Essays on Africa's Integration: Prospects and Challenges for Markets and Regional Public Goods

Jaime de Melo

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Foreword

The high trade and communication costs within Africa, resulting both from an inhospitable geography and arbitrary borders coupled with great ethno-linguistic diversity, have left the continent highly fragmented. More than half a century after the Independencies, it makes regional integration in Africa an issue of utmost importance. The issue has indeed been addressed by many works over the last six decades, but it called for a renewed examination in the light of modern theory and long term trends. This has been done by Professor Jaime de Melo, relying on an exceptional knowledge of worldwide economic trends, as well as the scientific literature on regional integration.

As argued by Jaime de Melo, in Africa as a whole, and in sub-Saharan Africa (SSA) particularly, the Regional Economic Communities (RECs) were to be the 'building blocs' of the hoped-for African union in the postcolonial era. Now, they are still central for implementing the New Partnership for Africa's Development (NEPAD) and most recently, for the "Africa We Want" in Agenda 2063. In short, the RECs were and are intended to be the glue that cements African unity. Recent economic and political crises within RECs have not changed this long term vision, but invite to pursue the analysis of the rationale of RECs, as led in this work, with regard to the political forces operating in Africa and elsewhere.

Since its creation, FERDI has followed regional integration across Africa. Research and outreach have focused on three areas: deep integration in the two economic and monetary unions of the formerly called Franc Zone; cooperation in the provision of Regional Public Goods (RPGs), common currencies being among the major ones; and progress in goods and services market integration.

The essays in this book significantly enlighten the achievements and challenges on the path towards market integration and the provision of many RPGs.

Patrick Guillaumont
President of FERDI
July 2025

Acknowledgements

This volume is based on research in FERDI's program 'Regional Integration, trade, competitivity and environment' under the direction of Anne-Marie Geourjon and coordinated by Jaime de Melo. The essays in the volume are destined to policy makers and observers of the pace of African integration. The emphasis is on cooperation, necessary for the provision of regional public goods (infrastructure like transport infrastructure), and on policies (trade, mobility of capital and people) affecting market integration, all in the hands of governments. The essays eschew technical discussions but rely on figures and tables to summarize the narrative.

The essays cover the decade starting in 2013 with the launch of the AU 2063 agenda towards "The Africa we want" objectives. The essays cover "An integrated continent, politically united and based on the ideals of Pan-Africanism and the vision of Africa's Renaissance", one of the 7 aspirations on the agenda. The essays are a mix of commentaries on ongoing policy initiatives and summaries of research published in peer-reviewed journals. The summaries were originally published in Brookings, ERF, IGC, UKTPO and VoxEU. I hope that this collection will help the NEPAD Agency in its quest to integrate Africa in the world economy.

I thank Patrick Guillaumont for inviting me to participate in the program, to Sylviane Guillaumont for fruitful exchanges, and to Vianney Dequiedt for overall guidance. I thank my co-authors for their contributions to the papers that served as basis for the short summaries collected here. I am also grateful to Fabienne Rouanet and Morgane Dumazel for coordinating a smooth production process. Last, but not least, I would like to thank colleagues at FERDI, IGC and the University of Geneva, particularly the many exchanges with Oliver Cadot and Marcelo Olarreaga have been a source of inspiration for their intellectual support and suggestions.

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Poste Lafayette
February 2025

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Acronyms and Abbreviations

AcFTA	Africa Continental Free Trade Area
ACP	African, Caribbean, and Pacific Group States
ADB	Africa Development Bank
AEC	Africa Economic Community
AGOA	Africa Growth Opportunity Act
AMU	Arab Maghreb Union
AMU + EGY	(DZA, EGY, LBY, MRT, MAR, TUN, ESH)
AU	African Union
CEMAC	Economic and Monetary Community of Central African States
CEMAC + STP	(CMR, CAF, TCP, COG, GNQ, GAR, STP)
CET	Common External Tariff
CFTA	Continental FTA
CGE	Computable General Equilibrium
COMESA	Common Market for Eastern and Southern Africa
CU	Customs Union
DB	Doing Business (World Bank)
DOTS	Direction of Trade Statistics (International Monetary Fund)
EAC	East African Community
EBA	Everything But Arms
ECA	Economic Commission for Africa
ECCAS	Economic Community for Central African States
ECOWAS	Economic Community of West African States
EPA	Economic Partnership Agreement
ERF	Economic Research Forum
ESCC	European Steel and Coal Community
EU	European Union
FDI	Foreign Direct Investment

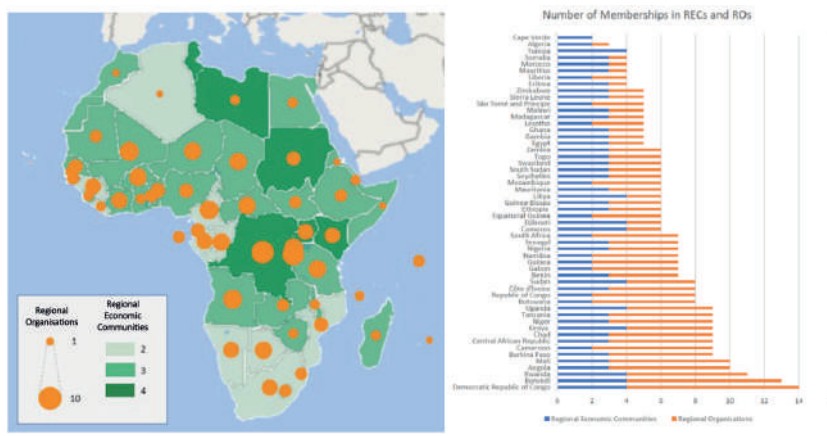
FTA	Free Trade Area
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GSP	Generalized System of Preferences
GVC	Global Value Chain
IAT	Import Adjustment Tax (applied under ECOWAS)
IGAD	Intergovernmental authority on development
IGAD-EAC	(DJI, ERI, ETH, SOM, SDN)
IGC	International Growth Center
LDCs	Least Developed Countries
MFN	Most-Favoured-Nation
NEPAD	New Partnership for Africa's Development
NTB	Non-Tariff Barriers
OAU	Organization of African Unity
OECD	Organisation for Economic Co-operation and Development
PAFTA	Pan Arab Free Trade Area
PTA	Preferential Trade Agreement
REC	Regional Economic Community
RIA	Regional Integration Agreement
RoO	Rules of Origin
RPG	Regional Public Good
RTA	Regional Trade Agreement
RVC	Regional Value Chain
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADC + COD	SADC-RDC (AGO, BWA, COM, SWZ, LSO, MDC, MWI, MUS, MOZ. NAM, SYC, ZAF, ZMB, ZWE)
SPM	Special Protection measure (applied in ECOWAS)
SSA	Sub-Saharan Africa
TAH	Trans African Highway
TC, TD	Trade Creation, Trade Diversion
TFA	Trade Facilitation Agreement
WAEMU	West African Economic and Monetary Union — in French: UEMOA
UKTPO	UK Trade Policy Observatory
WDI	World Development Indicators
WTO	World Trade Organization

Introduction

The Long Road to Cooperation and Integration Across Africa

The geography of Africa inherited from the 'scramble of Africa' by the colonial powers in the late 19th Century is the strongest rationale for cooperation and regional integration among the many, largely 'artificial' states. Ever since their independence, African countries have engaged in a series of treaties creating Regional Organizations (ROs) among which the eight Regional Economic Communities (RECs) that were (and still are) to pilot this integration. Cooperation is also compelling in this landscape of numerous transboundary externalities which have been tackled in the specialized ROs established to supply Regional Public Goods (RPGs) (e.g. electricity, hard infrastructure like the TransAfrican Highway (TAH), management of rivers and lakes, peace and security, health, environment). As shown in **figure 1**, around 2020, on average, each country belongs to 3 RECs and 4 ROs.

Figure 1. Membership intersections across Regional Organisations (ROs) and Regional Economic Communities (RECs)



Note: Economic organizations: 16 (9 AU recognized RECS + 7 other economic organizations). Other regional organizations: 25 (5 energy-based + 15 river and lake + 4 peace and security +1 environmental). Average memberships per country: RECs (3); other regional organizations (4).

Source: Byers *et al.* (2021, figure 2).

Even though initiatives at integration started earlier, the Abuja Treaty (operational in 1994) is accepted as the start of African-led initiatives at integration. Monetary integration, the last step on the integration ladder had already taken place in CEMAC, SACU, and WAEMU, but since they were not initiated by African countries, they are not covered here.

According to the Abuja script, 8 RECs would set out the path for the creation of the AEC by 2028 along a linear integration path within each REC[1] starting with a Free Trade Area (FTA) followed by a customs union, a common market, and a monetary union following a 'variable geometry', whereby integration would be at different speeds across RECs following a 'Minimum Integration Program' along six stages for the eight RECs and also through the other more specialized ROs.

Political motives, geography, and the uneven distribution of gains trumped the traditional efficiency gains in the discussions and measures taken across Africa's Regional Economic Communities (RECs). An ambitious seven-cluster action plan[2] for "Boosting Intra-African Trade (BIAT)" preceded the launch of Vision-2063. By adopting the BIAT plan at the same Summit as the AfCFTA, the leaders had recognized that trade integration alone will not solve Africa's development challenges. The BIAT Action Plan references and incorporates the Action Plan for Accelerated Industrial Development of Africa (AIDA) and the Programme for Infrastructure Development in Africa (PIDA). Thus, as shown in figure 1, African leaders recognized that market integration needed to go hand in hand with the provision of RPGs.

The essays here report on reflections and accompanying research I carried out in 'real time' starting around the launch of Vision-2063 "The Africa we want" around 2013.[3] All, except chapter 2, appeared on websites as commentaries or summaries of ongoing research. Essays in Part I cover challenges and pathways at the time of the launch of vision 2063. Part II covers architecture choices: large membership and shallow integration versus small membership and deep integration. Part III deals with several challenges facing realistic implementation of AcFTA. Part IV covers Regional Public Goods (RPGs), a neglected aspect of regional integration in Africa.

1. The 'linear model' of integration refers to the stepwise integration of goods, labor, and capital markets, as well as eventual monetary and fiscal integration. This is the path followed by integration in Europe. Estimates reported here (see e.g. chapter10) reveal the shortcomings of the linear model of integration, as behind-the-border measures aiming to reduce trade costs were largely ignored across African RECs until recently. While this is probably due to the difficulty in gaining the confidence necessary to get collective action started, many behind-the-border measures could still have been reduced unilaterally.
2. The seven priority clusters are: trade policy, trade facilitation, productive capacity, trade-related infrastructure, trade finance, trade information and factor markets.
3. I contributed to an earlier debate on regionalism in the early 1990's when the previous North-North and South-South cooperation gave way to North-South integration under the impulse of NAFTA and the enlargement of the European common market to the South, then to the East (see Melo and Panagariya eds. (1992)).

Part I | Challenges and Pathways

PTAs are good politics, but to survive they must extend beyond unfilled good intentions and have a sufficiently sound economic basis, as noted in chapter 2. The case of reducing the thickness of borders across Africa is compelling. Economies are small, sparsely populated, fragmented, and often isolated economies. This landscape across Africa makes for a compelling case for these economies to integrate regionally to reap efficiency gains, and exploit economies of scale. But lack of complementarities among partners (countries have similar patterns of comparative advantage, e.g. exports of minerals and agricultural products against imports of intermediate and final goods) and diminishing returns to the exploitation of resources has reduced supply response to regional policies favoring market integration.

Challenges related to heterogeneity costs

A very uneven distribution of resources, conflicting preferences across countries within RECs has sharpened the trade-off between the benefits of common policies needed to tackle cross-border externalities and their costs in an environment of heterogenous preferences. Chapter 2 discusses these trade-offs (e.g. large vs. small, landlocked vs. coastal, resource-rich vs. resource-poor), a theme also covered in chapters 6 and 7. Except for the Franc zone, the RECs have not yet completed goods markets integration. Importantly, the lack of adjustment funds to address the uneven distribution of benefits across partners has contributed to the slow progress at market integration.

Pathways

After more than three decades of decline post-independence, most of Sub-Saharan Africa has returned to growth since the early 2000s, yet, the continent's de-industrialization in the 1970s and 1980s has failed to reverse itself. Chapter 3 reviews the labor cost 'enigma' (African manpower is expensive relative to comparators at the same level of income) and other contributing factors. The non-tradable sectors are 'weak links' preventing Africa from leveraging its latent comparative advantage in labor-intensive light manufacturing. The Africa Continental Free Trade Area (AfCFTA) signed in 2018, effective in January 2021, is the latest concrete effort in this direction since the adoption of the AU 2063 agenda in 2013 aiming for a continental vision.

Part II | Architecture choices

Are Regional Integration Arrangements (RIAs) like the Tripartite FTA (TFTA) or the Continental FTA (CFTA) a promising approach to start institutional and political

cooperation along intergovernmental lines, where regional institutions pursue the economic interests of domestic constituencies as has largely been the case of the EU? Or, more optimistically, as hoped for by the African Union (formerly the OAU), is this a start along functionalist lines where supranational institutions and agents develop autonomous roles leading to further integration, the bet taken by the European Union with the adoption of the Euro (Spolaore 2016)? Chapters in part II discuss aspects of this choice.

