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What Role for Regional Economic Communities in the context of AfCFTA?

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Outline

PART I ACFTA Challenges

- ACFTA confronted by incompatible objectives “the integration trilemma”
- Inserting ACFTA in AU Agenda
- Architecture of ACFTA
- ...has many key features calling for delegation of sovereignty to provide RPGs

PART II Progress so far: Market integration at REC level

- Trade Costs falling and catching up but still high across RECs «the proximity gap»
- ...reflecting uneven progress at tariff reduction across RECs (except for EAC)
- Still high and dispersed ad valorem equivalents of NTBs in Services

PART III Challenges Ahead: Bolstering the provision of Regional Public Goods (RPGs)

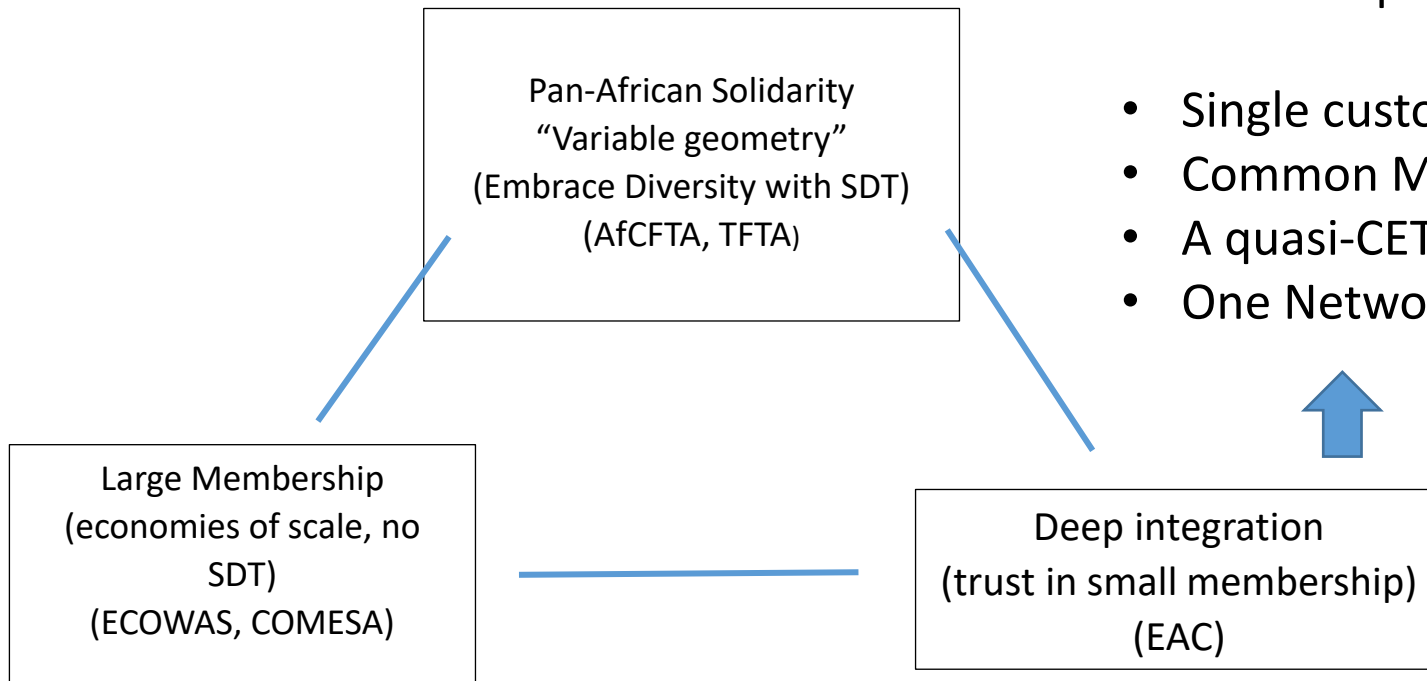
- RPGs : functions, types, and benefits
- Multiple memberships across RECs and Ros
- Institutional Design: applying the principle of subsidiarity
- Hard and Soft infrastructure

PART I

ACFTA Challenges

ACFTA to maneuver/reconcile incompatible objectives at REC level:
large membership, solidarity, deep integration

