMC, 1958-2010, ACPr notifiés

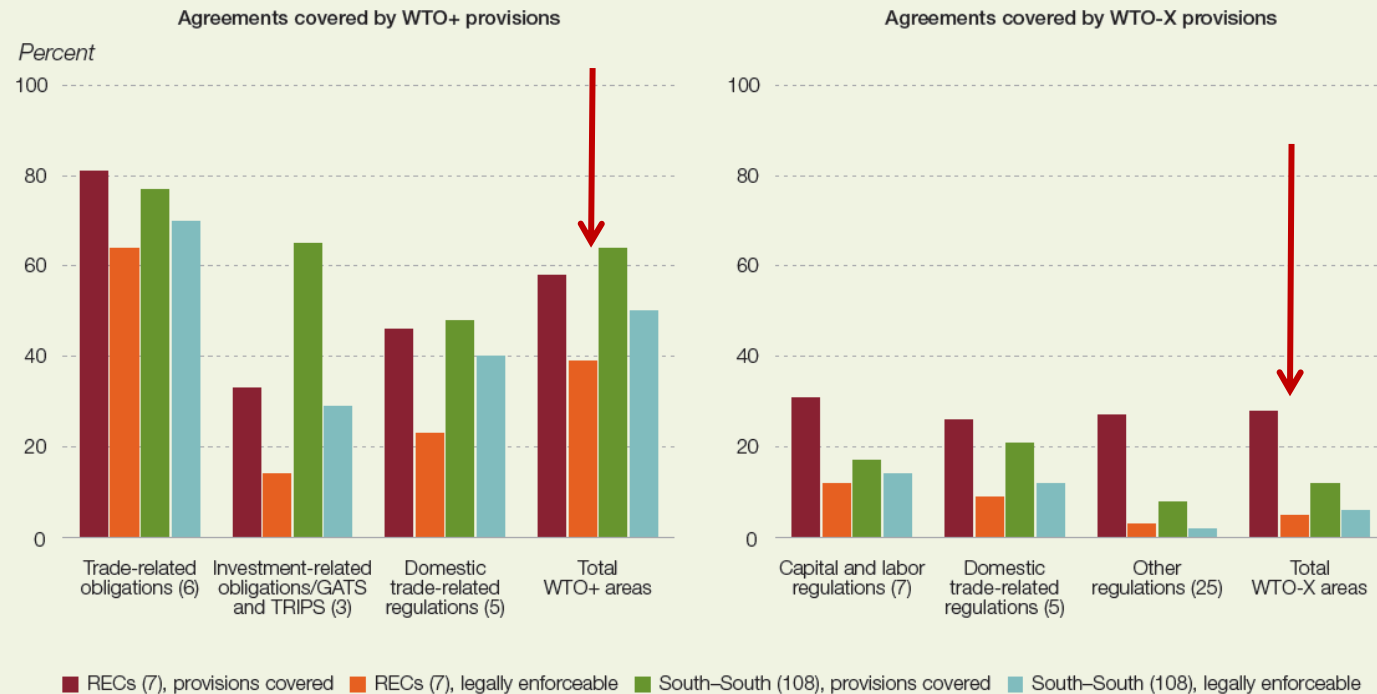


Note: Ces figures comprennent à la fois les partenaires commerciaux Membres et non Membres du GATT/de l'OMC dans le contexte des ACPr par Membre actuel de l'OMC (153).

Source: Secrétariat de l'OMC.

# The three Margins of RTA expansion (2)

**FIGURE 3.5** Coverage of provisions covered by the World Trade Organization and provisions not covered by the World Trade Organization in seven African regional trade agreements and South-South regional trade agreements, by legal enforceability



GATS is General Agreement on Trade in Services; TRIPS is Trade-Related Aspects of International Property Rights.

Source: de Melo, Nouar, and Solleder (2019) with data from Hoffman, Osnago, and Ruta (2017).

Note: African regional trade agreements included are CEMAC, COMESA, EAC, ECOWAS, SACU, SADC, and WAEMU. Percentages are by category of provisions covered distinguishing those that are legally enforceable. For example, for agreements covered by WTO-X provisions, for the 7 African RECs, of the 49 (7 × 7) provisions for capital and labor requirements, 31 percent (15) are covered, with 12 percent (6) deemed legally enforceable.

**(3) ← Increase in depth (coverage of issues)**

Coverage of provisions:

----WTO+ (covered in multilateral negotiations)

----WTOX (not covered in multilateral negotiations)