Is large membership the way forward?

Regional integration encourages trade-creating exchange that increase the opportunity cost of conflict. Around 2015, the Tripartite FTA (TFTA) and the proposed CFTA were the latest African initiatives towards regional cooperation built around large and diverse jurisdictions.

Following up on chapter 2, chapter 4 documents that these large membership groupings confront a very uneven distribution of resources that have sharpened the trade-off between the benefits of common policies needed to tackle cross-border externalities and their costs which are heightened by the sharp differences in policy preferences across members. This strong heterogeneity of preferences combined with uneven distribution of resources is an implementation challenge in an environment lacking compensation funds negatively affected by the needed common policies.

The trilemma confronting a Continental Free Trade Area (CFTA)

The three main objectives of the AfCFTA are: (1) African solidarity (to accommodate all countries); (2) Large markets (no policy-imposed impediments to trade); (3) Deep integration to reap all the benefits of integration. Solidarity requires special and differential treatment (SDT) for least developed countries (LDCs) and financial resources (which are in short supply) to compensate for integration costs. Solidarity requires trust, which falls as membership size increases. SDT accommodates this diversity but at the cost of market fragmentation. Fully reaping economies of scale requires large membership which precludes the market fragmenting effects of SDT. Deep integration requires trust, always difficult to obtain, but easier to achieve in a small group. These three worthy objectives cannot be achieved together, hence a trilemma.

Chapter 5 also illustrates an implementation conundrum. On the one hand, because of diversities – such as between coastal and landlocked countries – potential gains from closer economic integration are large. On the other hand, realizing these gains requires financial resources necessary to compensate countries with large differences in expected gains from closer integration.

The 'principle of flexibility' to accommodate the 'one-size-fits-all' constraint

The Tripartite FTA (TFTA) is to get around the overlap in membership across PTAs that has prevented 'deep integration' which has also been slowed by large membership. For example, Zambia is both a member of the COMESA Customs Union (CU)—which requires applying Common External Tariff (CET) to non-members—and of the SADC FTA, putting the country in conflict over its trade policy choices. The large membership in the TFTA (and a fortiori for a continental customs union) exacerbates the "one-size-fits-all" constraint imposed by the desire (and necessity) of achieving convergence in policies to achieve 'deep integration'.

Chapter 6 discusses flexibility: the variable geometry approach, reciprocity, and acquis (nothing previously negotiated at the REC level can be reneged). This helped build support in an environment lacking compensation funds—available during the successive enlargements of European integration-- but at the cost of delaying the deepening of integration since what was intended to be a 'single undertaking' to establish a proper FTA that, in the end, allows the co-existence of different trading arrangements with small integrating effects. Integration will be pursued at different speeds under 'variable geometry'.

The plight of small countries

When deciding to move to a Customs Union (CU), ECOWAS members had to adopt a Common External Tariff (CET), a perilous negotiation, especially for the small members with little bargaining power. Chapter 7 documents the plight of the CET for Liberia. This involved: (1) the "exceptions list" of about 300 products—mostly selected by Nigeria-- eligible for exemption from the new CET tariffs, and (2) the list of Special Protection Measures (SPMs). One such SPM was the Import Adjustment Tax (IAT), which allowed members to apply an extra tax on imports from non-ECOWAS members beyond the CET's 0%-35% range. But the IAT could only be used when the tariff was above the CET. So small countries like Liberia or Sierra Leone that had applied tariffs below those in the CET could not use an IAT. In the case of zinc imports in Liberia (an intermediate good not produced in Liberia with a 5% tariff), even if the IAT were allowed, Liberia would have had to move to a tariff within 20 percentage points of the 35% CET on zinc imports (i.e. a tariff of 15%). — into Liberia from non-ECOWAS members.

Chapter 7 shows that the IAT was designed only to protect nascent sectors (infant industries). The evidence in the chapter is a call to ECOWAS members to re-enter negotiations to amend ECOWAS regulations to permit the application of the IAT to MFN duties below the CET. For all RECs with large memberships (e.g. COMESA and ECOWAS), the lesson is that the smaller (typically low-income members with similar production and tariff structures), would benefit from closer cooperation and developing common stance to face the larger members in the REC.

Part III | Deliverables for the African Continental Free Trade Area (AfCFTA)

As stated in TRALAC's dedicated webpage: "The operational phase of the AfCFTA was launched during the 12th Extraordinary Session of the Assembly of the African Union in Niamey, Niger on 7 July 2019. The AfCFTA will be governed by five operational instruments – the Rules of Origin, tariff concessions, online mechanism for monitoring, reporting and elimination of non-tariff barriers, the Pan-African Payments and Settlements System (PAPSS), and the African Trade Observatory. The AfCFTA Secretariat will facilitate the efficient conduct of business of the AfCFTA and is charged with various responsibilities related to the implementation of the AfCFTA, including the annual budget and work programme. The AfCFTA Secretariat was officially handed over in Accra, Ghana on 17 August 2020."[4]

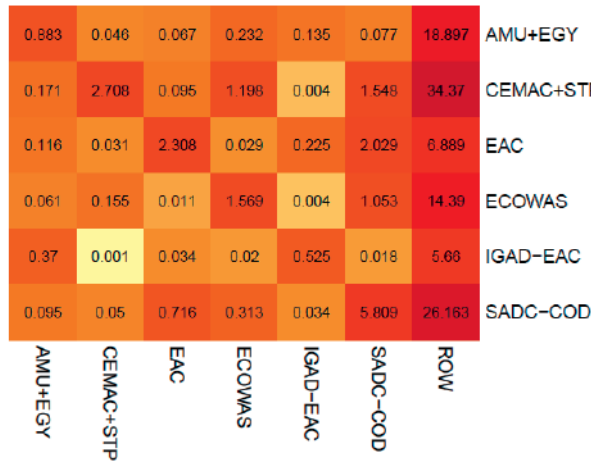
Most discussion on African integration over the last decade has been around the AfCFTA which is still very much in its early stages since some negotiations like agreeing on Rules of Origin or the adoption of a Dispute Settlement mechanism are yet to be completed.

Taking a long-run view, thirty years down the Abuja roadmap, intra-African trade still plays only a minor role and has been unable to gain in importance since 1995. Within-REC exports are low, never above 5% of GDP on average over 2010-22, but it is the absence of direct East-West trade is striking: the EAC does not trade meaningful quantities with ECOWAS or CEMAC and the exports between AMU and SADC are below 0.1% of GDP from both sides. Taking a longer perspective, Krantz and Beltekian (2025) estimate that the ratio of within-REC trade to between-REC grew from 1.2 times in 1960 to 2.75 times in 1990. Since then, trade within RECs has fallen. In 2022, trade within RECs in Africa is only twice trade between RECs.

Eliminating tariffs on intra-African is centerpiece of AfCFTA phase I, at least one that is easily monitorable. Thanks to Teti's painstaking work, we now have better estimates of applied tariffs within RECs (2024).[5] **Table 1** contrasts average applied tariffs within RECs with the corresponding average MFN tariffs. For all regions except SACU, MFN tariffs are above 10%, often close to 15%. Except for CU or FTA members where intra-group tariffs are low, for other African countries, tariffs are close to the prevailing MFN tariffs. These more accurate estimates of bilateral tariffs confirm that there is ample room for AfCFTA to reduce/eliminate tariffs on intra-African trade across regions.

4. On 7 October 2022, the AfCFTA Secretariat launched the AfCFTA Guided Trade Initiative (GTI) in Accra, marking the commencement of trade under the Agreement for seven (7) participating countries: Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda and Tanzania, representing the five regions of Africa.
5. Teti (2024) reports that applied tariffs are missing for over 50% of observations for LDCs in the WITS data base. And for LDCs, concentrated in Africa, the number of years in which preferential tariffs are reported is less than half of the number of years of the respective preferential scheme is in force.

Figure 2. Heatmap of REC exports: Intra-and between as percentage of GDP (average 2010-2022)



Notes: EAC countries export on average 2.3% of GDP to other EAC members and 6.8% to Rest-of-the-world (ROW). RECs are defined to exclude multiple membership. See the acronyms-abbreviations file for classification of countries in each constructed non-overlapping REC membership.

Source: Krantz and D. Beltekian (2025, figure 4)

Table 1. Average bilateral Tariffs (in %) across African regions and individual trading partners (2017)

Import \ Export		South		East		Central		West	North	EU	USA	China	MFN
		SACU	Non-SACU	EAC	Non-EAC	CEMAC	Non-CEMAC	ECOWAS					
South	SACU	0	1	6	8	8	4	8	8	3	8	8	8
	Non-SACU	2	2	3	4	10	6	10	8	7	10	10	10
East	EAC	6	1	0	3	13	8	13	10	13	13	13	13
	Non-EAC	15	8	7	10	16	14	16	13	16	16	16	16
Central	CEMAC	17	17	17	17	1	17	17	17	17	17	17	17
	Non-CEMAC	10	10	10	10	10	10	10	10	10	10	10	10
West	ECOWAS	12	12	12	12	12	12	4	12	11	12	12	12
North		13	9	9	6	13	13	13	2	8	12	13	13
EU		0	0	0	0	1	0	0	1	0	5	5	5
USA		1	1	1	1	1	1	1	2	4	–	4	4
China		9	5	4	1	6	6	5	9	11	11	–	11
		Customs Union				FTA between all countries				FTA between selected countries			

Notes: Blue is reserved for the four customs unions: SACU, EAC, CEMAC, ECOWAS. Dark red cells indicate that an FTA exists between all countries in the respective two regions (e.g. the SADC FTA exists between all SACU and non-SACU countries in the South. Light red cells indicate that an FTA exists between at least one pair of countries in two different regions. In the East, EAC has an average MFN tariff of13% and 0% tariff for within member trade, but close to MFN rates for trade with countries in the West other regions. In the West, ECOWAS has an average applied MFN of 12% as well as for trade with countries in other African regions, 4% average applied tariff for trade within members

Source: Böschmeier, *et al.*table 1

Challenges for the AfCFTA steppingstone

At the time of the first anniversary of the AcFTA launch in March 2019 I posted reactions, some lauding the inclusion of negotiations on Services trade (Services are increasingly complementary and embodied in trade in Goods), others urging the AcFTA to replicate the EAC's 'Common market scorecard'. Chapter 8 reports these reactions. I also noted that the biggest challenge would be to participate in supply chains, moving towards downstream activities, trying to replicate 'factory Asia'.

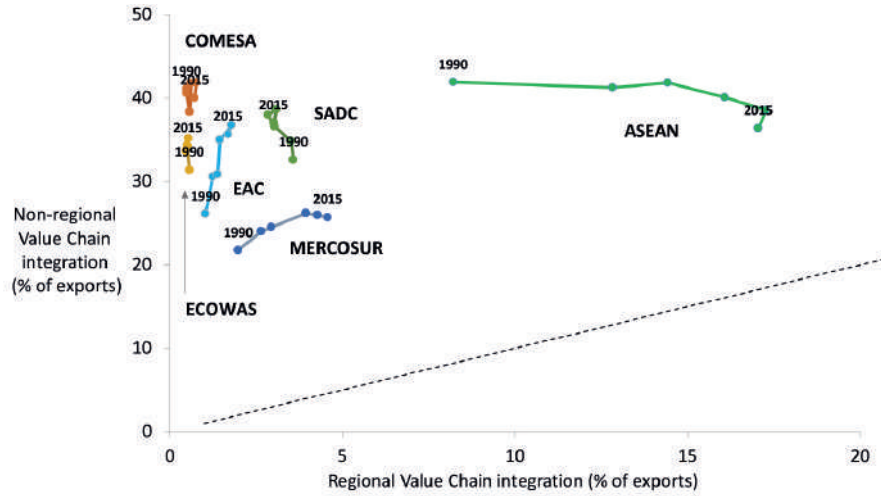
The long road to supply chain trade in Africa and switching to Regional Value Chains (RVCs)

Evidence shows that integration into production networks - Global Value Chains (GVCs) or Regional Value Chains (RVCs) - provides new opportunities for developing countries to participate in global trade and diversify their export baskets through hyper-specialization in fragmented production processes.

Without an ecosystem of supply chain trade, a country needs to produce a complete product before entering a new line of business. By allowing countries to specialize in a part of a production process, supply chain trade can position a country to move rapidly from labor-intensive to capital-intensive, skill-intensive, and information-intensive activities. The World Bank's World Development Report of 2020 estimates that a one percent increase in GVC participation boosts per capita income growth by more than one percent, about twice as much as standard trade.

Chapter 9 shows that over the period 1990-2015, the African RECs developed supply chains outside the region (Non-Regional Value Chains or NRVC). As shown in **figure 3**, their trajectory stood in sharp contrast with Asean's, and to a lesser extent MERCOSUR's where all the growth in value chains was with FTA partners (RVC). For all RECs, the development of production networks was with extra-regional partners. The large increase in NRVC participation for the EAC likely reflects a stronger reduction in trade costs (or a greater response to an equal reduction in trade costs) with partners outside the EAC.