The African Integration Trilemma



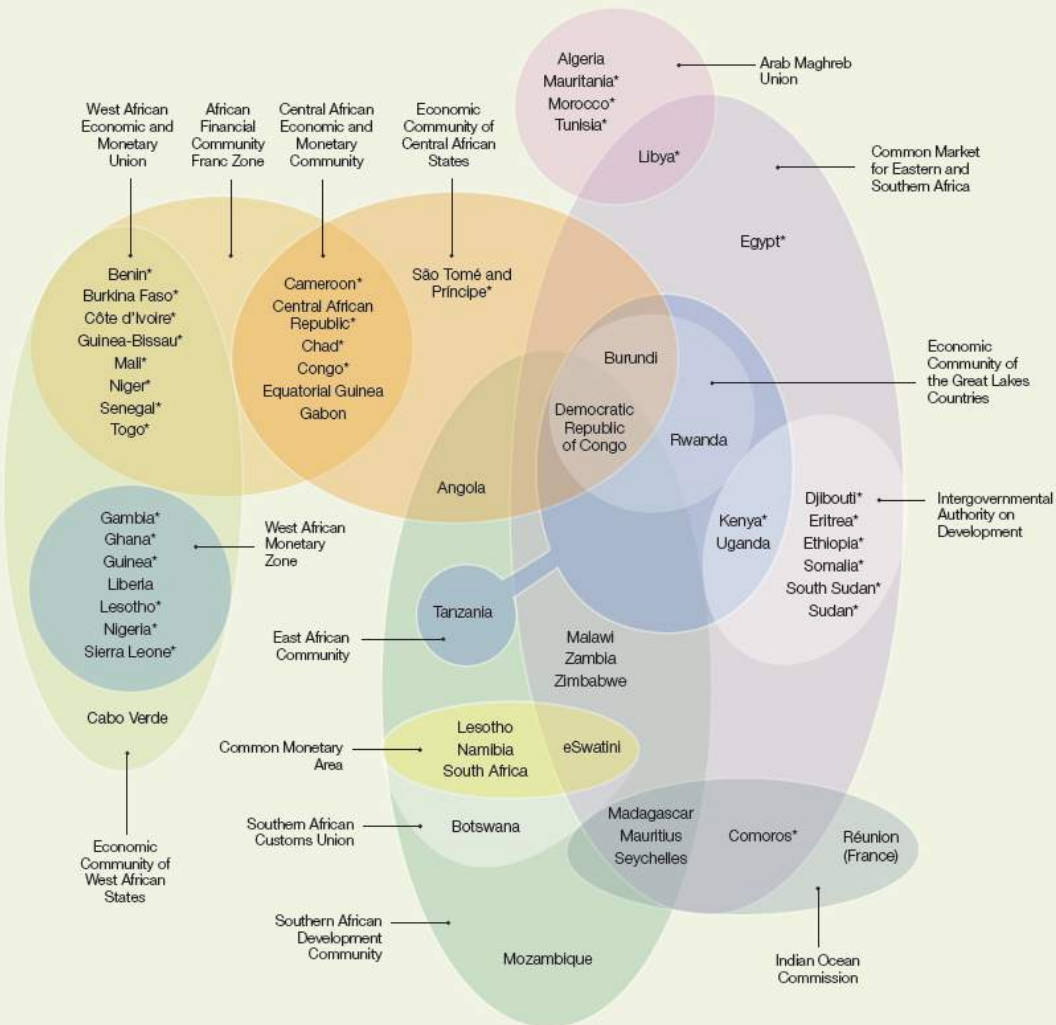
EAC 'deep integration' experience
example to follow at REC level for ACFTA

- Single customs territory w/cargo tracking
- Common Market Scorecard (CMS) for monitoring
- A quasi-CET (but SI list and SOA)
- One Network Area (ONA) for roaming fees

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

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

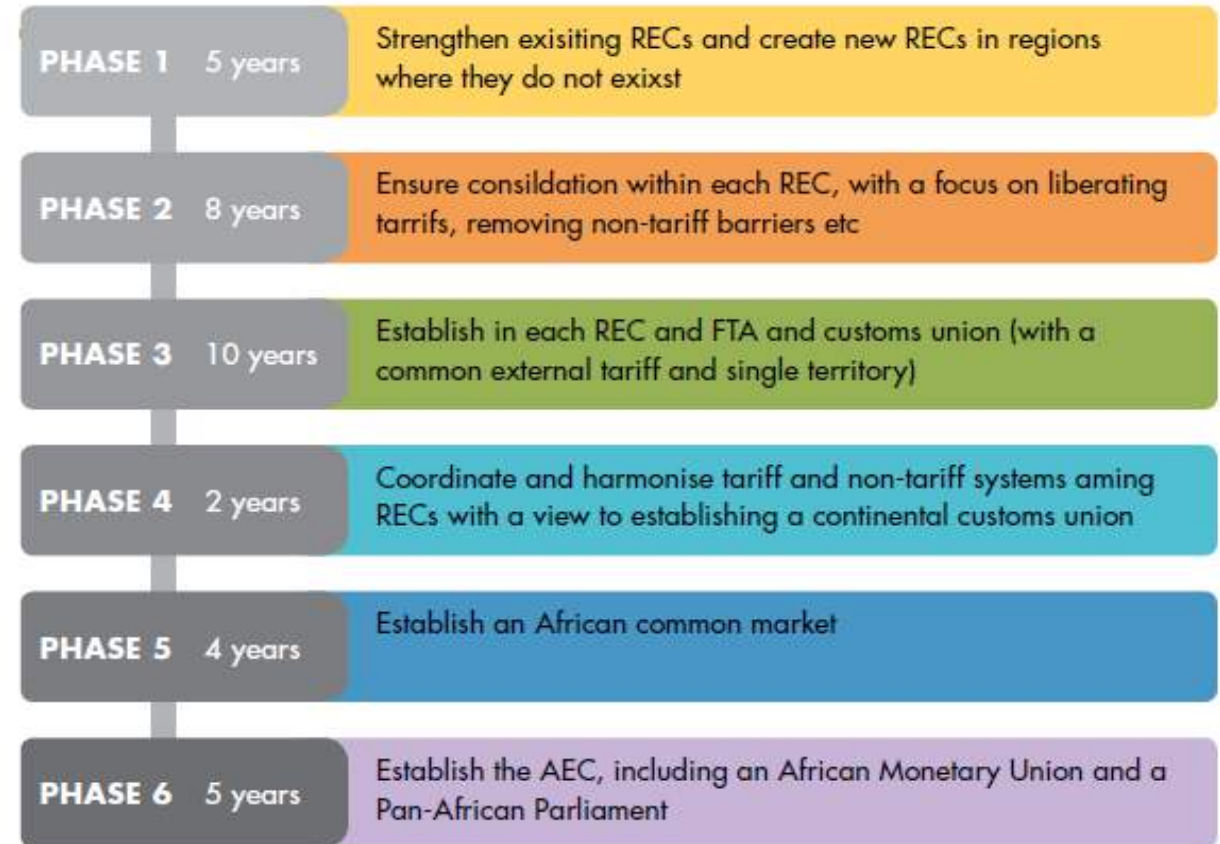
FIGURE 3.1 Africa trade and economic organizations