--Average rates in 7 RECs against averages for another 108 South-South RTAs

---Higher coverage in RECs, but equally (or lower) legal enforceability

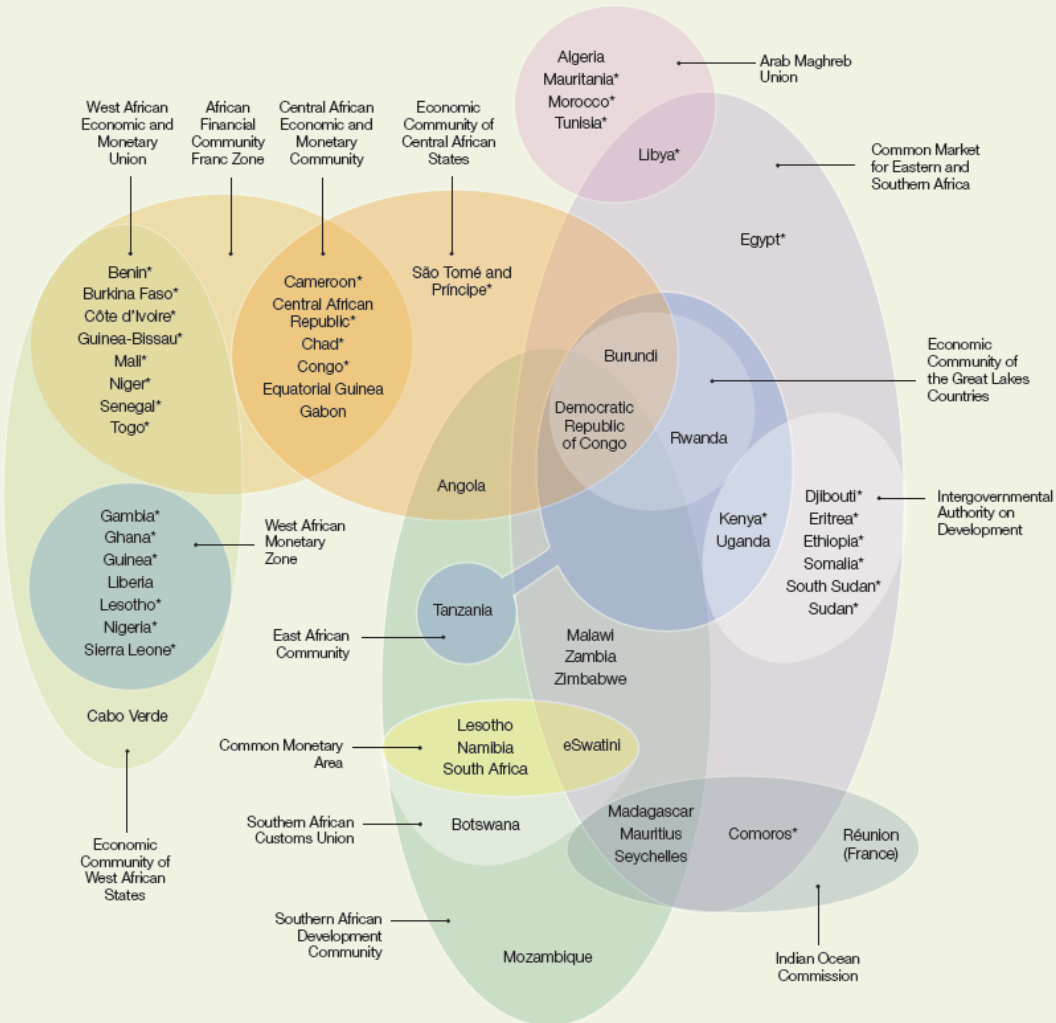
# Part I

## The Africa Continental Free Trade Area

# Inserting the Africa Continental free Trade Area (AfcFTA) in AU agenda

The AU continental Agenda of 2063 (2013) launch coïncides with 4th. phase in figure below taken from Abuja (1994) Treaty

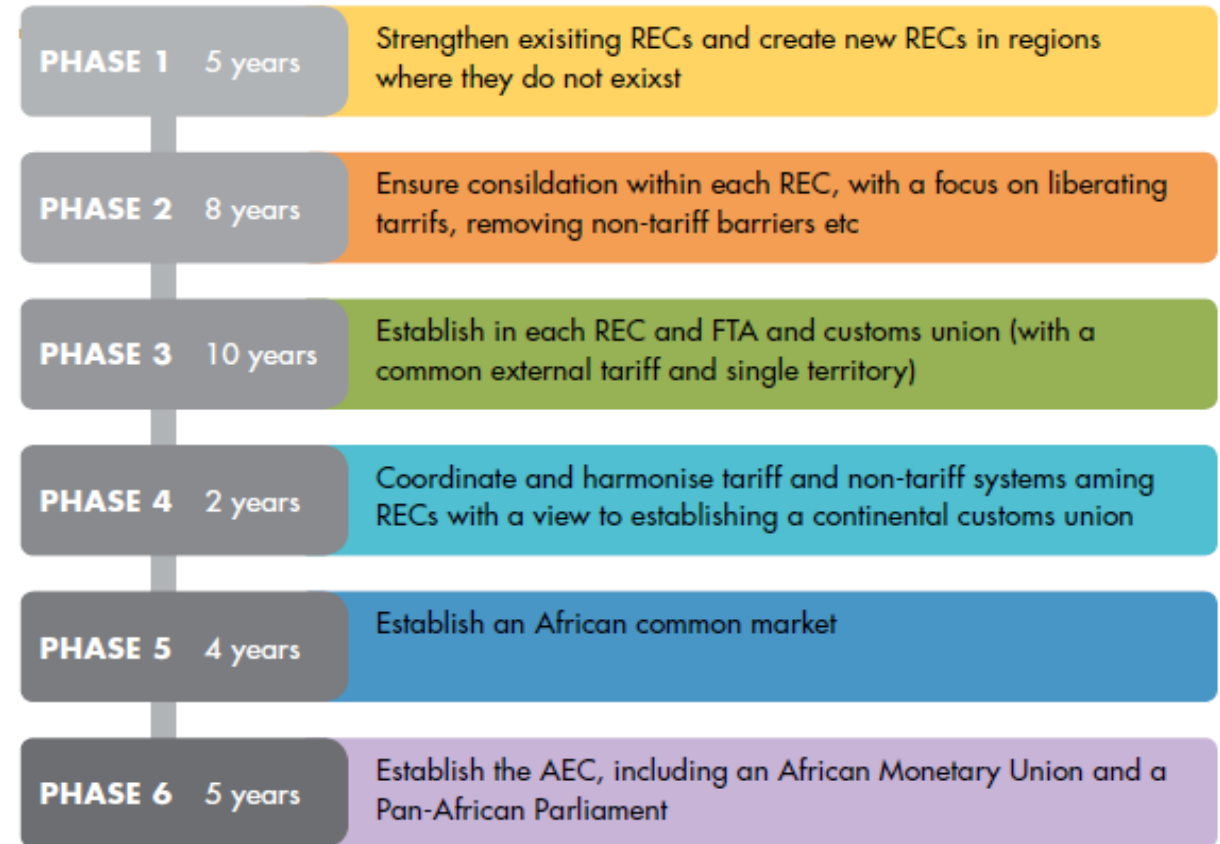
FIGURE 3.1 Africa trade and economic organizations



Source: <https://au.int/en/organs/recs>.