Figure 3. Value chain trade participation trajectories for RECs and selected FTAs by origin



Notes: The figure breaks down the GVC participation rate into two parts: intermediate trade with FTA partners (RVC trade defined as exports that cross at least two borders in the FTA) and intermediate trade with partners outside the FTA (NRVC). For example, in 1990, ASEAN GVC rate was approximately 50% with 42% outside the FTA (NRVC) and 8% within the FTA (RVC). Trajectories calculated from EORA database. Dashed line is 450 line Measures, computed at five to six year intervals, are weighted by each country's share in the corresponding region total trade The GVC participation rate expressed as a share of gross exports is the sum of the imported content of gross exports (e.g. share of imported textiles in clothing exports) and the share of gross exports undergoing further processing at destination before reaching final consumers (e.g. ores and minerals).

Source: de Melo and Twum, 2021, figure 7.

The low participation in production networks is attributed to high tariffs on intermediate inputs, complicated rules of origin and expensive and unreliable digital connectivity. This trend that has continued until 2022 as the share of Africa-wide RVC has remained flat at 5% from 1995 to 2022.[6] Writing in 2025, this trend is worrisome as 'reshoring' and 'friendshoring' are the words of the day in a world of increasing geopolitical tensions and with trade wars on the immediate horizon.

Rules of Origin (RoO) capture

For the CFTA to become fully operational, the 54 signatory countries must reach agreement on harmonization of RoO – the 'Made in Africa' criteria to ensure that only bona fide African products will benefit from tariff concessions. Harmonization is also necessary to prevent trade deflection, i.e. importation through the

6. When the RVC and NRVC indices are computed at the region level for 1995 and 2022, Africa's trend of supply developing networks is more pronounced: Rates in brackets [1995,2022] for Africa are NRVC [36%,40%]; RVC [05%,05%] and for Asia (excluding China and India) are: NRVC [20%,20%]; RVC [16%,26%]. Melo and Solleder (3025, table 4).

low-tariff partner in an FTA. Because of intensive lobbying by firms, especially large ones in protected sectors, negotiations should aim for rules that are business-friendly rather than business-owned.

Negotiations on RoO take place between RECs. Agreement on regime-wide rules has been reached, but not on Product-specific Rules of Origin (PSRO). In the absence of completely agreed PSRs, the full ambition of the 'non-sensitive' product list (90%) might not be realised. A temporary (interim) solution could be to rely on Article 5 in Annex 2 of the Agreement laying out the 'wholly obtained' criterion. However, this would be unrealistically stringent for many products on the current outstanding list (see Table 3 in the paper), such as autos and motorcycles.

Chapter 10 shows that transparency and efficiency has not prevailed during the negotiations. Not only have countries agreed to more than 800 Product-Specific Rules of Origin (PSRO), but, as documented in the chapter, negotiations have stumbled in sectors with high preferential margins where REC- level PSRO happened to already be most restrictive. At the time of writing in 2021, negotiations were still ongoing.

The Trade Facilitation Agreement (TFA): a significant complement to the AfCFTA

The TFA, the first and only multilateral agreement since the creation of the WTO is to reduce red tape at the borders. Among others, the TFA includes publication of information, advance rulings, appeal or review of decisions, freedom of transit, transparency and border agency cooperation, and the setting up of formalities that implement least trade-restrictive measures to achieve underlying policy objectives (e.g. 'single-window' systems, a ban on mandatory Pre-Shipment Inspection (PSI) for classification/valuation). The key aspect of the TFA is that it is sufficiently specific that progress on implementation can be monitored relatively easily at the country level, making it easier to estimate compliance with the proposed objectives of reducing time at customs.

Chapter 11 gives a range of estimates of reduction time in customs from TFA implementation for 38 AcFTA signatories. A realistic implementation (i.e. reducing time at customs to half the time of the 3 best-performing countries in each country group) could reduce time in customs for imports by 2.7 days and for exports by 1.7 days. These reductions in time translate into an equivalent reduction in tariffs in the range of 3.6% - 7.0%. This is significant since average applied tariffs for African countries are around12.4%, an estimate close to the more recent estimates reported in table 1. To these gains should be added the reduced time of 42 hours (1.7 days) in customs for exports, translating into 8.1% increase in exports.

Part IV | From the negative to the Positive Agenda: Nurturing Regional Public Goods (RPGs)

The AcFTA is about removing trade distortions like those imposed by tariffs and NTBs. This is the negative agenda in the trade policy sphere as it is about releasing resources for better uses. RPGs (e.g. a Dispute Settlement Body) are part of the positive agenda in the trade policy sphere. RPGs are not supplied by the market. Their provision require resources.

The key distinctive feature of RPGs (Barrett (2016) is that, unlike national public goods, no single body with the authority of a state exists to ensure the supply of the goods. Since all Regional Economic Communities have more than two members, some collective action is necessary to provide these regional public goods. From an economic perspective, the application of the principle of subsidiarity applies with efficiency in provision requiring that the scope of the established regional institutions should match the region benefiting from the spillover.

This is not an easy task across Africa's landscape where the benefits of common policies are high because of widespread cross-border physical (i.e., environmental) and policy (air transport, corridors) spillovers. The costs are also high because of policy preference differences across member countries. Common decision making internalizes the spillovers, but it moves the common policy away from its preferred national policy (i.e., a loss of national sovereignty). These characteristics of Africa's landscape explain the plethora of ROs shown in figure 1.

RPGs are grossly underprovided across a continent riddled with transborder externalities, a greater provision of RPGs would be conducive, even essential to the success of African regional integration. Chapters in part IV document the tensions that detract from applying the principle of subsidiarity which is necessary for regional cooperation.

The AfCFTA as enabler to deepen regional cooperation

Signed in March 2018, the AfCFTA is an opportunity to extend the provision of RPGs beyond hard infrastructure. Chapter 12 discusses several examples covered in the Africa Economic Outlook (AEO) 2019. The Desert to Power Initiative is one such effort. The initiative stretches over the Sahel, aiming to connect 250 million people with green electricity through a combination of public, private, on-grid, and off-grid projects expected to deliver 10 gigawatts of solar energy by 2025 (See AEO, 2019). Another is the TransAfrica Highway (TAH). Other covered projects include Peace and security, mining, river basins and transnational electricity grids. These projects require trust to accept some subsidiarity, key for successful coop-

eration among many actors, which is why regional integration agreements are increasingly described in terms of "regional cooperation and integration.

A bottom-up approach to the provision of RPGs

Chapter 13 revisits African regional integration through the lens of providing RPGs rather than removing distortions to help markets function better. This is a departure from the traditional top-down one used by the 8 African Union (AU)-recognized RECs and the other 25 or so specialized ROs shown in figure 1. These new institutions have sought to introduce new institutional forms and management systems, with external support, but often beyond absorption capacities resulting in regional "implementation gaps."

The 15 Agenda 2063 flagships are then categorized according to their type of Public Good (e.g. "best shot" or "weakest link") This more adaptive approach to different circumstances is more "problem driven". This approach helps evaluate the probability of success since it puts the emphasis on how contributions materialize into the public good. For example, when eradicating a disease or when building a regional corridor, success depends on the effort by the country that contributes least, i.e. the "weakest link".

Rather than starting from a top-down strategy seeking to apply best-practice solutions, the paper recommends starting by addressing the problem through the provision of an RPG, then identifying suitable coalitions, and then implementing with follow-up adaptation and repeated identification of the regional problem and its RPG type. The paper proposes a six-step "find and fit" iterative strategy inspired from Andrews *et al.* (2017).

COVID-19 to jump-start collective action. The COVID-19 pandemic is a perfect example of a Global Public Good (a bad in fact) that calls for the kind of collective action intended by the AfCFTA. Chapter 14 reviews the different levels of cooperation ranging from the sharing of information, guidance, coordination and collective action that took place for joint procurement in ECOWAS. However, there were also across the horizon in June 2020: 29 African countries reported 43 temporary trade measures on medical-related products of which 22 half were liberalizing (i.e. reduction on barriers to import), the other half restrictive (across-the-board export restrictions/bans). This raises the specter of uncoordinated responses to the current US assault on the World Trading System seeking to engage in bilateral deals.

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Part 1
Challenges and Pathways

Regional Integration in Africa: Challenges and Prospects[1]

— with Yvonne Tsikata

Political motives, geography, and the uneven distribution of gains trumped the traditional efficiency gains across Africa's Regional Economic Communities (RECs). The small, sparsely populated, fragmented, and often isolated economies across Africa make a compelling case for these economies to integrate regionally to reap efficiency gains, exploit economies of scale, and reduce the thickness of borders. But lack of complementarities among partners and diminishing returns to the exploitation of resources has reduced supply response to market-integration-oriented regional policies. Additionally, a very uneven distribution of resources has sharpened the trade-off between the benefits of common policies needed to tackle cross-border externalities and their costs, which are heightened by the sharp differences in policy preferences across members. African RECs have pursued the 'linear model' of integration with a stepwise integration of goods, labour, and capital markets, as well as eventual monetary and fiscal integration. Apart from the franc zone, the RECs have not yet completed goods markets integration; the lack of adjustment funds to address the uneven distribution of benefits across partners contributing to the delay. Estimates reported here reveal the shortcomings of the linear model of integration, as behind-the-border measures aiming to reduce trade costs were largely ignored across African RECs until recently. While this is probably due to the difficulty in gaining the confidence necessary to get collection action started, many behind-the-border measures could still have been undertaken unilaterally.

1. This paper first appeared in C. Monga and J. Lin (eds) (2015) ***The Oxford Handbook of Africa and Economics***. Special thanks to Phoebe Wong for help and Céline Carrère, Julie Regolo, and the editors for comments. Melo thanks FERDI for support.

Introduction and Overview

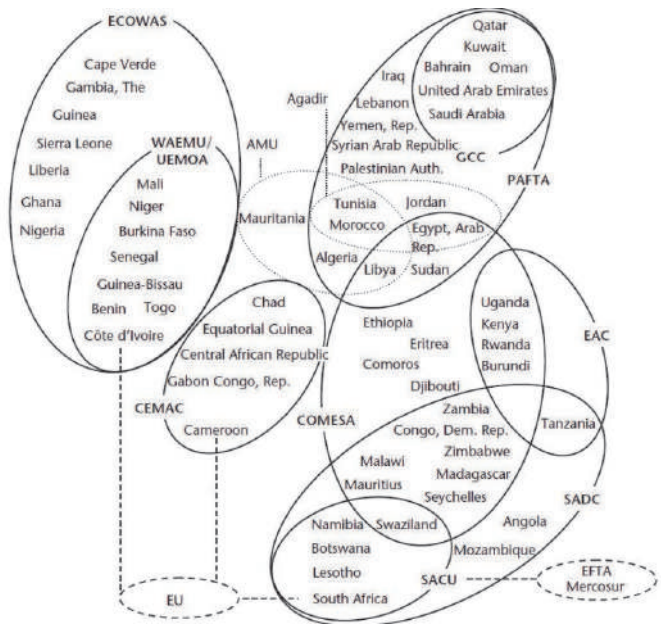
Over the last thirty years, Regional Integration Agreements (also referred to as Regional Trade Agreements (RTAs) or Preferential Trade Agreements (PTAs) to underline that these agreements almost always involve preferential access) have been spreading everywhere, including across Africa (see **Figure 1**) where they have also been called Regional Economic Communities (RECs). During this period, the landscape of PTAs has changed drastically. In the late 1970s, North-South PTAs represented almost 60 per cent of all PTAs while South-South PTAs represented only 20 per cent. By 2010, two-thirds of PTAs were South-South and North-North only one-quarter. In 2010, the 58 African countries were involved in 55 PTAs, of which 43 were South-South and 12 were North-South. PTAs have also increasingly become cross-regional. Of the 55 African PTAs, 31 are cross regional.[2]

These changes in the landscape reflect an increasing participation of developing countries in world trade. In Africa especially—where 34 of the 50 least developed countries (LDCs) are located—the changes also reflect a shift of interest away from unilateral preferential trade provided by the generalized system of preferences (GSP), the Lomé and Cotonou agreements for ACP countries, and more recently the Everything but Arms (EBA) as well as Africa Growth Opportunity Act (AGOA). The lowering of trade barriers in Organisation for Economic Co-operation and Development (OECD) markets and the increasing number of beneficiaries of preferential access have eroded the value of these preferences.[3] This shift towards South-South integration also reflects a desire to include the LDCs into regional production networks. Further, it is a means to strengthen developing countries' bargaining power in multi-lateral trade negotiations. Notwithstanding the growing importance of trade in natural resources, African countries have remained bystanders in the stalling of the current multi-lateral negotiations. One way to acquire influence in the future is through successful regional integration.

2. The regional classification follows the World Trade Organization (WTO) nomenclature. The WTO counts include notified and non-notified PTAs. The numbers are high because a PTA that includes goods and services is notified twice, and accessions to existing PTAs are counted as a new PTA. Thus, the steeply rising number of PTAs over the past 30 years reflects both a growing number of countries involved in PTAs and a growing number of memberships of each country. Figures are from WTO (2011, Table B1). This paper focusses on the economic effects of South-South African RTAs. It does not cover the North-South PTAs (e.g. the European Partnership Agreements or Euro-Med Agreements) viewed as less controversial, as northern partners are relatively close to the frontier in terms of cost efficiency, see Melo *et al.* (1992); Oyejide *et al.* (1999); Schiff and Winters (2003); and WTO (2011).
3. The gains from receiving duty-free status are greatly reduced by the fact that most-favoured-nation (MFN) rates on traded goods are zero or close to zero. WTO (2011) estimates that, if preferences were fully utilized, all preferences together would reduce the global trade-weighted tariff from three to two per cent with a drop of only 0.1 due to the non-reciprocal preferences mentioned here. This is why the Introduction to a recent handbook on preferential trade agreements for developing countries is justly entitled 'Beyond Market Access' (Chauffour and Maur 2011).