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

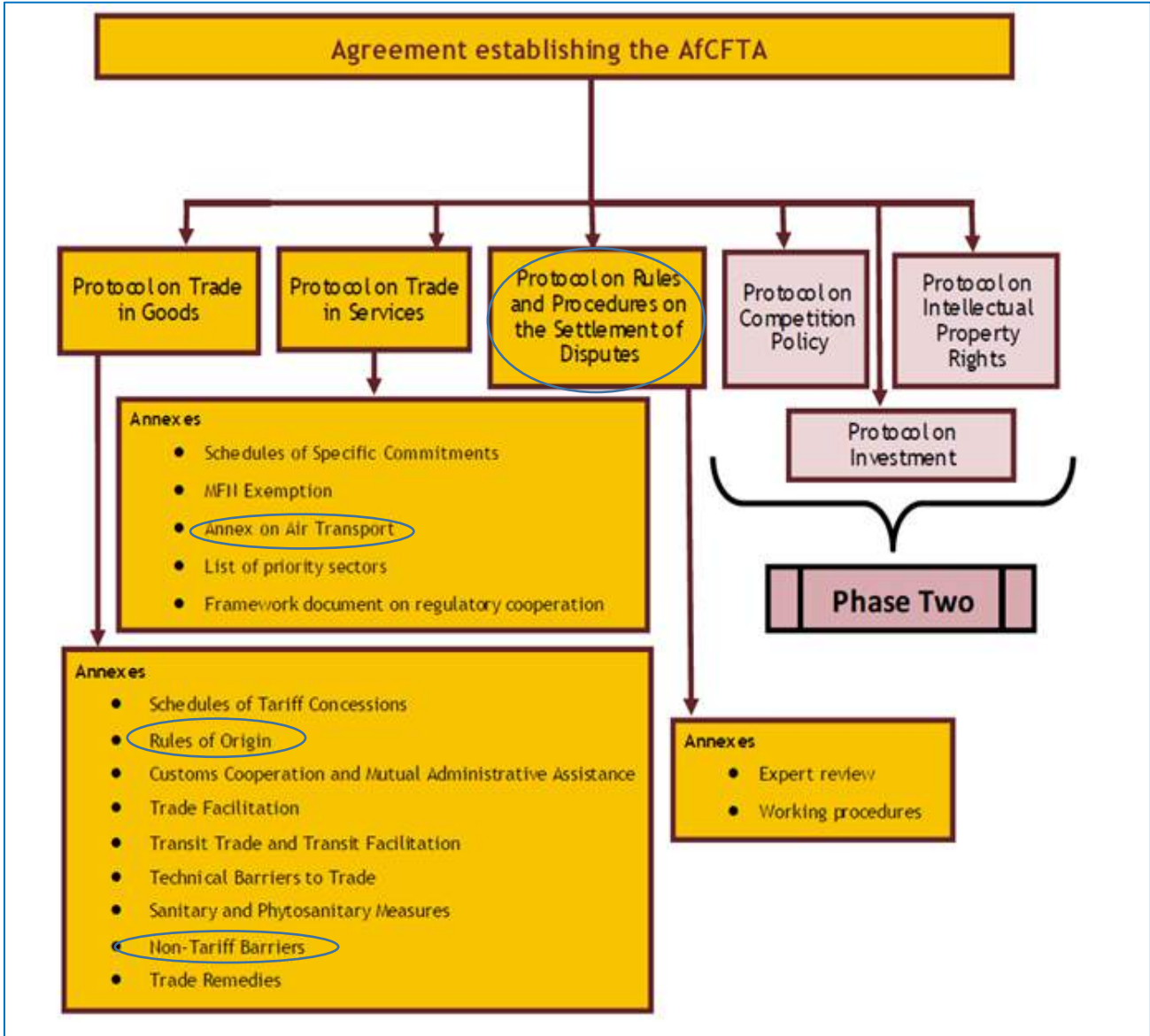
Note: Asterisks indicate the 29 members of the Community of Sahel-Saharan States.

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” as it only applies to signatories (what role for latecomers?)

ACFTA

Key features on next slide
 ...but still bogged down in completing the technicalities for phase I

... Circles indicate likely difficulties at reaching consensus for meaningful action . Example: how to agree on ROO that are “business friendly, but not business owned”.