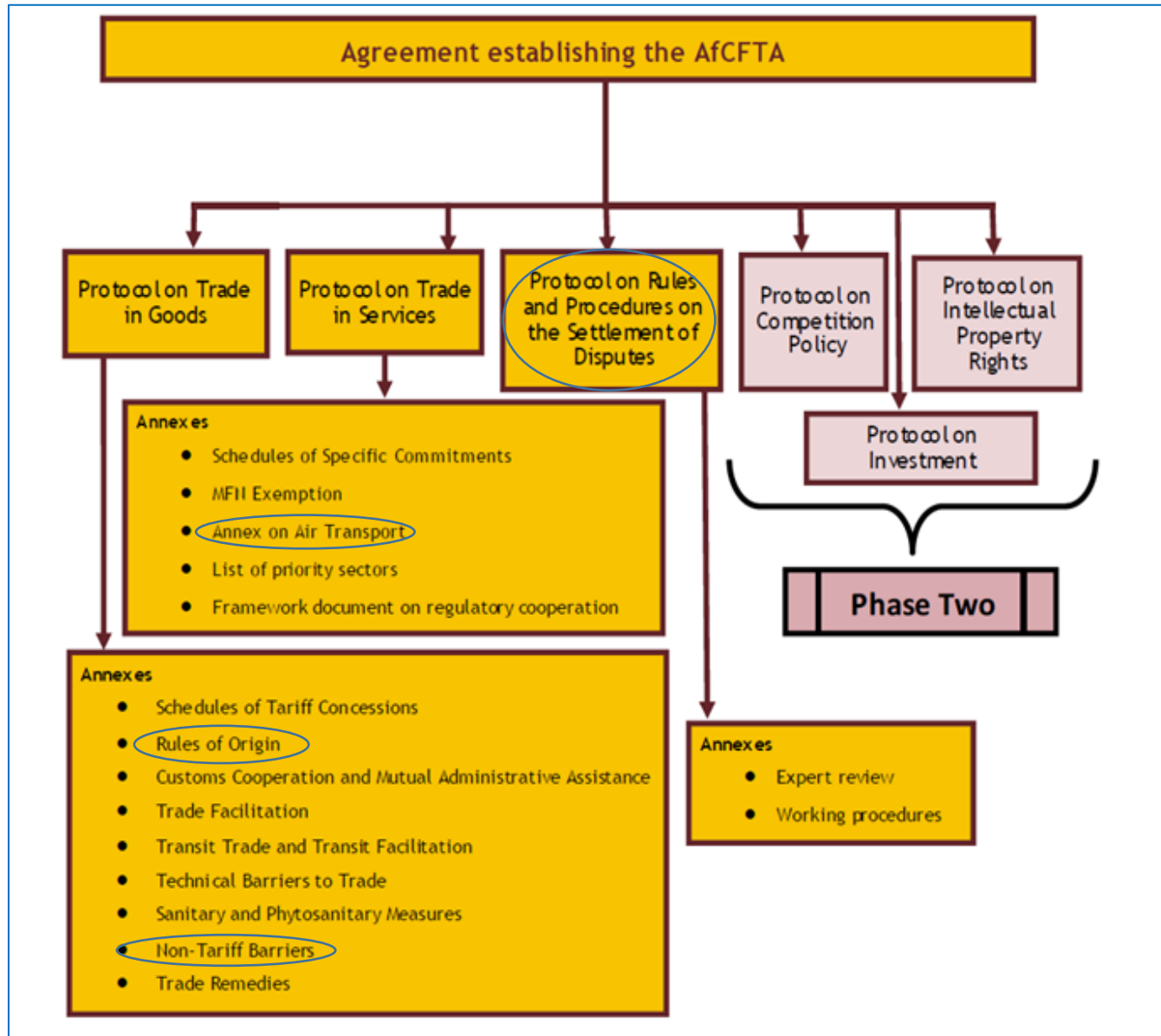
Note: Asterisks indicate the 29 members of the Community of Sahel-Saharan States.

FIGURE 2 THE AU CONTINENTAL INTEGRATION AGENDA



Source: Sojininen I, 'The Continental Free Trade Area: What's going on?', *Bridges Africa*, 3, 9, 28 October 2014

# Architecture of AfCFTA....



Launch May 30 2019

“à la Kyoto” since Nigeria is one of the 3 non-signatories in March 2018. Only applies to signatories (currently 24 signatories have deposited)

....Still bogged down in completing the technicalities for phase I (e.g. annexes for Protocol Trade in Goods and Protocol on Trade in Services—see circled items)

---Note departure from “old” linear approach where Services integration comes after Goods follow. Movement of people in separate agreement

--- Circles indicate likely difficulties at reaching meaningful consensus

Details on key features on next slide

## ....and many key features call for delegation of sovereignty

- Agreeing on contingent protection measures among heterogeneous members difficult
- ....and need to delegate some sovereignty to provide Regional Public Goods (RPGs) which have been neglected in evaluations but see Newfarmer [7].
  - Protocol on dispute settlement
  - Externalities on Common Pool Resources (CPRs) e.g. lakes, river basins
  - Peace and security see [6]
  - Air transport (RPG at continental level—see [1])

In many ways, conflicts on RPGs are greater than on private goods (where differences in preferences are higher making negotiations on exchange easier)

- For dispute settlement, need to apply subsidiarity principle beyond the REC to the continental level
- A challenge for RECs and other Regional organizations in Africa is to determine the scope of RPGs and their benefits that determine application of the subsidiarity principle

Agreement establishing the African Continental Free Trade Area	Protocol on Trade in Goods	<ul style="list-style-type: none"><li>• Elimination of duties and quantitative restrictions on imports</li><li>• Imports shall be treated no less favourably than domestic products</li><li>• Elimination of non-tariff barriers</li><li>• Cooperation of customs authorities</li><li>• Trade facilitation and transit</li><li>• Trade remedies, protections for infant industries and general exceptions</li><li>• Cooperation over product standards and regulations</li><li>• Technical assistance, capacity-building and cooperation</li></ul>
	Protocol on Trade in Services	<ul style="list-style-type: none"><li>• Transparency of service regulations</li><li>• Mutual recognition of standards, licensing and certification of services suppliers</li><li>• Progressive liberalisation of services sectors</li><li>• Service suppliers shall be treated no less favourably than domestic suppliers in liberalised sectors</li><li>• Provision for general and security exceptions</li></ul>
	Protocol on Dispute Settlement	<ul style="list-style-type: none"><li>• To be agreed</li></ul>
	Phase 2 negotiations	<ul style="list-style-type: none"><li>• Intellectual property rights</li><li>• Investment</li><li>• Competition policies</li></ul>