PTAs are good politics, but to survive they must extend beyond unfilled good intentions and have a sufficiently sound economic basis, the focus of this paper. Our assessment of the literature is that regional integration is the way ahead as there are many regional externalities that can only be addressed through regional co-operation. However, the linear model of integration from goods markets to monetary and fiscal integration has slowed the progress towards integration in the world economy. In addition to political benefits, reductions in trade barriers have helped to integrate markets, although this integration has been disappointing because of high trade costs documented here. Moving beyond removal of barriers at borders to the next stage of deeper integration has been even slower as African RTAs continue to be negotiated as an exchange of market access at the expense of non-partners rather than as an exchange of domestic reforms for attracting foreign direct investment (FDI), which would provide the backbone services necessary to participate in the growing fragmentation of production worldwide.

Figure 1. Regional arrangements in Africa



Note: AMU, Arab Maghreb Union; CEMAC, Economic and Monetary Community of Central Africa (Communauté Économique et Monétaire de l'Afrique Centrale); COMESA, Common Market for Eastern and Southern Africa; EAC, East African Community; ECOWAS, Economic Community of West African States; EFTA, European Free Trade Association; EU, European Union, GCC, Gulf Cooperation Council; Mercosur, Southern Cone Common Market; PAFTA, Pan-Arab Free Trade Area; SACU, Southern African Customs Union; SADC, Southern African Development Community; WAEMU/UEMOA, West African Economic and Monetary Union/Union Économique et Monétaire Ouest-Africaine.

Source: Acharya *et al.* (2011, Figure 2.18); WTO Secretariat.

Section 2 describes African RECs, their membership, main characteristics, and some of their objectives. Section 3 discusses the interplay of geography, politics, and efficiency, all strong arguments in favour of integration on a regional basis in Africa. Evidence is reviewed in Section 4. Challenges ahead are covered in Section 5.

The Landscape of Africa's Linear Integration Model

At a deep level, regional integration in Africa has its roots in the political forces determined by the colonial legacy that resulted in a configuration of geographically artificial states where arbitrary borders coupled with great ethno-linguistic diversity contributed to the continent's high number of conflicts and to its high trade and communication costs (Alesina et. al. 2003; Alesina *et al.* 2011 and Portugal-Perez and Wilson 2009). In Africa as a whole, but in Sub-Saharan Africa (SSA) in particular, the RECs were to be the 'building blocs' of the hoped-for African union in the immediate postcolonial era. Now, they are central for implementing the New Partnership for Africa's Development (NEPAD). In short, the RECs were and continue to be the glue that will cement African unity.

An early phase of integration started during the first decades of independence, and was enshrined in the Lagos Plan of Action, an initiative of the Organization for African Unity, adopted by the heads of states in 1980. The proposed framework was for African integration into pan-African unity and continental industrialization by the division of the continent into RECs that would constitute a united economy, the African Economic Community. Three regional integration arrangements were supported by the Economic Commission for Africa: Economic Community of West African States (ECOWAS); Common Market for Eastern and Southern Africa (COMESA), and the Economic Community for Central African States (ECCAS), and later, the Arab Maghreb Union (AMU).

This first phase corresponded to the heyday of central planning when faster industrialization would take place if carried out at the regional level under free trade among members with high tariff barriers applied to non-members, and during which an inward-looking integration also reflected a desire to develop independently from the former colonial masters. Economic unification would be the solution to Africa's development dilemma and, for many, to work it would require a political union. However, the leaders of these young post-independence African states were reluctant to encourage the erosion of national sovereignty and the emergence of a supra-national authority, which would have been necessary to co-ordinate and manage the affairs of the hoped-for African

union. (Even in Europe, it took 30 years to accept the principle of subsidiarity).[4] In addition, as discussed below, the great diversity across Africa (resource-rich and resource-poor, coastal and landlocked, artificial borders, many ethnic groups and languages) translated into different interests that strengthened countries' insistence on the 'respect for the sovereignty and territorial integrity of each State and the inalienable right to independent existence' as written in the Organization of African Unity (OAU) charter of 1963. Commitment to pan-Africanism was weakened, leading to a vagueness and multitude of objectives (see some examples, **Table 1**), which helped States gloss over the issues that divided them.

The outcomes of the first phase of African PTAs were insightfully reviewed by Foroutan (1992). After observing that the gross national product (GNP) of SSA was about the same as Belgium's, she noted that it would be hard to imagine Belgium divided into 'forty-something independent countries, each with its own isolated goods and factor markets' (p. 234). She also pointed out that the skewed distribution of benefits resulting from the great disparity among members required large compensation from the gainers to the losers, large partly because regional trade was mostly inter- rather than intra-industry: Absent central funding raised by less distortionary means, funds were either obtained by distortionary taxes negating any efficiency gains from eliminating protection among partners, or trade barriers were not removed.[5] So, with the exception of integration of the franc zone in Economic and Monetary Community of Central African States (CEMAC) and West African Economic and Monetary Union (UEMOA) (see **Table 1**), implementation never reached the Free Trade Area (FTA) status, let alone deeper integration.

Starting in the 1980s, and later, following the end of the cold war, initiatives entered a second, more outward-looking, phase. Most were a revival of previous efforts that had either been abandoned, such as the East African Community (EAC), or not implemented, such as the Common Market for Eastern and Southern Africa COMESA, while others were new with significant membership overlap (see **Figure 1**) reflecting countries 'hedging their bets'. To this day, this overlap complicates the task of policy co-ordination and slows down attempts at 'deep integration' as large membership makes it difficult to reach consensus to dele-

4. Subsidiarity indicates that decision-making jurisdiction should coincide with a public good's spillovers (multilateral institutions for transnational public goods, regional institutions for regional public goods, such as infrastructure, especially for landlocked countries, and national institutions for national public goods.

5. For example, in West Africa, preferential customs duties (e.g. the 'Taxe de coopération régionale' applicable to partners' industrial products were tailored to the 'protection needs' of the least advantaged partners. In Europe, France delayed progress towards deeper integration when it opposed the planned move in the Treaty of Rome from unanimity to majority voting in the European Council fearing that it would have to adopt policies it would oppose. The conflict over sovereignty was also apparent when several countries opted out of the Lisbon Treaty 2007, which further strengthens EU institutions and inches towards qualified majority voting.

gate authority to regional bodies. For example, Zambia, is both a member of the COMESA Customs Union (CU)—which requires applying Common External Tariff (CET) to non-members—and of the Southern African Development Community (SADC) FTA, putting the country in a conflicting position.

Table 1 lists ten major PTAs along with some characteristics and objectives. Objectives are wide ranging and ambitious, reflecting the desire to dissimulate the heterogeneity of interests. In addition to promoting industrialization, the objectives include harmonization of regulations and policies— Agadir Agreement; monetary unions—COMESA, EAC, Gulf Cooperation Council (GCC); promoting democracy (SACU); and expanding the development of the least-developed members— Pan Arab Free Trade Area (PAFTA) and Southern African Customs Union (SACU). The ECOWAS treaty calls for the establishment of a West African parliament, an economic and social council, and an ECOWAS court of justice to enforce community decisions. The community is also formally assigned with the responsibility of preventing and settling regional conflicts, which clearly indicates the importance of political objectives.

Of the ten PTAs listed in Table 1, only three have aimed for FTA status, all others aiming for deeper integration, with integration moving along the linear model of integration following a stepwise integration of goods, labour and capital markets, and eventually monetary and fiscal integration. Goods market integration would start with an FTA, then move on to a CU with a CET. Along this sequence, excluding SACU, none of the PTAs in Africa have yet reached full CU status as many goods are excluded from the CET; the COMESA CU launched in 2009 only requires countries to give a list of goods they wish to submit to the CET for a five year transition period. In the next phase, countries would move to a common market with the integration of labor and capital markets culminating in a monetary union. For example, the EAC, the most advanced regional agreement among the six retained for further scrutiny, moved to a customs union in 2005, then to a common market in 2010, with the next planned step being a monetary union for 2015.

In Table 1, three agreements stand apart. SACU, the oldest customs union in the world, is the only full customs union with revenue sharing among African RTAs, so there is no need for costly-to-meet rules of origin (RoO). Established by a colonial power, it is not replicable and hence, not considered further. With a high dependence on oil revenues and exports of services and shared religious beliefs, the GCC is also deeply integrated even though progress towards a monetary union is stalled—because of its low applicability elsewhere, it is not covered here. Due to its membership in the franc zone, UEMOA and ECOWAS members share a common currency, and have achieved deeper integration. Since monetary unions figure prominently among African PTA objectives, UEMOA is kept for discussion, but in all statistics, ECOWAS will only include non-UEMOA members. This leaves us with a focus the following six agreements: COMESA, EAC, ECOWAS (minus UEMOA members), UEMOA, PAFTA, and SADC.6

Table 1 also gives two indicators that capture characteristics important in explaining the dilemma facing African RECs. First it indicates when a country is landlocked to reflect that landlocked and coastal countries have opposite interests as coastal members wish to control (and hence raise costs) of goods crossing their territories. Next is the Trade Complementarity Index (TCI), a measure of the gains from trade (a high/low) value for the index indicates that the two countries have great (low) gains from trading with each other as the two countries exhibit (do not exhibit) complementarity. The low values of these indices, compared to those of other RTAs mentioned in Table 1, point to negligible efficiency gains from specialization-induced gains through interindustry trade. On a world-wide basis, measures of intra-industry trade are also the lowest for African RTAs (Brulhart 2009).

6. Five of the six CEMAC members are petroleum exporters while none are among UEMOA members. In its tally of 14 African RECs, WTO (2011: 152) states that nine have a full economic union as the specified objective, one aims for a Common Market (COMESA), while the remaining ones aim for FTA status. The optimism in reaching these objectives is exemplified by SADC's timetable: reach FTA status by 2008, a CU by 2010, a common market by 2015, a monetary union by 2016, and a single currency by 2018.

Table 1. Main (WTO recognized) plurilateral preferential trade agreements in Africa.

Abbreviations	Name of RTA	Type of Agreement	Members
AMU (11.56)	Arab Maghreb Union	Free Trade Area	Algeria, Libya, Mauritania, Morocco, Tunisia
Agadir (21.66)	Agadir Agreement	Free Trade Area	Egypt, Jordan, Morocco, Tunisia
EMCC/ CEMAC (6.24)	Economic and Monetary Community of Central Africa	Customs & Monetary Union	Cameroon, Central African Republic (L), Chad (L), Congo, Equatorial Guinea, Gabon
COMESA (8.04)	Common Market for Eastern and Southern Africa	Customs Union	Burundi (L), Comoros, DR Congo, Djibouti, Egypt, Eritrea, Ethiopia (L), Kenya, Libya, Madagascar, Malawi (L), Mauritius, Rwanda (L), Seychelles, Sudan, Swaziland (L), Uganda (L), Zambia (L), Zimbabwe (L)
EAC (12.07)	East Africa Community	Customs Union	Burundi (L), Kenya, Rwanda (L), Tanzania, Uganda (L)
ECOWAS (7.23)	Economic Community of West African States	Trade, Currency, Political Union	Benin, Burkina Faso (L), Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali (L), Niger (L), Nigeria, Senegal, Sierra Leone, Togo
PAFTA (9.45)	Pan-Arab Free Trade Area	Free Trade Area	Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates, Yemen
SACU (21.07)	Southern African Customs Union	Customs & Monetary Union	Botswana (L), Lesotho (L), Namibia, South Africa, Swaziland (L)
SADC (11.45)	Southern African Development Community	Free Trade Area	Angola, Botswana (L), Lesotho (L), Malawi (L), Mauritius, Mozambique, Namibia, South Africa, Swaziland (L), Tanzania, Zambia (L), Zimbabwe (L)
WAEMU /UEMOA (10.33)	West African Economic and Monetary Union	Customs & Monetary Union	Benin, Burkina Faso (L), Côte d'Ivoire, Guinea-Bissau, Mali (L), Niger (L), Senegal, Togo
GCC (8.92)	Gulf Cooperation Council	Political & Economic Union	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates

Notes: 1. Creation of Equatorial Customs Union; 2. Creation of Preferential Trade Area for Eastern and Southern Africa; 3. First agreement signed; 4. Creation of Southern African Development Community; (L) for landlocked members. Figures in parentheses are the Trade Complementarity Index (TCI) of the respective RTAs at the year of agreement signed., where is product k's share in country i's total imports, is product k's share in country j's export to the world. A maximum score of 100 indicates that the two countries are ideal