- ... Yet real start at delegation of sovereignty
- African Peer Review Mechanism (APRM) “by Africans for Africans”
- African Standby Force (ASF) at REC level

---Note: ACFTA is a departure from “old” linear approach (Goods→services→regulatory→monetary union)

....many key features call for delegation of sovereignty needed for provision of RPGs

- Agreeing on (and applying) contingent protection measures among heterogeneous members is difficult
-need to delegate some sovereignty to provide Regional Public Goods (RPGs) neglected in most previous evaluations .
 - Protocol on dispute settlement
 - Externalities on Common Pool Resources (CPRs) e.g. lakes, river basins
 - Peace and security
 - Air transport

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

Part II

Progress so far: Market integration at REC level

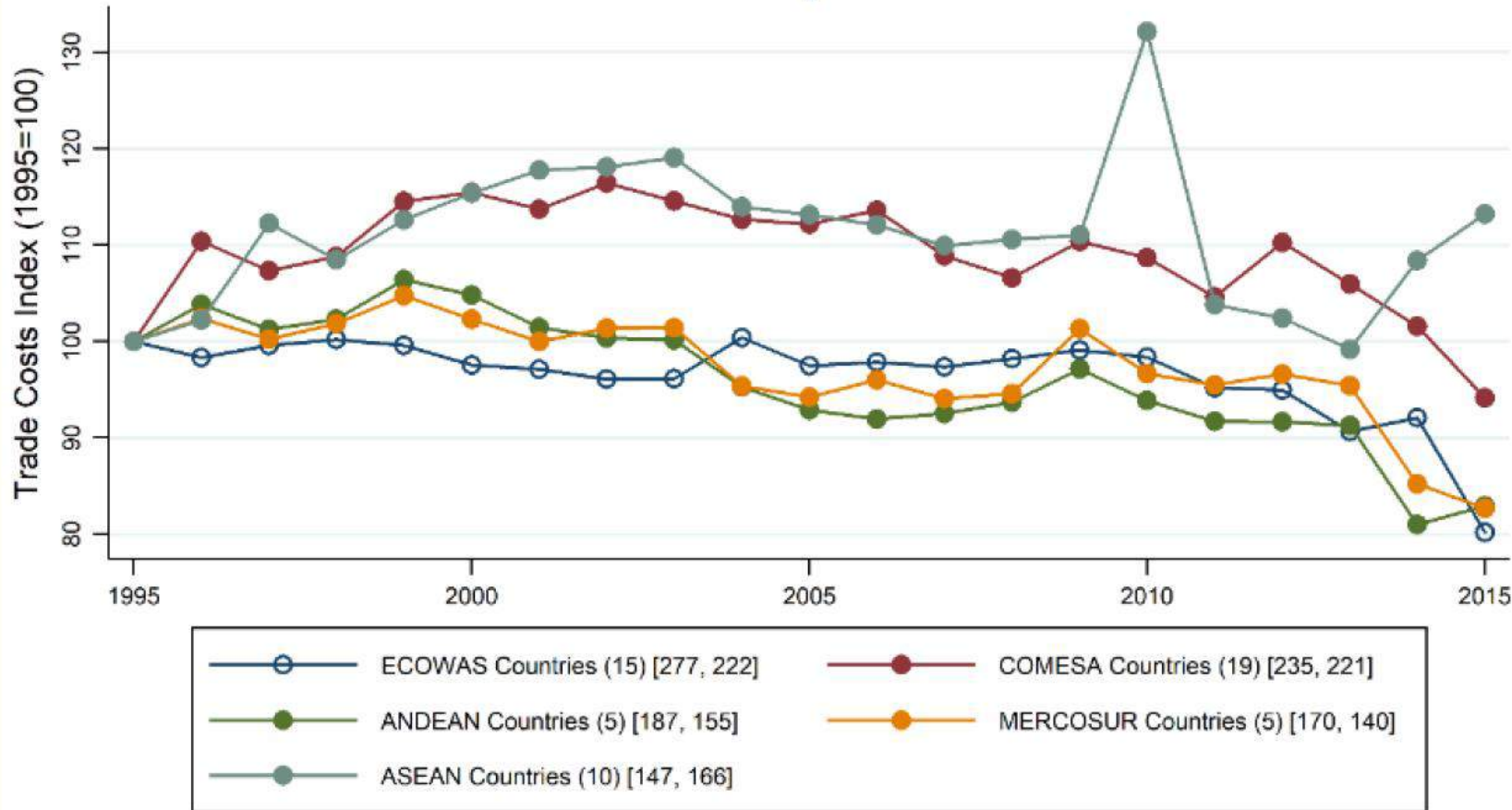
Trade Costs: catching up but still high across RECs...

← Model-based estimates of trade costs

How to read:
COMESA example

Evolution of average trade costs (relative to 15 largest trade members) : from 277 percent 1995 to 222 percent in 2015

Trade Costs across Comparator RTAs: 1995-2015



Note: Average trade costs (TC) for all goods (agregated), calibrated relative to the bilateral trade with the 15 world largest importers: USA, China, Germany, Japan, United Kingdom, France, Hong Kong, Netherlands, South Korea, Italy, India, Canada, Mexico, Belgium, and Spain. Number of countries considered for each group is in parentheses in front of legend's items.

All TC are normalized (1995=100). Absolute TC are reported for [1995, 2015] in front of legend's items.

Source: UNESCAP & World Bank Trade Costs dataset.

...reflecting uneven tariff reduction within RECs (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>Comperators</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).