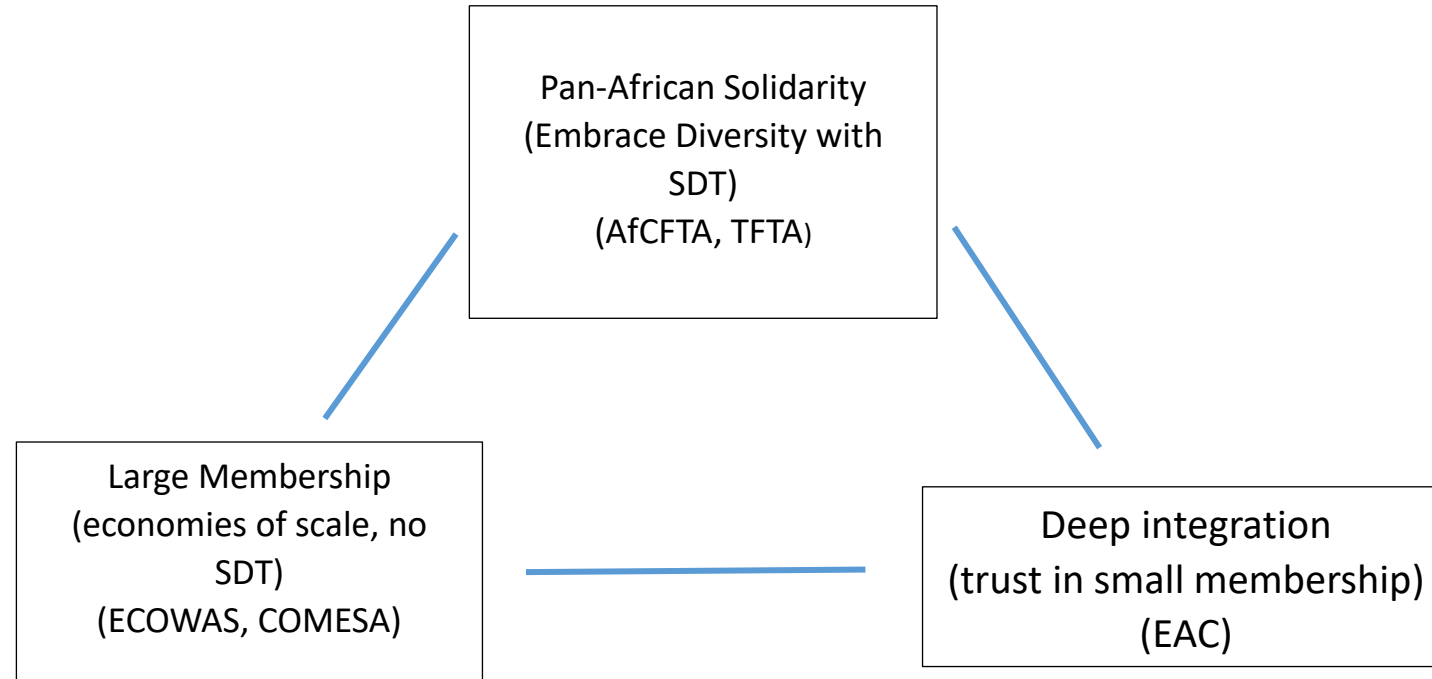


# Part II

## Challenges Ahead

# Challenges ahead (1).... An integration trilemma for provision of private goods

## The African Integration Trilemma

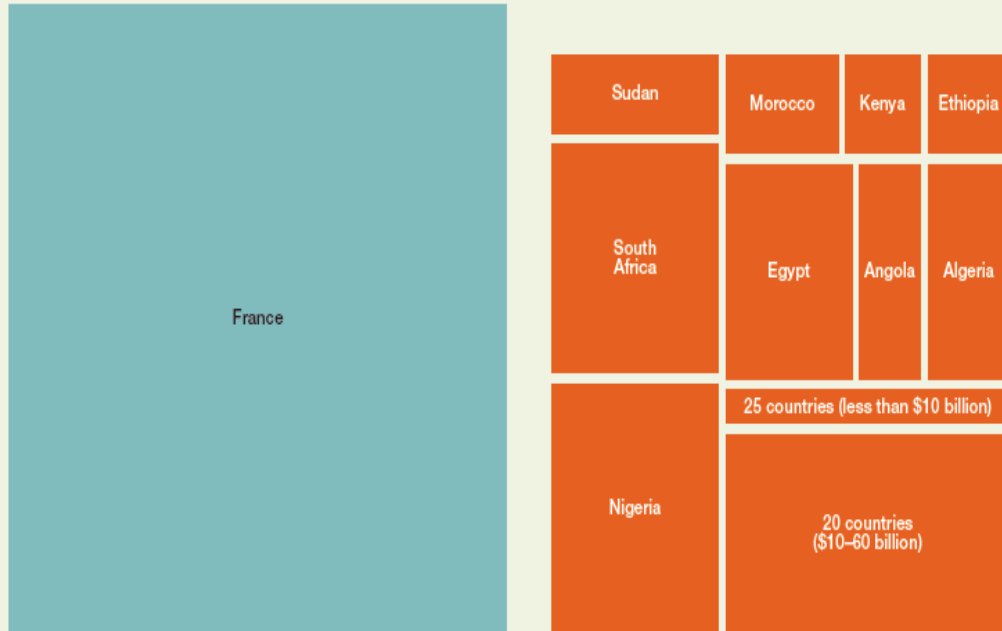


See discussion in “The African Continental Free Trade Area: An Integration Trilemma”

<https://theforum.erf.org.eg/2019/01/28/african-continental-free-trade-area-integration-trilemma/>

# Challenges ahead (2): Public goods provision in small markets

**FIGURE 3.10** Africa's economy, with many small markets, is smaller than France's



Source: Data from IMF; IEA analysis.

Note: Size is GDP measured in 2011 purchasing power parity US dollars.

Suppose sole objective of the government is to provide a non-rival public good (health, infrastructure...) through a tax levied on its citizens. Population has heterogeneous preferences. People cannot cross borders.

Let the number of countries and their size be decided on purely economic grounds.

→ Trade-off between larger markets that lower the cost of production and the costs of heterogeneity in large popula. Larger markets raise income and reduce the cost of providing public goods (e.g. education, defense...)

Economic integration, say along the paths set out by the RECs, if it reduces trade costs, increases the number of economically viable countries as the size of the market matters less for productivity and hence as a determinant of country size.

**CONCLUSION:** → across Africa, markets are too small in all but a handful of countries to be economically viable, notably for the provision of public goods so there is no alternative to relentlessly pursuing economic integration, the objective of the RECs and African Union. Measuring distribution of benefits of RPGs is difficult but RPG focus avoids facing the issue of negotiation about distribution of rents. The problem of financing RPGs remains.