Year origin	Year signed	Objectives
1988	1989	Economic and political unity among Maghreb countries. Establish an FTA among members prior to a Euro-Mediterranean FTA as envisaged in The Barcelona Process. Boost competitiveness of their products into European Union (EU) markets; expand co-operation, commercial
2001	2004	exchange and free trade between members. Agadir Agreement spectrum includes customs, services, certificates of origin, government purchases, financial dealings, preventive measures, intellectual property, standards and specifications, dumping and mechanisms to resolve conflicts.
1959[1]	1994	Create a common market based on the free movement of people, goods, capital and services. Ensure a stable management of the common currency. Secure environment for economic activities and business in general. Harmonize regulations of national sectoral policies.
1965[2]	1993	Achieve sustainable economic and social progress in all Member States through increased co-operation and integration in all fields of development particularly in trade, customs and monetary affairs, transport, communication and information, technology, industry and energy, gender, agriculture, environment and natural resources.
	1999	Widen and deepen co-operation among Partner States in, among others, political, economic and social fields for their mutual benefit. To this extent the EAC countries established a Customs Union in 2005 and a Common Market in 2010. Enter a Monetary Union and ultimately become a Political Federation of the East African States.
1965[3]	1975 /1993	- Achieve a common market and a single currency. Provide for a West African parliament, an economic and social council and an ECOWAS court of justice to replace the existing Tribunal and enforce Community decisions. The treaty also formally assigned the Community with the responsibility of preventing and settling regional conflicts.
	1997	Elimination of customs duties and other fees and duties having similar effects. Eliminate all non-tariff barriers, including Administrative, Monetary, Financial and Technical barriers. Preferential treatment for least developed member states.
1910[3]	2002	Facilitate the cross-border movement of goods between the territories of the Member States. Create effective, transparent and democratic institutions to ensure equitable trade benefits to Member States. Promote conditions of fair competition in the Common Customs Area and investment opportunities.
1980[4]	1996	Enhance growth and poverty alleviation; support the socially disadvantaged through Regional Integration. Evolve common political values, systems and institutions; Promote and defend peace and security. Promote self-sustaining development based on collective self-reliance and the inter-dependence of Member[5] Achieve complementarity between national and regional strategies and programmes. Achieve sustainable utilisation of natural resources and effective protection of the environment. Strengthen and consolidate historical, social and cultural affinities.
	1994	Increase competitiveness through open markets; rationalize and harmonize the legal environment. Convergence of macro-economic policies and coordination of sectoral policies; create a Common Market. The coordination of sectoral policies.
	1981	Formulate similar regulations in religious, finance, trade, customs, tourism, legislation and administration. Establish a common currency.

trading partners. A lower score indicates that the two countries export similar products and there may not be much scope in expanding one's exports to the other. In comparison, European Common Market had a TCI of 41.71 in 1962; Mercosur a TCI of 24.21 in 1994; NAFTA a TCO of 58.02 in 1994.

Source: WTO (2013) RTA database: http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx.

Efficiency, Geography, and Politics in African Regional Agreements

The literature on regionalism has shifted from early emphasis on efficiency, to the political economy of preferential versus multi-lateral trade liberalization and more recently to the possibility that regionalism could undermine multilateralism (Freund and Ornelas 2010). In Africa however, political motives, geography, and the distribution of gains across FTAs trump the traditional efficiency effects first discussed by Viner (1950). We review them here.

The political dimension

The prevalence of conflicts in Africa's recent history points to the importance of political motives in the region's recent PTA history. As put by the government of Rwanda, its trade strategy is to promote 'regional integration and cooperation' (underline added) and in the case of ECOWAS, the Community of States has the '… the responsibility of preventing and settling regional conflicts' (cited in Melo and Collison 2011). Establishing a regional trade bloc can provide security and confidence to build supra-national institutions that will deliver regional public goods as was done in the European Community over a half-century starting with the European Steel and Coal Community (ESCC) in 1953.[7]

Oates (1972) tells about the costs and benefits of common policies: A trade-off between the benefits of common policies which depend on the extent of cross-border policy spillovers and their costs, which depends on the extent of policy preference differences across member countries. Common decision making internalizes the spillovers, but it moves the common policy away from its preferred national policy (i.e. a loss of national sovereignty). In Africa, spillovers are important as transport and communications infrastructure are under-provided, but the ethno-linguistic diversity across 'artificial' borders suggests strong differences in policy preferences hindering the supply of public goods through the adoption of common regional policies.

The experience of RTAs around the world supports the view that economics and politics are complements (rather than substitutes as argued by the defenders of multi-lateralism). RTAs reduce the probability of war through two channels. First, trade-creating exchange takes place, increasing the opportunity cost of war. Second, as political scientists have argued, sufficiently deep RTAs reduce information asymmetries as partners know each other better. Then incentives for countries

7. Shortly before signing of the ESCC, Robert Schuman, then French Minister of Foreign Affairs said in a speech on May 9,1950 that: 'Through the consolidation of basic production and the institution of a new High Authority, whose decisions will bind France, Germany and the other countries that join in, this proposal represents the first concrete step towards a European federation, imperative for the preservation of peace'.

not to report their true options in an attempt to extract concessions are reduced. Discussions among members spill over to political issues diffusing political disputes that could escalate into political conflicts. These two channels reduce the probability of costly conflicts. By the same token, globalization which involves a shift of trade towards distant partners reduces this opportunity cost increasing the likelihood of conflicts. Martin *et al.* (2012) build these insights in a bargaining model where rational states will enter into an RTA if the expected economic gains from trade creation and the security gains resulting from decrease in the probability of disputes degenerating into war exceed the political costs of entering the RTA.

Martin *et al.* (2008) find that increased bi-lateral trade deters bi-lateral war because it increases the opportunity cost of war while multi-lateral openness has the opposite effect. In subsequent work, Martin *et al.* (2012) find support for their theory of PTA formation: Country-pairs with large economic gains from RTAs and high probability of conflict are more likely to sign an RTA. Although their data set does not include African countries, the findings should apply to the predominantly intra-regional African PTAs (that is why they are often called RECs) even though the opportunity cost of war would be small for countries that trade little. Viewed in this light, the costs associated with negotiating the deep African RTAs (SACU, CEMAC, and UEMOA) have been borne by colonizers. Increased trade among members then raised the opportunity cost of future wars among members by increasing their inter-dependence. Guillaumont (2013) reports that franc zone members have had about half as many yearly conflicts as other SSA countries.

Geography

Country size, remoteness, uneven distribution of natural resources, and associated rents were not considered in the evaluations of the first wave of African RTAs.[8] Meanwhile the diagnosis of decisions will bind France, Germany and the other countries that join, this proposal represents the first concrete step towards a European federation, imperative for the preservation of peace.' Africa's lagging performance was shifting from a discussion of external versus internal constraints (Collier and Gunning 1999) towards the role of physical and economic geography (Gallup *et al.* 1999; Collier and Venables 2009; and Venables 2011). Regional integration implications of this emphasis on geography are stark.

8. Limão and Venables (2001) were the first to provide orders of magnitude of the importance of infrastructure and geography on trade in Africa when they showed that 50 per cent of the difference in shipping costs for a standard 40 foot. container across destinations was accounted for by differences in the quality of infrastructure. In addition to confirming the high costs of being landlocked, they detected additional costs to overland distance (1,000 kilometers of overland distance added on average US$1,380 to container freight costs, against only US$190 by sea) for landlocked countries compounded by border delays, uncertainty, higher insurance costs, and charges by transit countries. Their key finding was that 'hard' infrastructure accounted for nearly half of the transport cost penalty borne by intra-SSA trade. This change of diagnosis from the under-trading found by Foroutan and Pritchett (1993) was also confirmed by Coulibaly and Fontagné (2006) for aggregate and disaggregated trade flows in West Africa, predicting that if all roads were paved in the region, trade would almost treble.

Consider first size and scale effects. African economies are usually small, resulting in monopoly power. Price-cost margins will be higher for many growth-related activities. Transport cartels will raise further already high transport costs (Teravaninthorn and Raballand 2008). Credit will be more expensive because of a monopolized banking sector. Savings will generate small increases in the capital stock because of the high relative price of investment goods in gross domestic product (GDP) resulting from market power.[9] Larger cities are also known to result in higher productivity through a variety of channels (lower transport and communication costs, greater competition, etc.). Taking into account that country population and country area determine city size, citing evidence that a doubling of city size in developed countries is estimated to raise productivity by three to eight per cent, Collier and Venables (2009) estimate that combining ten countries in which the largest city has three million people would lead to a country with the largest city having a population of 19 million, over six times more than the largest city in the fragmented countries. Emphasizing the benefits from a larger population and less instability, Guillaumont (2013: 280) estimates that if each of the CEMAC and UEMOA CUs had been integrated into a single economy over the period 1976-2011, average annual per capita income growth in CEMAC [UEMOA] would have been higher by 1.7 [1.9] percentage points, respectively.

Diminishing returns to resource extraction and remoteness also point out to large gains from integration as, more than elsewhere, African PTAs involve countries with very different characteristics in terms of access to resources. Take PAFTA, a mix of resource-poor (Djibouti, Egypt, Morocco, Sudan, Tunisia) and resource-rich (Bahrain, Kuwait, Oman, Qatar, and United Arab Republic) countries. Take also the EAC, a mix of coastal (Kenya and Tanzania) and remote landlocked members (Burundi, Uganda, and Rwanda). As shown in Table 1, Africa has 15 landlocked countries largely specialized in natural-resource-based production patterns that, unlike footloose manufactures, face diminishing returns. Remoteness coupled with sharply diminishing returns for resource-based exports results in a low-supply response to regional integration initiatives explaining the small response of trade shares to reduction in trade barriers in Table 2.

As pointed out by Collier and Venables (2009), these are the circumstances when regional integration has the highest payoff. Consider the implications of diminishing returns and the lack of foreign exchange. Take two identical isolated economies with a fixed labour supply and a foreign exchange constraint—their isolation preventing them from entering footloose activities. Were they to integrate, their size would double, and their output would increase, and the break of diminishing returns would be pushed back. Next consider isolation where one partner is landlocked and the other is a coastal partner having access to an activity for

9. Collier and Venables (2009) report results by Caselli (2007) that after controlling for GDP per capita, increasing labour force by a factor of ten reduces the relative price of investment by ten per cent.

the world market that is not subject to diminishing returns. The coastal partner's wage will be set by the world price for the footloose activity while the wage for the landlocked partner will be lower, determined by labour supply and diminishing returns. Migration from the landlocked to the coastal economy would close the wage gap and bring efficiency gains. Large migratory movements have indeed taken place in Africa but, in the absence of deep integration, the noncitizen status acts like a border for trade in goods, giving rise to a political backlash all the stronger in Africa's ethnically fragmented environment.

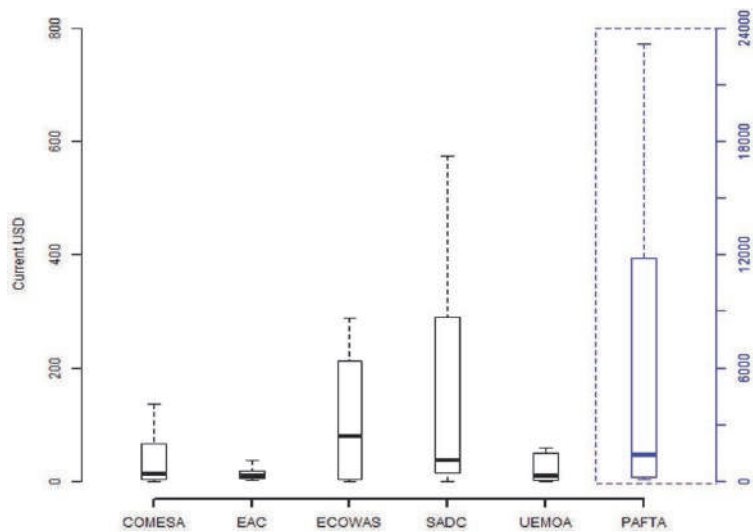
Efficiency and distributional effects

Evaluations of the first phase of African RTAs reviewed by Foroutan (1992) were largely concerned with Viner's (1950) trade creation (TC) and trade diversion (TD) effects resulting from the second-best nature of discriminatory trade liberalization. In the African context, the consensus was that TD was likely to dominate TC for several reasons. First, preferences were granted among partners with very limited supply capabilities so that the partner receiving preferences would not be able to displace entirely third-country exports, a prerequisite for a welfare-improving change since price in the partner granting preferential access would remain unchanged. Second, there were large cost differences between the most efficient members in the group and the lowest-cost external producers resulting either in no effect from granting preferential access—or negligible effects on intra-regional trade (see **Figure 2** and **Table 2**). And in the case of discernible trade effects, these large cost differences would all but guarantee that the net effect would be welfare-reducing as the TD effects resulting from subsidizing the inefficient partner would dominate any TC effect via a lower price on domestic markets. As discussed in Melo *et al.* (1992), recognizing the benefits from the possibility of exploiting economies of scale would still not be enough for preferential trade liberalization to trump nondiscriminatory liberalization, uni- or multi-lateral.