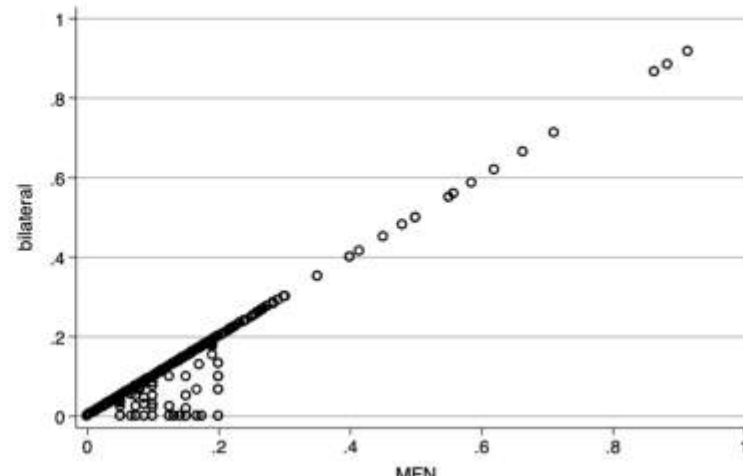
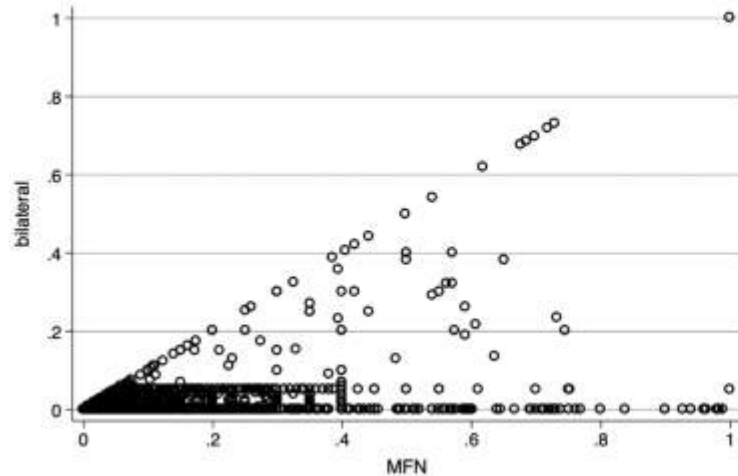
Note: All averages are simple averages of applied tariffs calculated in two steps. First, averages on the statutory schedules at the six-digit Harmonized System level are averaged for each country. Second, an average is taken among all group members. Column 1 reports the bilateral averages and column 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 must be an important factor for very uneven progress

Progress at eliminating tariffs on bilateral trade by membership size (2)...

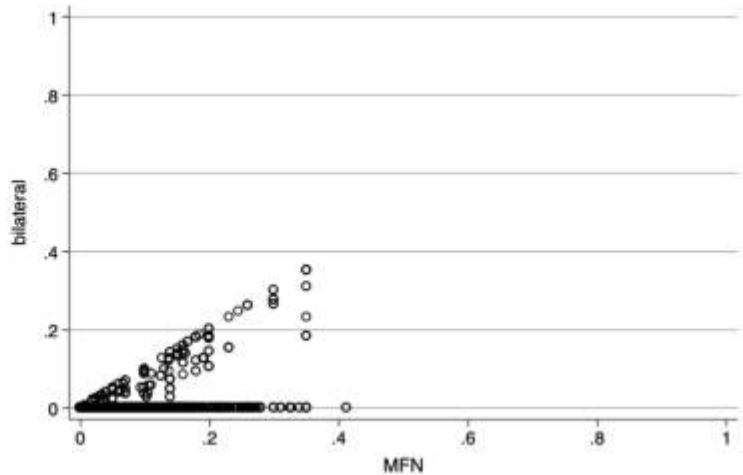
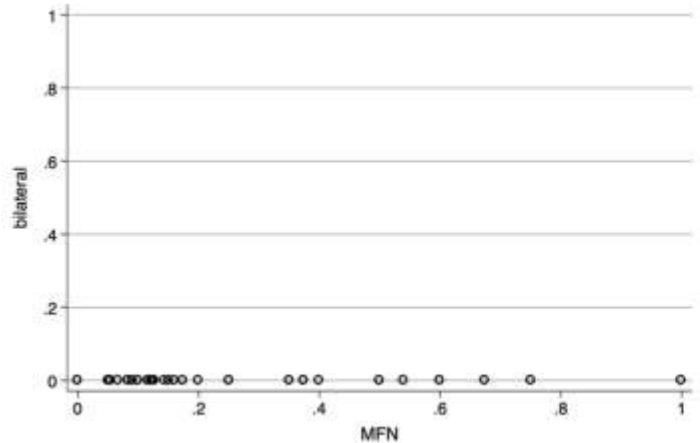
ASEAN vs ECOWAS



← **Large membership comparison**
 ...Most applied tariffs on intra-ASEAN tariffs are zero (..but for low tariffs especially).
 ...Very little reduction in applied intra-ECOWAS tariffs (only for low tariffs)

EAC

MERCOSUR



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

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

Source: Melo et al. [2]

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

Still high estimates of NTBs in Services...but lowest in EAC (ad valorem equivalents)

	Financial	Professional	Retail	Telecommunications	Transportation
EAC	26.5	46.9	15.0	30.0	25.7
COMESA	34.9	52.7	30.8	41.3	36.8
SADC	24.7	45.8	27.1	42.7	32.0
ECOWAS	19.5	52.3	5.0	30.0	20.0
ASEAN	34.9	65.8	33.3	37.5	47.9
EU	4.2	54.0	25.0	0.0	37.1
China	34.8	66	25	50	19.3
India	48.1	87.5	75	50	62.4
	Financial	Professional	Retail	Telecommunications	Transportation
Kenya	23.4	73.0	0.0	25.0	31.0
Tanzania	22.7	51.5	25.0	25.0	29.4
Uganda	27.7	38.0	50.0	25.0	21.1
Rwanda	19.5	32.0	0.0	75.0	36.7
Burundi	39.0	40.0	0.0	0.0	10.5

...but quite high across comparators.