Table 7.2: Examples of Regional Public Goods and Their Benefits/Externalities

Function	Regional Public Goods	Benefits/Externalities
Economic Cooperation and Integration	Bilateral and regional trade agreements	Reduces discriminatory trade restrictions and promotes peace and security
	Prevention of financial contagion	Prevents spread of negative shocks such as excessively volatile exchange rates and equity prices
	Regional liquidity support through regional financial agreements	Promotes regional macroeconomic and financial stability
Human and Social Development	Response to outbreaks of emerging and reemerging diseases	Reduces health-related loss of work hour and labor productivity
	Elimination of communicable diseases	Breaks chain of transmission within region. May serve as stepping stone to global elimination
	Preventing emergence of resistance	Prevents reduction in the region's working-age population who are affected by the virus' resistance to drugs
	Unrestricted knowledge generated from research and development particularly beneficial to the region	Improves the quality of life in the region through technological advances in fields such as medicine and education
	Advisory services and research on agriculture through regional agricultural organizations	Increases agricultural productivity in the countries applying such knowledge
Natural Resources and Environment	Reduction in greenhouse gas emissions and climate change adaptation	Lowers the risk of climate change (such as rising sea level, changing growing seasons, and increased droughts and heatwaves) while adaptation reduces the damages from climate change to particular countries
	Control of air pollution transboundary in nature	Reduces prevalence of diseases related to air pollution as well as occurrence of acid rain
	River basin management	Benefits all riparian states in terms of water sharing, flood control, water quality
	Control of marine pollution and protection of regional seas	Protects marine life and is especially beneficial to coastal states.
	Control of persistent pollutants	Protects human health and the environment
	Control of hazardous waste transport	Benefits countries with weak governance that import wastes
	Marine fisheries management	Increases sustainable yields and prevents collapse of stocks
	Food security and resource management through regional cooperation	Promotes consistent supply of food and other agricultural products, as well as conservation of their sources
Connectivity	Cross-border transport and ICT infrastructure and national infrastructure that involves cross-border dimensions	Expands trade opportunities and promotes freer movement of commodities and inputs
	Trade facilitation such as customs reform and national single window	Facilitates international trade, faster movement of perishable goods
Peace and Security	Nonproliferation of nuclear weapons	Provides a security to all countries in the region and beyond
	Prohibition on nuclear testing	Limits development of new weapons, and therefore a technological arms race
	Prevention of terrorism	Promotes influx of investments and tourists, as well as stable business environment
	Preventing state failure	Promotes market stability and investor confidence
Governance	Nonproprietary technical standards	Encourages adapting best practices for increased productivity and growth
	Harmonized standards and higher quality education through regional cooperation	Promotes regionwide labor productive gain due to wider access to quality education
	Harmonization of intellectual property rules	Increases knowledge production at the margin; it would also redistribute rents to past research and development

ICT = information and communication technology.  
Source: ADB based on Barrett (2018a, 2018b).

# Examples of RPGs, their aggregation technologies, and their benefits/externalities

**Economic Cooperation and integration (summation; weakest link, best shot):** Reduces discriminatory trade restrictions; promotes peace and security;prevents spread of negative shocks;

**Natural resources and environment (Summation, weighed sum, weakets link).** Funding at subregional level to identify emitters and recipients; Convention on conservation and management of fisheries at regional level to balance exploitation and preservation.

**Human and social development (weakest link, best shot).** Controlling spread of disease, eradication of malaria through cooperation at regional level). Higher education at regional level (ALU campuses in Mauritius, Rwanda).

**Governance and institutions (best shot, better shot, threshold)** Economic review and dialogue: African Peer review mechanism (APRM) evaluates a country’s performance (21 reviews carried out)

Source: Adopted from Asia Development Bank [2] and Newfarmer [9]

## Part III

Dashboard of Progress at market integration  
(mostly across RECs and comparators)

# Average applied intra-regional tariff mostly still close to MFN levels (1)

**TABLE 3.1** Applied tariffs: Average intraregional tariffs and most favored nation tariffs, 2016

Agreement	Intraregional tariff	Most favored nation tariff
<i>AU-recognized regional economic communities</i>		
Arab Maghreb Union (AMU)	0.05	0.11
Common Market for Eastern and Southern Africa (COMESA)	0.05	0.12
Community of Sahel-Saharan States (CEN-SAD)	0.12	0.13
East African Community (EAC)	0.0	0.13
Economic Community of Central African States (ECCAS)	0.09	0.15
Economic Community of West African States (ECOWAS)	0.11	0.12
Southern African Development Community (SADC)	0.04	0.09
West African Economic and Monetary Union (WAEMU)	0.09	0.12
<i>Other preferential trade agreements</i>		
Agadir Agreement	0.00	0.13
Central African Economic and Monetary Community (CEMAC)	0.0	0.18
Gulf Cooperation Council (GCC)	0.0	0.05
Intergovernmental Authority on Development (IGAD)	0.09	0.16
Pan-Arab Free Trade Area (PAFTA)	0.00	0.09
Southern African Customs Union (SACU)	0.0	0.08
West African Monetary Zone (WAMZ)	0.12	0.13
<i>Comparators</i>		
Andean Community	0.0	0.09
Association of Southeast Asian Nations (ASEAN)	0.01	0.07
Southern Common Market (Mercosur)	0.00	0.12

Source: Data from the International Trade Centre. Most data for 2016 are from Espitia et al. (2018).