Viner's(1950) analysis was most relevant for 'similar' economies where cost differences were not too pronounced so the choice of a partner did not matter much as there was scope for the procompetitive, scale, rationalization, and increased variety gains associated with an increase in intra-industry trade to take hold. These are the large gains that were only recognized in the 'new trade theory' of the 1980s inspired by the success of European integration that resulted in intra-industry rather than inter-industry specialization. In the African context, none of these gains materialized as inter-industry trade remained low and intra-industry trade continued to be nonexistent (Brulhart 2009). Moreover, whatever limited increase in trade between members, distributional effects were likely to be large which explains why, in the absence of compensatory funds, integration efforts were abandoned. Two channels were at play.

First was a likely divergence in incomes across partners rather than a convergence as was observed during the successive waves of European integration. Even though many factors contribute to the world's ranking by per capita income, there is a tight fit between a per capita ranking of countries and one according to their physical or human capital per worker. Consider then an FTA between two Northern countries, France and Portugal, both above the world's average per capita income (and hence capital-labour endowment) and two Southern countries, Kenya and Uganda, both below the world average capital-labour endowment. As shown by Venables (2003), an FTA between Kenya and Uganda will be trade-diverting as Uganda will substitute low-cost Northern manufactures by high-cost Kenyan manufactures while Kenya will benefit from the low-cost imports of agricultural products from Uganda. By contrast, by the same reasoning, an FTA between the two Northern partners will close their income gap as Portugal benefits from France's low-cost manufactures while France shifts towards Portugal's relatively costly agricultural products.[10] So if the members of an RTA cluster have economies performing above average, the forces of agglomeration will prevail and convergence will occur as resources flow to the weaker members as has happened with European Union (EU) integration. But in a cluster with no strong economies, perhaps in part because of weak institutions, resources will flow to the strongest member in the group, resulting in divergence.

Figure 2. Fuel, ores, and metals exports per capita by RTA groups (2012 US$)



Source: Authors' calculations from World Development Indicators (World Bank 2013).

10. The collapse of the EAC (Kenya, Uganda, and Tanzania) in 1977 has often been attributed to Uganda and Tanzania perceiving they were not getting a fair share from the customs union. Schiff and Winters (2003) discuss other factors impinging on the efficiency implications of partner choice.

Take now an FTA between a landlocked country, with very limited access to world markets so it can only hope to sell to its geographically close neighbour, and a partner that is less isolated with relatively more natural resources. These two countries are price-takers on world markets but, because of its lesser neighbourhood isolation, under preferential access the landlocked country could trade a range of products with its neighbour. Then, as shown by Venables (2011), an FTA between the two will lead to trade creation for the relatively resource-poor landlocked country whose terms of trade will improve while the resource-rich partner will experience trade diversion. Estimates by Carrère *et al.* (2012) for PAFTA support these predictions: Once controlled for other determinants of trade in a panel gravity model, they show TC effects for the resource-poor members and TD effects for the resource-rich members.

Figure 2 displays a boxplot of per capita values of exports of fuels, ores, and metals for the six REC groups. It shows a very large disparity in per capita US$ values of fuel and ores across countries in different groupings (raising difficulties regarding integration within the different RECs, and even more so across the different RECs as intended in the Tripartite Agreement discussed later) and also among members in any group. As discussed below, this is a situation when the gains from economic integration would be greatest, but at the same time the most difficult to achieve because of opposing interests between members.

African Regional Integration: Any Effects on Trade?

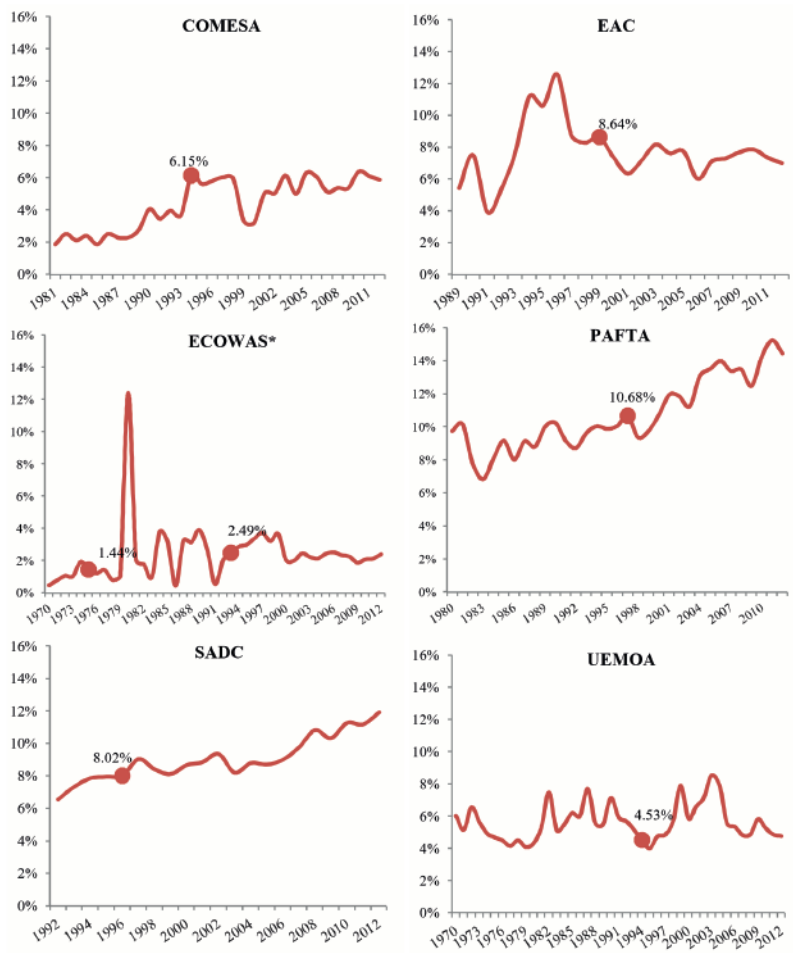
Many studies (e.g. Wacziarg and Welch 2008) have shown that trade, investment, and growth have increased following reductions in protection. However, with great volatility in growth coupled with external and internal shocks, detecting any growth effects of African RTAs has so far proved elusive. Even in the case of the deep integration in UEMOA, when compared with other non-oil exporting SSA countries, Guillaumont (2013) fails to find lasting differences in growth rates over the last thirty years.11

The first expected effect of a PTA is an increase in trade among members via three channels. The first is a reduction in tariffs between members; the second is a reduction in Non-tariff Barriers (NTBs); the third, and hardest to apprehend, is via the two components of 'trade facilitation: a 'hard' component related to tangible infrastructure such as ports, roads, highways and telecommunications; and a 'soft' component related to transparency, customs management, the business environment and other intangible institutional aspects that affect the ease of trading.

11. We restrict discussion to ex-post studies. Examples of results from ex-ante computable general equilibrium (CGE) simulation models are discussed in Schiff and Winters (2003). Tarr and Rutherford (2010) estimate that gains from liberalization of the services sector in Tanzania would be large with the largest gains coming from unilateral trade liberalization.

The first two are the outcome of measures taken under 'shallow' integration and are easier to capture than the third which is associated with 'deep' integration. Because the data on trade patterns only reveals the outcome of all measures taken (and other intervening factors), it is difficult to disentangle effects due to regional trade policies from those due to trade facilitation that could be undertaken on a regional or unilateral basis. Together, these three channels make up trade costs whose outcome is revealed in trade data. Evidence on these three channels is now reviewed moving from descriptive patterns to model-based estimates.

Figure 3. Evolution of the share of intra-regional imports to total regional imports



Notes: The red dot on the plot line in each panel indicates the agreement's implementation date (and when the organization becomes active for ECOWAS); UEMOA countries are excluded from ECOWAS. Spike in ECOWAS import share in 1980 was due to zero import activity in Nigeria that year.

Source: DOTS, IMF (2013).

Reduction in trade barriers: trade creation and trade diversion effects

Figure 3 traces the evolution of intra-regional trade shares in GDP around the time of the implementation of the RTA. These intra-regional trade shares are volatile (hence two-year averages for the figures reported in Table 2) and usually low (below ten per cent or about one tenth of the trade of extra-bloc trade) with only PAFTA and SADC showing rising trends. As a comparison, excluding the EU, the share of intra-RTA trade worldwide rose from 18 per cent in 1990 to 34 per cent in 2008 (from 28 per cent to 51 per cent if EU included) (WTO 2011, Figure B6). Moreover, compared with other gravity-based estimates of the increase in bi-lateral trade upon entry into an FTA—between 37 per cent for Martin *et al.* (2012) and 68 per cent for Baier and Bergstrand (2007)—these increases in trade are small.

Disentangling between TC, i.e. increasing the volume of trade with a partner that is already a low-cost supplier, and TD, i.e. increasing the volume of trade with a partner that is not the low-cost supplier, requires looking at the numbers more closely since any increase in intra-bloc shares in Figure 2 could come from either (or both) TC and TD. A substitution of extra-bloc imports by intra-bloc imports following the removal of internal barriers to trade would result in an increase in intra-bloc trade shares and this could be the result of TD.

Table 2 reports the evolution of several trade indices. No clear pattern emerges across the RECs. Reflecting the low share of intra-bloc imports, the extra-bloc shares in GDP are low, increasing marginally in only a few cases (by comparison, the elasticity of world trade to world GDP rose from around two per cent in the 1960s to 3.4 per cent in the 2000s). Each group was also characterized by large differences in import shares in GDP (column 3) around the time of implementation. Columns 4 and 5 report trade intensity indices, a first counterfactual attempt to capture what might have happened in the 'anti-monde'. As they are the ratio of trade shares, in the absence of preferential agreements, they should not change much. In Table 2, intra-bloc and extra-bloc trade intensities rise sharply for ECOWAS, SADC, and UEMOA. So, over the seven-year period around the agreement, the increase in the share of GDP spent on imports from members (intra-bloc) and on non-members (extra-bloc) rose more than the increase in nonmember shares in world trade. The EAC is the only bloc where extra-bloc trade intensity fell suggesting the possibility of trade diversion. Finally, the trade propensity indices in columns 6 and 7 capture the joint effect of any bias in trade patterns and the effects of RTAs over trade volumes since they are the product of the trade intensity indices and the openness ratio. Sharp increases are observed for all groups except PAFTA, suggesting an overall increase in openness, but not directly attributable to RTA implementation.

Table 2. Trade effects of RTAs in Africa, two years before and five years after implementation dates

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Import/GDP (%)			Trade Intensity		Trade Propensity		Average Distance of Trade		
RTA	Extra-bloc Imports	Total Imports	Imports (Max. Min)	Intra-bloc	Extra-bloc	Intra-bloc	Extra-bloc	ADOT	ADOT_P	ADR
COMESA										
1991-2	18.0	18.6	(69.6, 6.8)	9.9	191.8	1.1	21.6	6037.7	9553.7	0.61
1997-8	18.5	19.4	(82.4, 5.9)	7.5	164.1	1.4	31.1	6142.8	9617.9	0.63
EAC										
1997-8	18.0	20.0	(24.8, 12.9)	199.9	655.8	20.3	66.5	5972.5	9562.0	0.63
2003-4	20.4	23.9	(30.4, 19.4)	279.4	615.0	31.1	68.4	4850.6	9189.5	0.53
ECOWAS										
1991-2	36.5	37.0	(47.4, 7.7)	5.3	226.2	1.6	67.5	5116.1	8207.7	0.62
1997-8	34.5	35.7	(45.7, 17.3)	10.3	315.4	3.7	113.3	5928.5	8303.6	0.71
PAFTA										
1995-6	22.5	25.0	(63.5, 9.1)	3.9	39.7	1.2	11.9	4428.8	7052.0	0.61
2001-2	19.9	22.6	(53.0, 14.2)	3.9	41.5	1.2	13.2	5030.7	7339.6	0.67
SADC										
1994-5	18.1	19.7	(76.1, 13.6)	11.4	107.7	2.4	22.3	7144.5	10574.7	0.68
2000-1	19.6	21.5	(58.9, 12.5)	15.3	147.8	3.9	37.8	7530.3	10316.3	0.73
UEMOA										
1992-3	19.5	20.6	(56.5, 7.6)	74.9	604.6	12.1	97.6	5096.2	8199.1	0.62
1998-9	22.9	24.6	(50.3, 9.8)	96.9	701.6	21.3	154.3	5239.4	8072.4	0.65

Notes: UEMOA countries are excluded from ECOWAS. Except for ADOT measures, all figures are average of t-1 and t-2, and average of t+4 and t+5, i.e. two years before and five years after implementation, respectively. For average distance of trade (ADOT) ratios, averages of t+9 and t+10 (10 years after implementation) are used; average distance ratio (ADR).

Source: Authors' calculations from DOTS, IMF (2013).