Also relatively large differences across EAC members

Source: Jafari and Tarr [3]

Part III

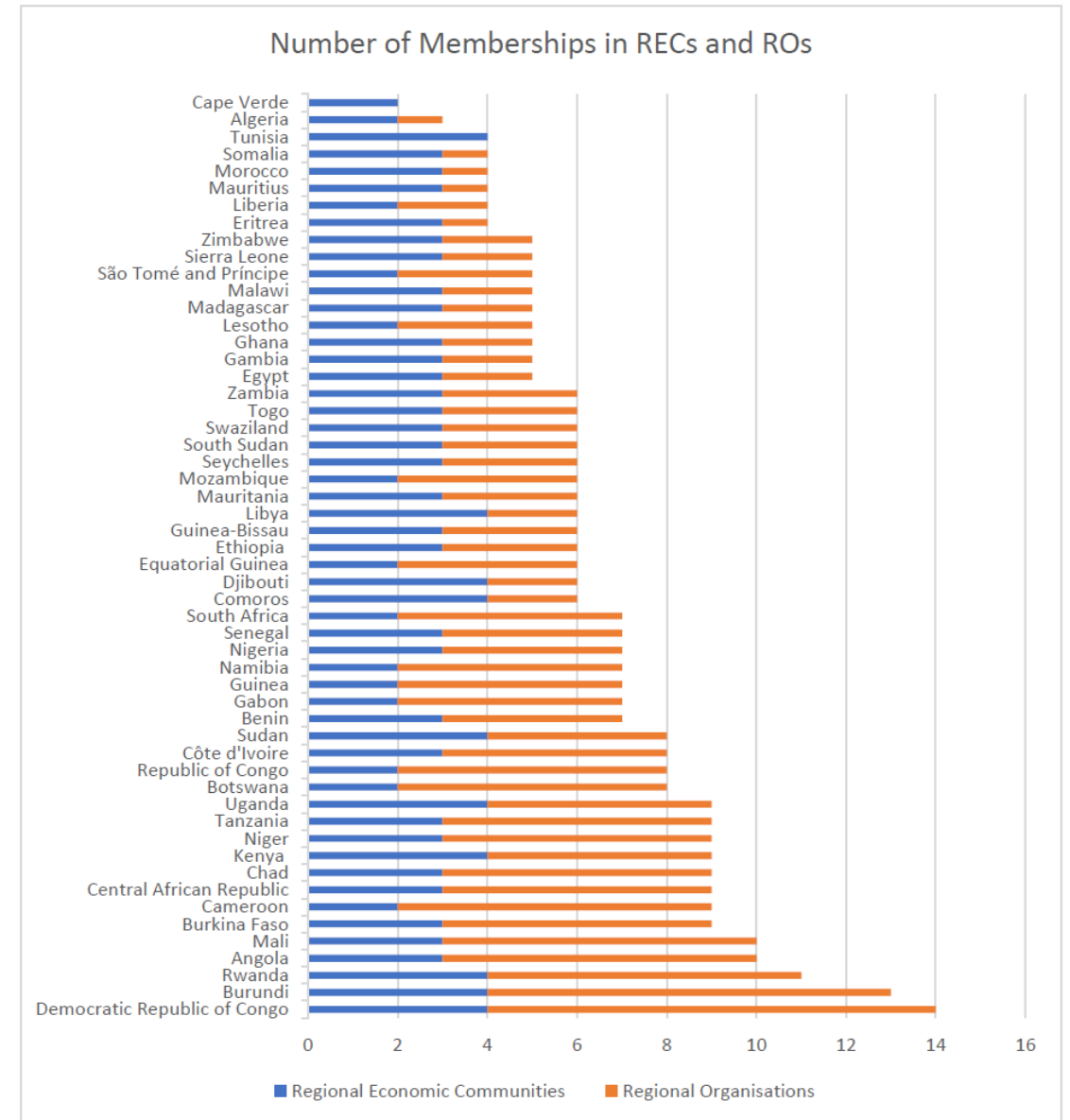
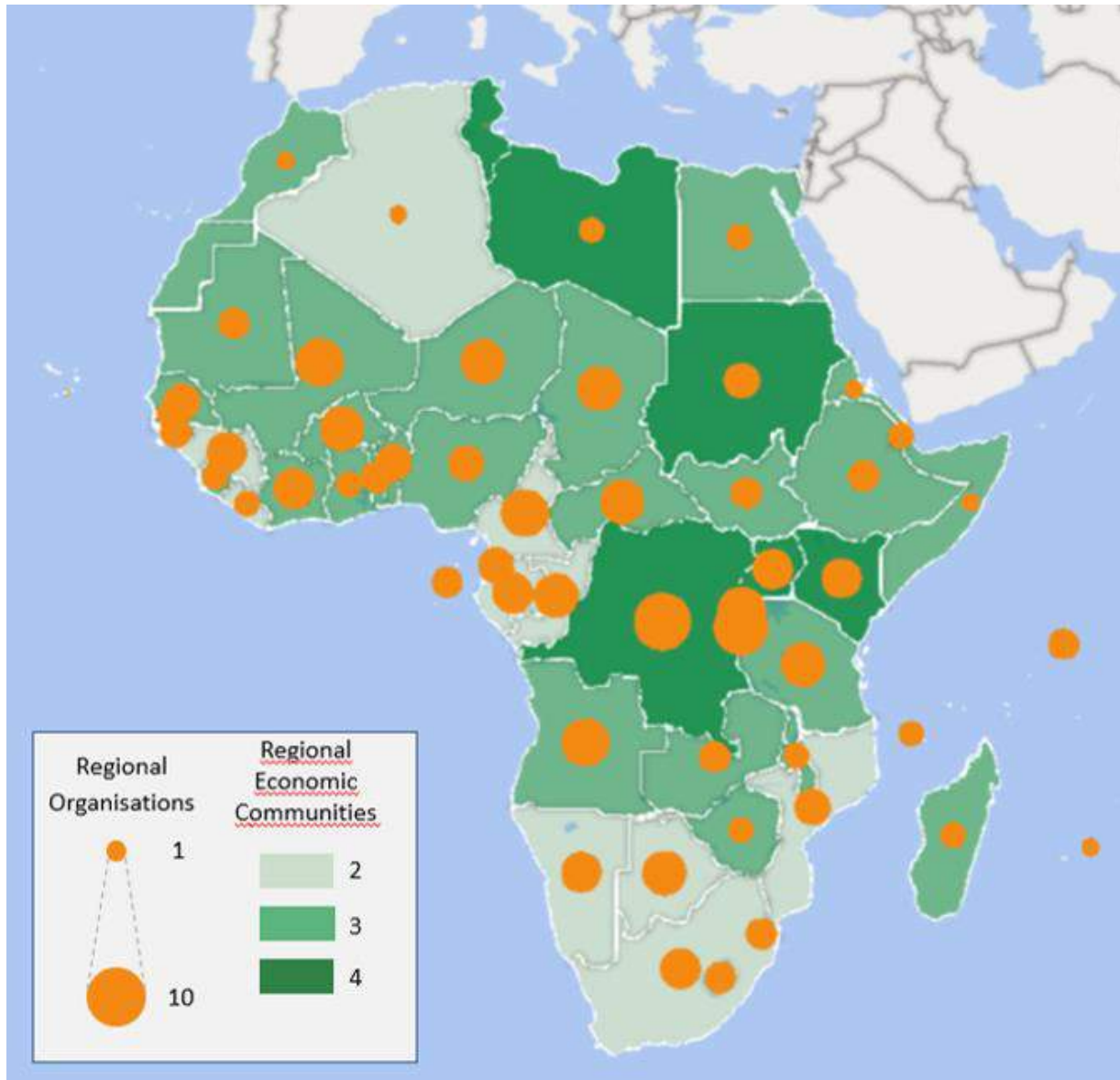
Challenges Ahead: Bolstering the provision of Regional Public Goods (RPGs)