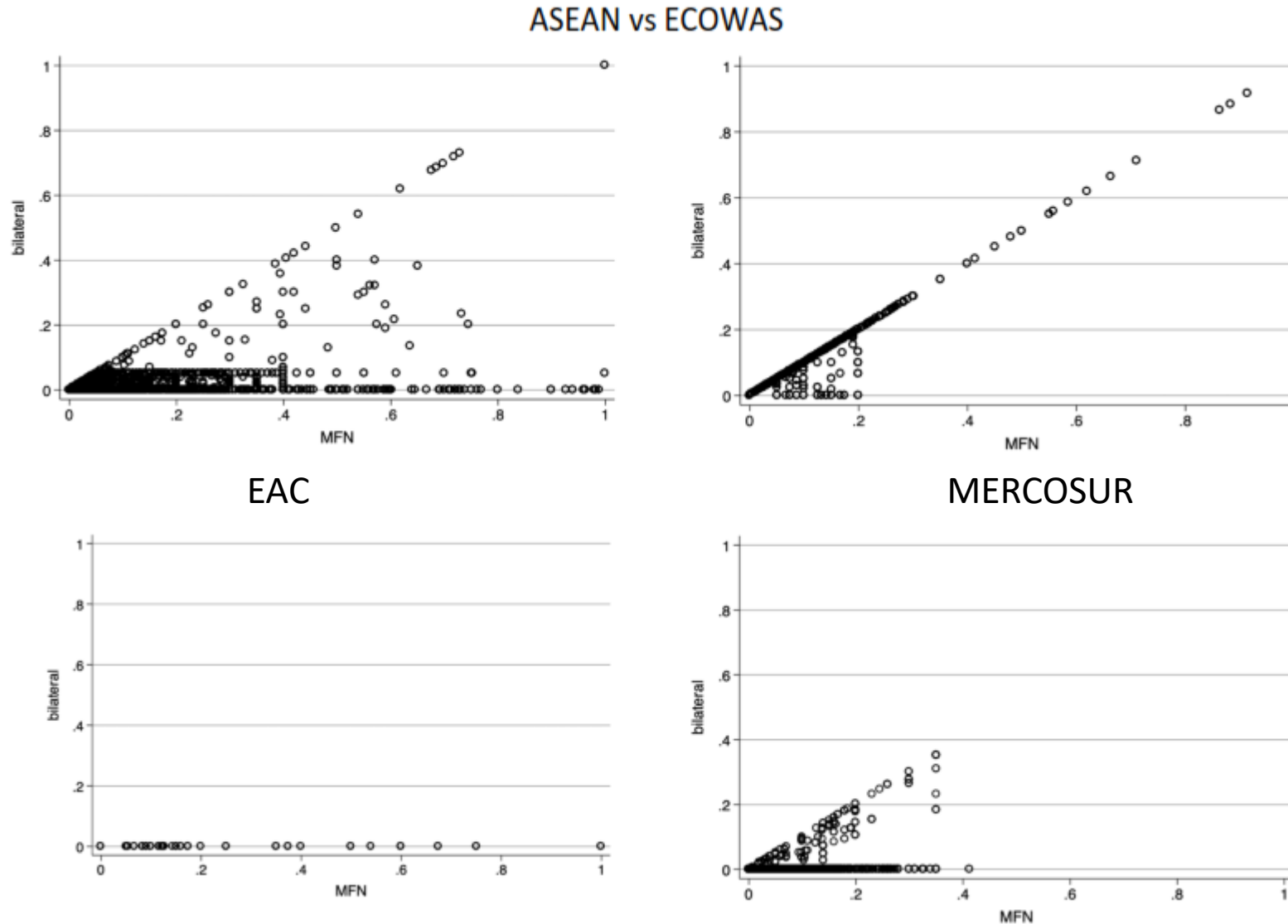
Note: All averages are simple averages of applied tariffs calculated in two steps. First, averages on the statutory schedules at the six-digit Harmonized System level are averaged for each country. Second, an average is taken among all group members. Column 1 reports the bilateral averages and column 2 the average applied most favored nation rates. Tariffs at the regional trade agreement level are obtained by taking a simple average across members.

Uneven implementation reflects the many objectives of integration across the very diverse RECs (see scatter on next slide)

- Many diverse objectives in the texts
- Cherry picking reflected in large number of memberships
- Diplomacy (peace and security)
- Lack of funds to compensate losers as was the case for the second EU enlargement

See list of objectives in Melo and Tsikata [4] and the discussion in Byers et al (2018)

# Uneven progress at tariff reduction across RECs and comparators (2)...



← Most applied tariffs on intra-ASEAN tariffs are zero (especially for low tariffs).

Very little reduction in applied intra-ECOWAS tariffs

← EAC furthest with all applied tariffs on intra-member trade zero.  
Further than MERCOSUR

Source: Melo et al. [ ]

Scatter from HS-6 tariffs in 2015. Simple averages across members in brackets [intra, MFN].

---Average applied intra-PTA tariff on vertical axis and average applied MFN tariffs on horizontal axis

# .... And high frequency of Non-tariff Measures

Frequency Indices of Non-Tariff Measures (NTMs), in percentage (%)

HS Sections	Sanitary and Phyto-Sanitary	Technical Barriers to Trade	Border Control Measures	Quantitative Restrictions
I. Animals	90	62	54	12
II. Vegetables	83	53	53	6
III. Fats & Oils	87	63	53	14
IV. Beverages & Tobacco	81	56	51	9
V. Minerals	6	21	40	9
VI. Chemicals	14	27	37	9
VII. Plastics	6	19	47	8
VIII. Leather	28	32	43	10
IX. Wood products	35	18	47	7
X. Paper & Book	5	14	46	7
XI. Textile and clothing	8	24	53	8
XII. Footwear	9	17	46	12
XIII. Stone & Glass	6	15	46	7
XIV. Pearls	6	18	44	12
XV. Metals	7	14	46	6
XVI. Machinery	8	44	45	11
XVII. Vehicles	9	31	46	14
XVIII. Optical Medicals	7	21	44	10
XIX. Arms & Ammunition	14	53	33	14
XX. Miscellaneous	8	19	46	10
XXI. Works of art	11	20	44	19

NTMs:

**Precautionary or Protectionist intent?**

At HS2 level: High frequency of SPS and TBTs...

...but also of border control and QRs.

Notes:

Country averages of frequency indices (over HS6 tariff lines) for the following countries:

Sample: Benin, Botswana, Côte d'Ivoire, Cameroon, Cape Verde, Algeria, Ethiopia, Ghana, Gambia, Liberia, Morocco, Mali, Mauritania, Niger, Nigeria, Senegal, Togo, Tunisia.