Each RTA group *g* has *n* members indexed over *i* and *j*, and *k* is an index over the whole sample,

$$\left(i, j = 1, \cdots, g, k = 1, \cdots, n; X_i = \sum\nolimits_k x_{ik}; X_w = \sum\nolimits_i \sum\nolimits_k x_{ik}\right)$$

Trade Intensity Index (TII) is $TII_g = \frac{1}{n}\sum_i TII_i;\ TII_{i=}\frac{\sum_j x_{ij}/X_i}{\sum_{k\epsilon g}\sum_j x_{kj}/X_w}$

Trade propensity (TP): is $TP_g = \frac{1}{n}TP_i;\ TP_i = TII_i * \frac{X_i}{Y_i}$

Average distance of trade in year *t* ($ADOT_g^t$) for RTA group *g* is given by the unweighted average across *n* members, $ADOT_g^t = \frac{1}{n}\sum_{i\epsilon g}\sum_j \frac{x_{ijt}}{X_{wt}} D_{ij}$ where x_{ijt} are

exports belonging to an RTA and *j* all partners *t*, X_{wt} are world exports in *t* and D_{ij} is distance (in kilometers) between *i* and *j*, where *i* and *j* are each a country within the respective RTAs. The potential average distance of trade ($ADOT_g^{p,t}$ or $ADOT\_P$ is given by the volume of trade predicted by GDPs and distance between partners.

$$\left(ADOT_g^{p,t} = \sum_{i \in g} \sum_j \frac{X_{ijt}^p}{X_{wt}^p} D_{ij} \; ; \;\; X_{wt}^p = \sum_i \sum_j X_{ijt}^p \;\; ; \; X_{ijt}^p = \sum_i \sum_j \frac{Y_{it} Y_{jt}}{Y_{wt}} \right)$$

The average distance ratio for group *g* is given by $ADR_g^t = ADOT_g^t / \left(ADOT_g^{p,t} \right)$.

The outcomes observed in Table 2 reflect changes in internal versus external-trade costs and in external-trade costs across partners. So when countries enter an RTA, other changes may be taking place, including a reduction in their external- and internal-trade costs and also in their trade costs with non-RTA partners. Most of these changes can be captured by estimates from the gravity model estimates reported later, but a preliminary look at the data is also useful. Since countries choose their trade partners so as to minimize trade costs, if trade costs with non-RTA partners fall more rapidly than with partners, (and this could be due to a fall in trade costs in the foreign country), then, on the plausible presumption that RECs are regional (the case for most African RTAs), the ADOT for RECs will rise rather than fall while the opposite will happen if it is trade costs among members that fall the most. Taking two-year averages, column 8 reports the evolution of the simple ADOT two years before signature and ten years after; the long time-period used is to give enough time for other trade facilitation measures to show up in the data. All RECs except the EAC show an increase of the ADOT (column 8), suggesting a 'death of distance' biased towards far-away partners.

In a further step towards a model-based prediction assume, along the lines of the well-accepted gravity model, that, in a frictionless world, potential trade would be proportional to the trading partners' GDP. Then, multiplying GDPs by the distance between the partners and summing over all partners gives the frictionless gravity-predicted average distance of trade for country (or REC) *i*, denoted here as the potential distance of trade ($ADOT^P_i$). Averaging over members in a REC, gives a measure of the potential distance of trade. This measure (which takes a maximum value when all countries are of the same size) will increase when there is less dispersion in the group and over a long period when there is convergence in incomes. The evolution of this measure in column 9 indicates a slight convergence in only half of the RECs (COMESA, ECOWAS, and PAFTA).

If the gravity model is an adequate description of bi-lateral trade, and if integration fosters convergence in incomes among members, then the ratio of actual trade ($ADOT_i$) to potential ($ADOT^P_i$)—here called the average distance ratio

(ADR_i)—is an indirect measure of trade costs: falling values of the ratio (i.e. a regionalization of trade and convergence) then reflects a decrease in relative trade costs and/or convergence in incomes. These ADRs displayed in column 10 are around 0.6, suggesting that, on average, these RECs trade 40 per cent less than predicted by gravity-related variables in a frictionless world. Figure 4 shows that the EAC is the only grouping displaying a regionalization of trade. For the others, the ratio increases (points above the 450 line). This could be due to a combination of factors including relatively less reductions in trade barriers regionally and/or a combination of reduction in trade barriers in extra-regional countries, or trade facilitation measures with greater cost reductions for extra-regional trade.[12]

Gains from deep integration and trade facilitation: gravity-based estimates

The gravity model is the workhorse of the great majority of work on the effects of trade policies on trade flows. It is remarkably consistent with two strong stylized facts in the data: (i) exports rise proportionally with the size of the destination market and imports rise proportionately with the size of the origin country (both captured in the $ADOT^p$ ratios defined and reported in Table 2); (ii) there is a strong negative relation between physical distance and trade (captured in the ADR measure in Table 2). It also turns out that 'structural' gravity (i.e. theory-consistent gravity, see Head and Mayer 2013) comes out of a large family of trade models. Three features make it very relevant to assess the trade effects of African RTAs. First, gravity underlines that a country's per capita income is closely related to the country's 'real market potential': Being close to Nigeria, Liberia should have a high market potential. Second, it lends itself to the incorporation of trade costs indicators beyond bilateral distance so that it can capture the bilateral trade effects of any reduction in trade costs. So Liberia, a close neighbour to Nigeria, will have a smaller market potential than Belgium, another small country because of high trade impediments in Nigeria. Liberia's market potential will also be low if Liberia's capabilities are low, perhaps because of deficient hard and soft infrastructure. Third, dummy variables can control for other important determinants of bilateral trade: common border, common language, landlocked, etc. Importantly for any appraisal of RTAs, dummy variables that capture membership in an RTA or in a monetary union have routinely been incorporated in many applications of the gravity model that have been assembled in several meta-analyses.

Head and Mayer (2013) report two robust results from their compilation of estimates from a large number of gravity models. First, dummy variables for FTA membership are always statistically significant (median coefficient of 0.28 imply-

12. Rising ADRs do not inform on whether changes reflect larger volumes with existing partners (the intensive margin) or with new far-away partners (extensive margin). Carrère *et al.* (2013) discuss the so-called 'distance puzzle' revealed by gravity-model estimates suggesting that trade costs have been falling less rapidly in low-income countries, an observation corroborated by Arvis *et al.* (2013).

ing an FTA-induced increase in trade of 32 per cent after controlling for other intervening factors). The trade effects of common currencies have larger positive coefficients. In general, high standard errors indicate that these coefficients are not estimated precisely due to problems of endogeneity, missing variables and the choice of econometric techniques to handle the large number of zeroes in the data. As an example, these estimates are confronted with the possibility of endogeneity as countries could be brought to sign a currency union because they trade a lot in the first place.[13] In another recent study of UEMOA, Carrère (2013) estimates that intra-regional trade for members is four times above gravity-predicted trade (trade creation) while extra-regional trade is 20 per cent less (trade diversion). She also establishes that the greater intra-regional trade associated with sharing a common currency comes from less volatility in bilateral exchange rates which accounts for 50 per cent of the increase in intra-regional trade. Finally, using a composite index for 'hard' infrastructure along the lines proposed by Limão and Venables (2001), she simulates the effects of a harmonization of the value of the infrastructure index at the regional level to the mean across partners, obtaining large increases in exports from harmonization of infrastructure.

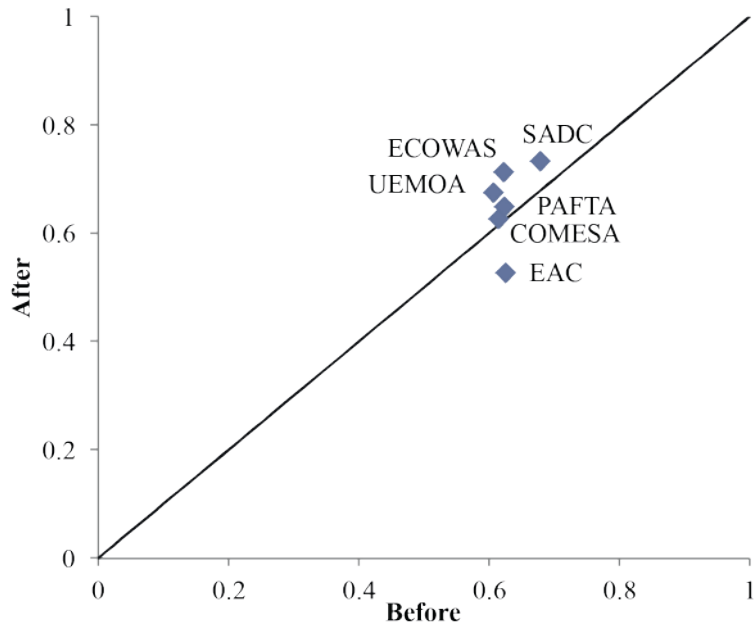
As with all effects captured by dummy variables or composite indices like those drawn from the many indicators in the World Bank's DB data base, one is not sure of the underlining links between the policy levers and the outcomes of interest captured in these results: having controlled for gravity covariates, is it better roads, rail, telecommunications, or a better functioning regulatory environment that contribute most to the attributed increase in intraregional trade? In another approach, taking inspiration from Engel and Rogers (1996), drawing on time series of prices of three agricultural commodities (millet, sorghum, manioc) across 142 markets in 15 national and regional markets in West Africa, Araujo-Bonjean and Brunelin (2013) find: (i) that a reduction in relative price differences through time across UEMOA members; (ii) a larger variance in relative prices when markets are separated by a border; (iii) controlling for distance, a much stronger 'border effect' for country-pairs involving one UEMOA and one non UEMOA country than for country-pairs involving two UEMOA countries.

The importance of logistics and delays in reducing trade of African countries also comes out from Freund and Rocha's (2011) study of African exports based on the shipping of a standard 40- foot container for a large sample of countries. They estimate that Africa's export volumes are 16 per cent below what is expected but that once the time-to-export is entered as a proxy for trade facilitation in a standard gravity trade model, the significance of the African dummy disappears in accounting for bilateral trade volume. A one-day reduction in inland travel time translates into a two-percentage point decrease in all importing country tariffs.

13. Estimates are from Head and Mayer (2013, Table 4).

Of the three components of domestic delay (documentation, transit time, and port handling and customs clearance), they find that inland transit is the most important. Moreover, including global positioning system (GPS) travel time, which accounts for the quality of the road, does not affect the coefficient of the Doing-business inland transit-time, suggesting that the problem for inland transit is soft (border delays and/or efficiency of security checkpoints) rather than hard (quality of the road network) infrastructure. Institutions and soft infrastructure would then be more important than geography in accounting for Africa's low trade volumes.

Figure 3. ADR (simple averages), two years before and ten years after implementation



Source: Authors' calculations from DOTS, IMF (2013).

These results reveal the shortcomings of the linear model of integration where behind-the border measures aiming to reduce trade costs were largely ignored across African RECs. (Hartzenberg2011) While this is probably due to the difficulty in gaining the confidence necessary to get collection action on the move discussed earlier, many behind-the-border measures could still have been undertaken unilaterally. In complementary (also based on shipping costs of a standard

container in a large cross-section of 110 countries including 22 African countries) cross-section estimates to those of Freund and Rocha (2011), and after having dealt with the high collinearity across the World Bank's Doing Business (DB) indicators by principal component methods, Portugal-Perez and Wilson (2012), estimate that cutting trade costs half-way to the level in Mauritius would be equivalent to a 7.6 per cent cut in tariffs faced by Ethiopian exporters across all importers. They also find that the marginal effect of their transport efficiency and business indicators on exports decreases with income. While potentially informative, these cross-country estimates still suffer from the 'lack of internal validity' as they cannot really identify the effects of improvements in infrastructure net of confounding influences (Cadot *et al.* 2014).

Challenges Ahead

Small fragmented and isolated economies with resources distributed very unequally among them make a compelling case for African countries to integrate regionally to reap efficiency gains, exploit scale economies, and reduce the thickness of borders. At the same time, as emphasized in this survey, in the absence of compensation mechanisms, the unequal distribution of gains has hampered progress. Moreover, until recently at least, regional integration in Africa was founded on a 20th century exchange of market access at the expense of outsiders and on the 'linear model of integration' that neglected the importance of tackling behind-the-border impediments to trade. With the reduction in trade costs and the subsequent fragmentation of production, 21st century regionalism is about a new bargain: an exchange of domestic market reforms for FDI which brings home the service activities necessary to participate in the global value chain. In this new environment, where trade is trade in tasks and involves increasingly an exchange of intermediate goods, protection (or exchange of market access) amounts to depriving oneself from participating in global outsourcing. It is against this changing background that Africa's 'old regionalism' building on exchange of market access has to be evaluated. Indeed, Asian regionalism has been characterized by 'race to the bottom' tariff-cutting to bring about the services needed to diversify and participate in international production networks (Baldwin 2011). This is why Africa's linear model of integration focusing on barriers to goods trade at the expense of trade in services, which has been growing far more rapidly than trade in goods, has been criticized (UNECA 2010).

Looking ahead, two developments are on the horizon. First are the pan-African hard infrastructure projects that finally tackle regional spillovers. Buys *et al.* (2006) carried out a cost benefit analysis to explore the returns on a pan-African programme of road infrastructure development, estimating a pay-back of one year on the investment with US$254 billion of additional trade generated over the

project's estimated lifetime at a cost of about US$32 billion. Successful large infrastructure projects will contribute to defragmenting Africa by reducing transport costs directly (Portugal-Perez and Wilson 2012; Brenton and Isisk 2012). Another channel emphasized here is the building of social capital through spreading of information, which should enhance trade and, hopefully, reduce the probability of conflicts.