RPGs : functions, types, and benefits

Function	Regional Public Goods	Benefits/Externalities	Type of RPG	Example(s)
Economic Cooperation and Integration	Bilateral and regional trade agreements	Reduces discriminatory trade restrictions and promotes peace and security	Club good	All RECs, TFTA, AfCFTA,
	Prevention of financial contagion	Prevents spread of negative shocks such as excessively volatile exchange rates and equity prices	Pure public good	CEMAC, UEMOA
Natural resources and environment	Climate change adaptation and mitigation	Lowers climate vulnerability to: extreme weather, flooding, drought, silting, desertification, species extinction	Pure public good	Combating desertification in the Sahel; flood management in shared river basins
	Control air pollution transboundary in nature	Reduces prevalence of diseases related to air pollution as well as occurrence of acid rain	Pure public good	Emissions regulations; fuel quality standards (sulfur levels)
	Transboundary water management	Benefits all riparian states in terms of water sharing, flood control, water quality; reduces risk of water allocation conflict	Common Pool Resource	Nile basin; Niger basin; Senegal basin; ; Congo basin;...
Connectivity	Cross-border transport infrastructure	Expands trade opportunities and promotes freer movement of commodities and inputs	club good	Maputo Development Corridor Northern and Central corridors
	Regional ICT systems and mobile phone networks	Reduces cost of roaming and promotes the ease of communication across borders	Club good	East Africa One Area Network
	Trade facilitation(customs reform and national single window	Facilitates international trade, faster movement of goods	Club good	One Stop Border Posts
	Power pooling and energy market integration	Energy security, cost reduction	Club good	OMVS, WAPP, EAPP, SAPP
Peace and security	Peacekeeping operations	reduces violence and prevents escalation of conflict	Joint product (~private good)	AU Peace operations Africa Standby Force (ASF)
Governance	Harmonization of intellectual property rules	Increases knowledge production at the margin; it would also redistribute rents to past research and development	Club good	Africa Peer Review Mechanism (APRM)
Human and Social Development	Response to outbreaks of emerging and re-emerging diseases	Reduces health-related loss of work hour and labor productivity	Joint product (~private good)	Ebola response in Central and West Africa
	Advisory services, education; research	Increase and sharing of productivity-raising knowledgea	Pure public good	

Appropriate institutions for effective delivery varies according to RPGs: Role for RECs/ROs?