Source: Melo et al. [4] Calculations from OECD NTM data



# Estimated trade restrictions in Services still high (more so in AU countries) ...

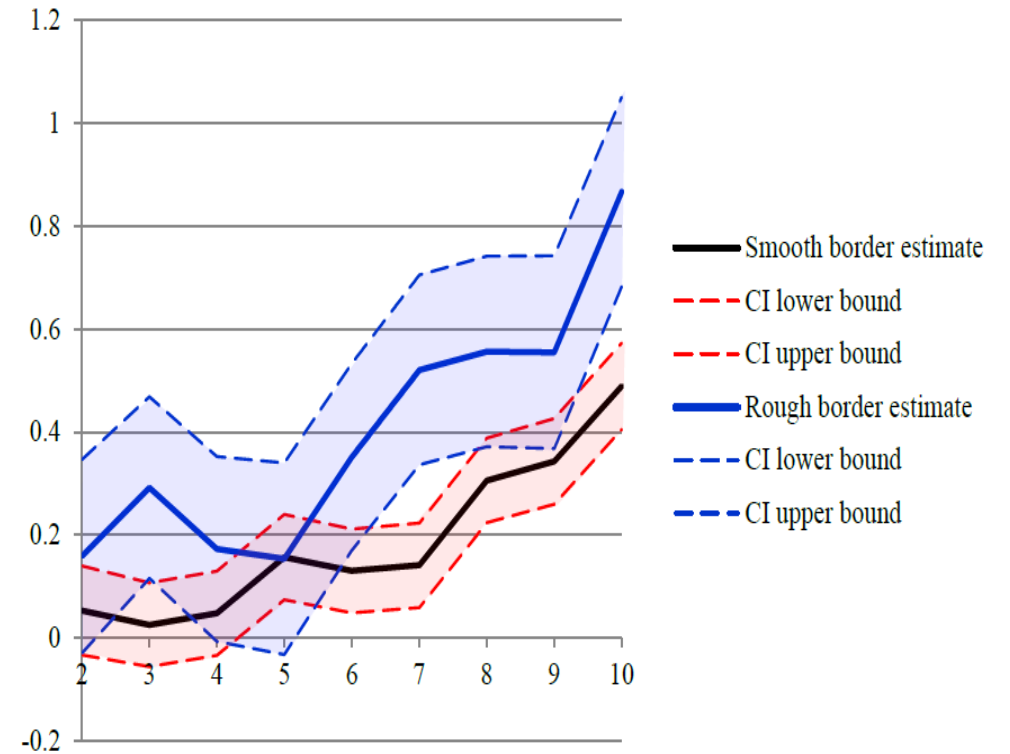
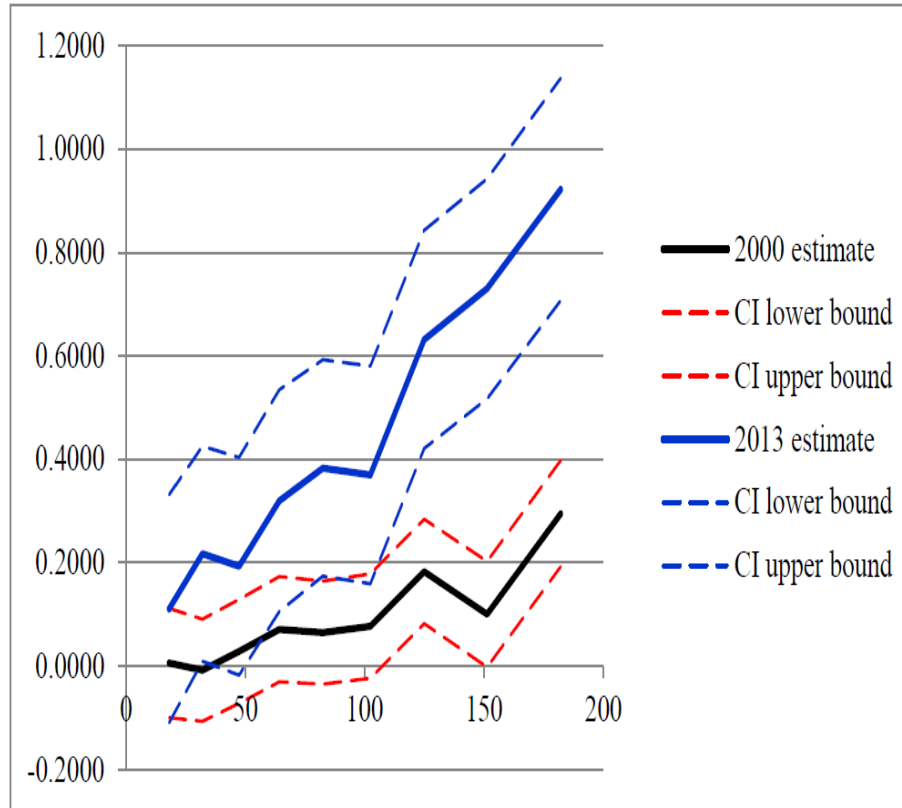
Ad Valorem Equivalent (AVEs) estimates of NTMs (averages)

	8-Recognized RECs in Africa								AU	Group Comparators			
	AMU	CENSAD	COMESA	EAC	ECCAS	ECOWAS	IGAD	SADC		ANDEAN	ASEAN	MER	OECD+EU
Accounting	54	47	30	34	29	43	28	28	35	32	50	30	29
Legal Services	56	52	50	48	34	45	65	43	47	27	68	32	31
Air Transport	50	32	23	11	0	24	28	27	28	28	58	58	15
Rail Transport	51	56	64	68	77	60	55	56	59	8	62	28	16
Road Transport	48	18	38	12	40	16	28	37	32	8	60	22	18
Banking	9	16	22	10	10	14	37	11	15	18	21	12	2
Insurance	28	26	39	29	46	24	53	29	31	30	26	24	14
Fixed Line	12	281	710	915	694	481	915	502	485	9	175	11	35
Mobile Line	1	1	5	3	2	1	14	2	3	0	1	1	1
Retail	4	3	4	2	3	2	5	2	3	2	5	1	1
Maritime Transport	63	42	31	20	19	16	41	17	28	25	50	39	9
Average (simple)	34	52	92	105	87	66	115	69	70	17	52	23	16

**Source Melo et al. [ ]** Authors' Calculations from AVE data in Jafari and Tarr (2015, table 3)

Ad Valorem Equivalents (AVEs) of Services Trade Restrictions Index (SRTI) by Sector and Country Group.

...but night lights (2000 vs. 2013) shows thickness of borders falling



Notes: The horizontal axis measures distance from the border in km, within a 200 km buffer around Africa's cross-border highways. The vertical axis measures light-intensity as captured by coefficients of a regression of light intensity in each bin of variable sized relative to light intensity in all other bins.

Notes: The horizontal axis measures 10 bins within a 200km buffer from the border along Africa's cross-border highways. The vertical axis measures light-intensity as captured by coefficients of a regression of light intensity on each decile.

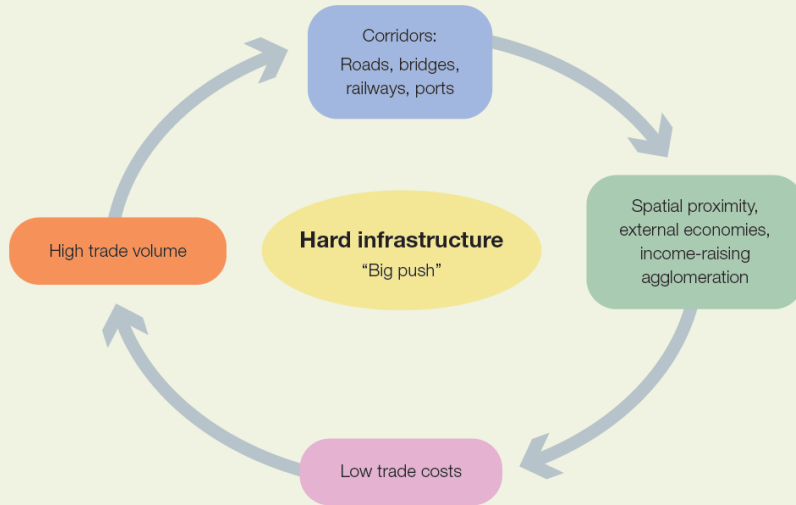
Light intensity at border greater in 2013 (death of Berlin wall effect...)

Source: Cadot et al. (2014) [3]. See AEO2019 box 3.7 on night lights

## PART IV Examples of RPGs (from AEO2019)

# Hard and/or Soft Infrastructure?

**FIGURE 3.8** Investments in hard infrastructure increase trade and make further investment profitable

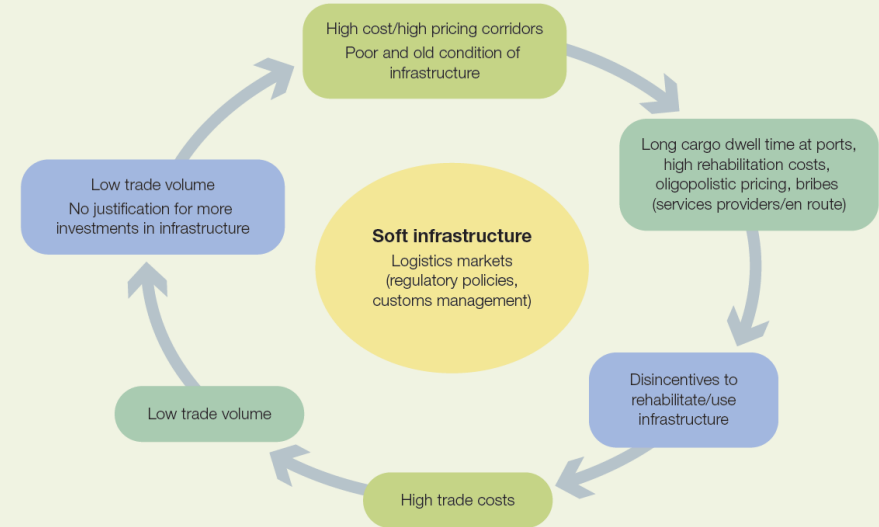


Source: African Development Bank staff.

**Africa:** Strong correlation between 5-year growth in infrastructure and economic factors. (Faster urbanizing countries have built more roads: 1960-2010). By increasing market access, Trans African Highway estimated to increase urbanization by 0.7-6.0% by 2040.

**India:** Quasi-experimental evidence. Golden quadrilateral project increased sharply productivity of firms in radius 0-20 km.

**FIGURE 3.9** Unfriendly soft infrastructure explains why transport costs are so high in Africa



Source: African Economic Outlook team.

**Open skies:** Will the single African Air Transport initiative succeed. Difficulties at progress in AEO box 3.8

**Tax Mining:** tax regimes among 21 gold producing countries very disparate. Cooperation for harmonization needed. AEO box 3.6

**Power pools.** Integrating power grids: poor performance except in NORD pool. AEO box 3.5

## References

- [1] Africa Economic Outlook (AEO) 2019 “Integration for Africa’s Economic Prosperity”, chp. 3 of AEO 2019, [https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2019AEO/AEO\\_2019-EN-CHAP3.pdf](https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2019AEO/AEO_2019-EN-CHAP3.pdf)
- [ 2 ] Asia Development Bank (2017) Towards the Optimal Provision of Regional Public Goods in Asia and Pacific”,
- [3] Byers, Melo and Brown (2018) “Working with the Grain of African Integration” (<https://ecdpm.org/publications/working-with-the-grain-of-african-integration/>), Policy Brief (Plea for better monitoring and taking political economy considerations into account)
- [4] Cadot, O, A. Himbert, M.A. Jouenjean (2014) “Trade Facilitation and Concentration: Evidence from Sub-Saharan Africa”, ODI
- [5 ] Jafari, Y. and D. Tarr (2015) “Estimates of Ad Valorem Equivalents of Barriers Against Foreign Suppliers of Services in 11 Sectors and 103 Countries”, *World Economy*, 40(3), 544-73
- [6 ]Melo, Jaime de, and Yvonne Tsikata (2015) “Regional Integration in Africa: Challenges and Prospects” in C. Monga and J. Lin eds. *The Oxford Handbook of Africa and Economics*, Oxford University Press and [FERDI-WPI#93](#) (survey)
- [7] Melo, Jaime de, D. Van der Mensbrugghe, J.M. Solleder and Z. Sorgho (2019) “A Hard Look at African Integration: Progress and Challenges Ahead” (in preparation)
- [8] Newfarmer (2017) “From Small markets to Collective Action: Regional Cooperation, Public Goods, and Development in Africa” in Estevadeordal and Goodman eds. *21<sup>st</sup>. Century Cooperation, Regional Public Goods and Sustainable Development*, Routledge: London

# Blogs

Melo, Regional integration arrangements in Africa: Is a large membership the way forward? (Plea for deep integration in small groups)

<http://www.ictsd.org/bridges-news/bridges-africa/news/regional-integration-arrangements-in-africa-is-a-large-membership>

Melo, Make Preferential Treatment Real for Africa: Relax Rules of Origin (Assessment of AGOA and move to single transformation rule for T&A)

<http://blogs.worldbank.org/trade/make-preferential-treatment-real-for-africa-relax-rules-of-origin>

Melo Regional trade Agreements in Africa: Success or failure? (early review including

<http://www.theigc.org/blog/regional-trade-agreements-in-africa-success-or-failure/>

Melo, The African Continental Free Trade Area: An Integration Trilemma

<https://theforum.erf.org.eg/2019/01/28/african-continental-free-trade-area-integration-trilemma/>

Melo “The Africa Continental Free Trade Area : An Opportuntiy to deepen cooperation on regional public goods”

<https://www.brookings.edu/blog/future-development/2019/03/04/the-africa-continental-free-trade-area-an-opportunity-to-deepen-cooperation-on-regional-public-goods/>