Multiple memberships across RECs and ROs



Institutional Design: applying the principle of subsidiarity

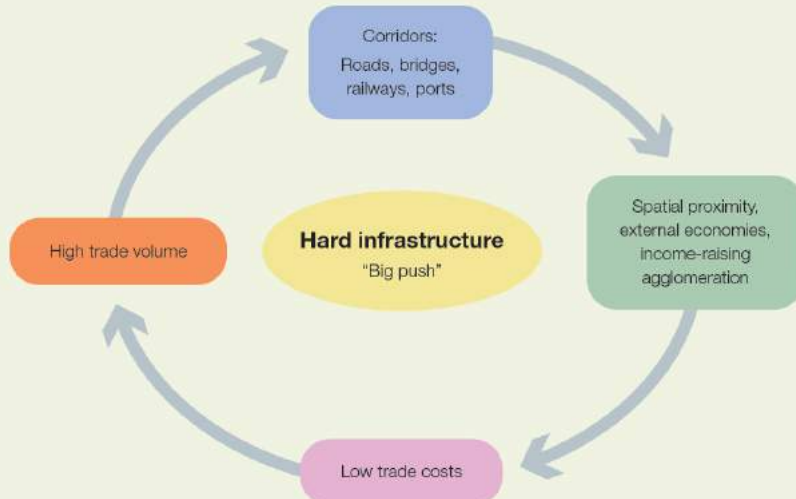
Principle of subsidiarity: allocative efficiency in provision achieved when an institution's jurisdiction precisely matches the range of benefits of RPG. But other factors complicate the design of the institutional setup...and assessing role of RECs.

Table 7.5: Supporting and Detracting Factors for Regional Subsidiarity

Supporting Factors	Detracting Factors
<ul style="list-style-type: none">• Bolsters efficiency by matching recipients' marginal gains with marginal provision costs• Curtails tax spillovers to non-beneficiaries, thereby fostering efficiency• Limits transaction costs by augmenting repeated interactions, reducing asymmetric information, and curtailing the number of participants• Promotes the evolution of regional institutions based on shared culture, experiences, challenges, norms, and values• Fosters intraregional institutional innovations• Focuses on participants with the most at stake	<ul style="list-style-type: none">• Economies of scale favor larger jurisdictions than RPG's spillover range• Economies of scope support providing two or more RPGs whose spillover ranges do not coincide• Economies of learning may require oversized jurisdictions to augment the cumulative RPG provision• Requisite subsidiarity-based institution (jurisdiction) may not exist• Too costly to tailor jurisdictions to each subregional public good owing to the proliferation of jurisdictions• Aggregator technologies (e.g., best shot, better shot, and threshold) may favor pooling efforts beyond requisite jurisdiction• Aggregator technologies (e.g., weakest link and weaker link) may require that participants bolster capacity beyond the spillover range of the public good• Requisite financing may require a jurisdiction beyond the good's range of benefit spillovers

Hard and Soft Infrastructure to lower Trade costs

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

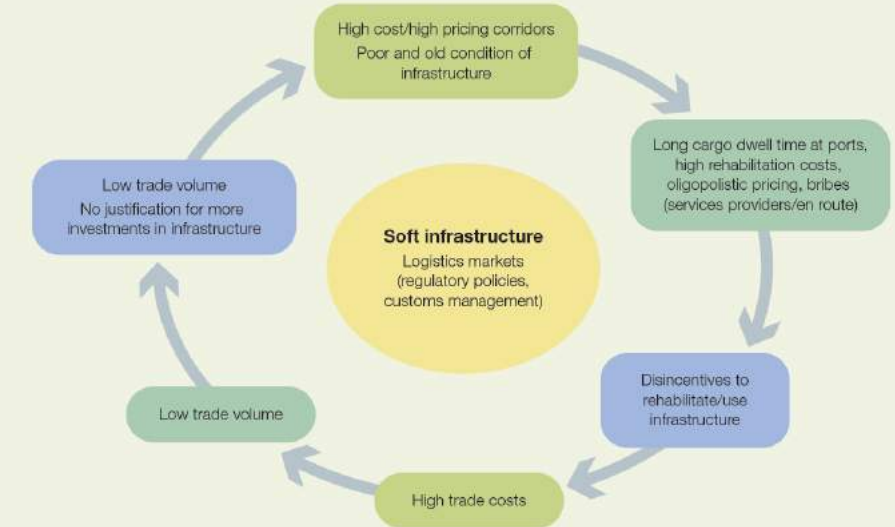


Source: African Development Bank staff.

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. AEO [1]

India: Quasi-experimental evidence. Golden quadrilateral project increased sharply productivity of firms in radius 0-20 km. AEO [1]

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 [1]

Movement of persons: Higher migration correlated with participation and implementation of protocols on the movement of persons but ratification at REC level is low. AEO table 3.3. [1]

Power pools. Integrating power grids: poor performance except in NORD pool. AEO box 3.5. [1]

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
- [2] Asia Development Bank (2017) Towards the Optimal Provision of Regional Public Goods in Asia and Pacific”,
- [3] 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
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