Second is the African free trade zone or tripartite FTA among COMESA, EAC, and SADC that should help solve the overlapping membership dilemma by bringing free trade among the 26 members by: (i) removing tariffs and NTBs and implementing trade facilitation which will include a harmonization of RoO;[14] (ii) applying the subsidiarity principle to infrastructure to improve the transport network; (iii) foster industrial development. Signed in 2008, it is ambitious but not yet operational. However, as pointed out by Erasmus (2012), what was going to be a 'single undertaking' to establish a proper FTA is at risk by the setting up negotiating principles around a variable geometry that would allow the co-existence of different trading arrangements with small integrating effects.

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14. RoO are necessary to prevent 'trade deflection' in FTAs, i.e., importing from the low-tariff partner and selling in the high-tariff partner. Everywhere, RoO have been unnecessarily complex and have benefited the strong lobbyists of inefficient industries of the strongest partners in the FTA, see Erasmus *et al.* (2006) for an appraisal of RoO in SADC largely imposed by South African protectionist lobbies. SADC RoO are more restrictive than COMESA's.

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Pathways to Structural Transformation in Africa[15]

Sub-Saharan Africa has returned to growth. To pursue its structural transformation amid a weak industrial base and high labor costs, the adoption of policies promoting entrepreneurship in the promising service sector should assist in confronting the challenge of absorbing millions of young people into the labor market.

After more than three decades of decline post-independence, most of Sub-Saharan Africa has returned to growth. Nevertheless, clouds are forming at the horizon: At the macro level, the continent's de-industrialization in the 1970s and 1980s has failed to reverse itself, while structural adjustment apparently has worked backward, failing to shift resources toward productive uses and instead toward slow-growth sectors. Can Africa still leverage its latent comparative advantage in labor-intensive light manufacturing to benefit from second-generation offshoring? A special edition of the *Revue d'économie du développement [Development Economics Review]* compiles recent contributions on the analysis of structural transformation and the constraints to Sub-Saharan Africa's industrial development.

Findings

Despite a significant decline in poverty, the elasticity of poverty with respect to growth is weak

In our contribution, Olivier Cadot, myself, Patrick Plane, Laurent Wagner, and Martha Tesfaye Woldemichael show that the growth elasticity of poverty reduc-

15. The text first appeared at **Brookings** on October 30 2017 at www.brookings.edu/articles/pathways-to-structural-transformation-in-africa/.

tion is weaker in Sub-Saharan Africa than in other regions over the 1993-2011 period. They also show that, while this observation might seem normal in rich countries, it also holds true in Sub-Saharan Africa's resource-rich countries. We attribute the weak elasticity to the size of the agricultural sector where populations live on resources-stripped land.

No single factor explains the disappearance of the fragile industrial base

Entrepreneurial dynamism, as evidenced by export surges in non-commodity sectors, is no more in short supply in Sub-Saharan Africa than elsewhere, while export concentration appears to be a characteristic of resource-rich countries rather than the region as a whole. The sole apparent factor is structural adjustment, which seems to have directed surplus agricultural employment toward sectors sheltered from international competition rather than towards manufacturing. Overall, the frail foreign and domestic investments suggest weak rates of return due to risks tied with commercial activity in Africa.

The high labor costs enigma

Basing their analysis on firm-level data in the manufacturing sector (from the World Bank Enterprise Survey) in 12 Sub-Saharan Africa countries and 13 comparators (e.g., Bangladesh, Cambodia, Indonesia, among others), Alan Gelb, Christian Meyer, and Viaya Ramachandran bring a key contribution to the discussion. Notably, African manpower is expensive relative to comparators at the same level of income. For instance, although Kenya and Bangladesh have similar levels of per capita GDP (around $500), Kenya's median industrial labor cost is four times higher. They estimate a 50 percent premium in labor costs in Africa when compared to same-size firms in comparable countries.

What accounts for this labor-cost difference? Gelb and co-authors identify three possible contributing factors. One is what they call the "enclave effect": Only productive firms are able to operate, and they pay above-market wage rates to employees. A second possible contributing factor is the fact that labor costs rise more rapidly with firm size in Sub-Saharan Africa than elsewhere. This trend could reflect underlying bottlenecks in skilled labor if larger firms employ disproportionately more skilled workers or that unions put pressure on large, formal firms. A third hypothesis is that African labor is more expensive in nominal terms but not in real terms when the values are expressed at purchasing power parity (PPP). The labor cost difference would thus reflect exchange rate distortions rather than labor-market ones.

Gelb and Anna Diofasi explore the last hypothesis by regressing PPP cost levels on GDP per capita and find that, on average, labor cost levels are 30 percent higher in Sub-Saharan Africa than in comparators. They then address the list of potential

explanatory factors: geographic factors (small island, weak population density, economy size), institutional quality, oversampling of goods primarily consumed by rich people in the consumer basket, poor GDP measures, energy subsidies, aid and Dutch disease, and weak agricultural productivity. All in all, adding all these control variables reduces the gap by half. Sub-Saharan Africa remains an outlier.

Overall, when combined, the three factors justify the donor emphasis on agricultural and infrastructure support, even though the improvements required to absorb the millions of new young entrants on the labor market in the next twenty years would be a tall order. Putting the emphasis on services could be another means to promote employment, development, and convergence in Sub-Saharan Africa.

Services: A growth engine?

In their contribution, Ejaz Ghani and Stephen O'Connell argue that the potential of services to act as a "growth escalator" for Sub-Saharan Africa's low-income countries is overlooked. Rodrik (2013), alongside other scholars, has documented a conditional productivity convergence only found in manufacturing. They find non-convergence in the agricultural sector. Nevertheless, they find that during the 1990-2012 period, services were, by far, the largest contributors to GDP growth in low-income and lower-middle-income countries, a pattern they observe in Sub-Saharan Africa. Most strikingly in view of the region's huge employment challenge, the authors show that productivity growth in services has been accompanied by job growth.

Ghani and O'Connell dispel several misconceptions underlying the widely held belief that services cannot be a growth engine. First, growing international trade in commercial services implies that foreign demand can contribute to the growth of value added in services alongside domestic ones, providing an exogenous growth driver. Second, the term "services" covers highly heterogeneous activities, some of which (e.g., transport, telecom, or financial services) are increasingly characterized by rapid technical change and therefore by another exogenous growth driver. Third—and largely for the same reasons—contrary to common beliefs, there is little evidence that service jobs are worse in terms of pay and returns to education than manufacturing ones.

These trends stand in contrast to manufacturing, whose share in total employment tends to follow, across countries, a hump-shaped curve in terms of level of development—with a peak attained at lower levels for latecomers like Sub-Saharan Africa. Ghani and O'Connell argue that in services where the size is not as important as in industrial firms, policies geared toward the facilitation of entrepreneurship are of critical importance. Conversely, in manufacturing, what matters is attracting multinationals rather than nurturing domestic entrepreneurship.

What are the implications for governments and development partners?

From a country perspective, now that the most egregious restrictions to international trade have been removed across the continent, these conclusions suggest that policies to facilitate the development of services that have become increasingly tradable should be pursued. In our introduction, Cadot and I suggest addressing the "weak links" in the economy, i.e., the non-tradable sectors characterized by particularly low productivity that constrain the development of other sectors. Thus, a deficient energy sector—very often the case in Sub-Saharan Africa—or an unreformed banking sector can obviously have negative economy-wide effects, particularly on the sectors best placed to drive structural change, notably through their participation in value added.

From a donor's perspective, aid can be an important instrument if channeled into supporting the continent's structural change, and particularly its "weakest link"—i.e., the manufacturing sector and the bottlenecks (e.g., high transport costs and no regular access to electricity)—that undermine it. On the other hand, donors may also want to target the "strong links"—i.e., the most productive sectors—to spearhead development. The most productive firms could get subcontractors to raise their quality standards or provide technical assistance. This is the case, for example, for certain distribution channels that provide assistance to bring agricultural production up to standards. Further studies and policy experimentation will yield the strategy that would generate the best returns.

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Part 2
Architecture Choices

Regional Integration in Africa: Is Large Membership the Way Forward?[16]

Regional integration and cooperation is the way forward in Africa as there are many regional externalities that can only be addressed through regional cooperation. Regional integration is also good politics as trade-creating exchanges increase the opportunity cost of conflict. The Tripartite FTA (TFTA) and the proposed Continental FTA (CFTA) are the latest African initiatives towards regional cooperation. To succeed, these must confront a very uneven distribution of resources that have sharpened the trade-off between the benefits of common policies needed to tackle cross-border externalities and their costs which are heightened by the sharp differences in policy preferences across members. Abandoning the linear model of integration and integrating in small groups should help.

Following the implementation of the Economic Community of West African States' (ECOWAS) common external tariff (CET) in January 2015, this June saw the launch of the Tripartite Free Trade Area among 26 countries, accounting for over half of Africa's GDP and, with 632 million people, 56 percent of the continental population. A Continental FTA is also to be launched in or around 2017. Phase I of the TFTA suggests modest efforts at integration as it is built on the principles of variable geometry eschewing a more ambitious "single undertaking" and the acquis (go forward but not backwards) with modest tariff reductions on the table, a list (rather than an economy-wide criterion) for rules of origin, trade remedies to address dumping, and import surges. The agenda for phase II is to be decided but should include services and harmonization of rules on competition policy. The TFTA is expected to be ratified by at least half of the members within a year, at which point it will come to life (Luke and Mabuza 2015).

Is the attempt at rationalizing the multiple regional integration arrangements (RIAs) across the continent a milestone towards greater cooperation across the

16. First appeared on August 26 2015 at **Brookings** as www.brookings.edu/articles/regional-integration-arrangements-in-africa-is-large-membership-the-way-forward.

continent? Drawing on observations and analysis of the recent experience, I argue that, despite the unfavorable geography that makes it difficult to deal with the high costs of heterogeneity, integration initiatives in small member groups will produce the highest benefits.

Beyond the Linear Integration Model: A Third Phase of African Integration?

Following the founding of the Organization of African Unity (OAU) in 1963, a first wave of RIAs took place along "regional economic communities" (RECs) behind high tariff walls. These RECs were to be the "building blocks" of the hoped-for African union in the immediate post-colonial era. Now, they are central for implementing the New Partnership for Africa's Development (NEPAD). In short, the RECs were and continue to be the glue that will cement African unity. The first wave failed not only for economic reasons, but also because the leaders of these young, post-independence African states were reluctant to encourage the emergence of a supra-national authority necessary to deepen cooperation and coordinate and manage the affairs of the hoped-for African union. Great diversity within the RIAs translated into different interests that strengthened countries' insistence on the "respect for the sovereignty and territorial integrity of each State and the inalienable right to independent existence," as written in the Organization of African Unity charter of 1963. Commitment to pan-Africanism was weakened, leading to vagueness and a multitude of declared objectives in these RIAs that helped States gloss over the issues that divided them (Melo and Laski 2015).

A second wave of RIAs took place after the Abuja Treaty of 1991. A look at the 10 major RIAs started in this second wave of RIAs shows that only three have aimed for FTA status, and all others aiming for deeper integration, with integration moving along the linear model following a stepwise integration of goods, labor, and capital markets, and eventually monetary and fiscal integration. Goods market integration would start with an FTA, then move on to a customs union (CU) with a common external tariff and to a common market. Along this linear sequence, except for the Southern African Customs Union (SACU), none have really reached full CU status because exceptions to the 4-5 CET tariff band structure are so numerous. For example, the ECOWAS CET includes an "exceptions list" of about 300 products eligible for exemption from the new tariffs that includes 200 products from the former Nigerian Import Ban list (Melo and Laski 2015).

The disappointing trade performance of this model of integration has been widely discussed. Among others, estimates of the volume of intra-regional trade in African RIAs suggest that trade is, on average, 40 percent less than potential

trade, and that the ratio of actual trade to potential (i.e., to frictionless) trade among partners has fallen by about 10 percentage points from 0.63 two years before signature to 0.53 seven years after signature, suggesting that trade costs among partners have fallen less rapidly than trade costs with outside partners. (Melo and Laski 2015). This persisting thickness of borders not only reflects the geography of African trade, the low trade complementarity across partners, poor logistics, and border delays, but also the neglect of services in the African linear integration model, which is no longer adapted to 21st century trade.

So far, negotiations for the TFTA and CFTA are following this model of linear integration that neglects the fact that 21st century production is increasingly taking the form of trade in tasks (i.e., services) as opposed to trade in products. In this new environment, services play an input function through space (transport, telecommunications) and time (financial services) as well as direct inputs into economic activity as they generate knowledge and human capital. Recent developments in the study of global value chains by the OECD show that services may account for more than 50 percent of exports when measured in value added. Because services do not meet customs for registration, and regulations are, at best, imperfectly captured, services—except for labor and FDI flows—are not directly observed crossing borders. Measures of the restrictiveness of trade services are only very approximate, though estimates of trade costs for mode I (cross-border services trade) and mode II (movement of consumers) could be two to three times higher than trade costs for trade in goods measured by the same approach (the "gravity trade model").

Breaking away from the linear model of integration by emphasizing trade facilitation measures at the border that have full support of the business community is a first step now under way. However, even in the case of the East African Community Common Market, there has been little progress at removing restrictions for professional services, telecommunications, and transport either unilaterally or on a regional basis. Likewise, progress with liberalization of services through harmonization and mutual recognition has been slow where opting for "mutual equivalence," the route that was followed by the European Union Services Directive, might have worked better, as this approach is less demanding on trust than mutual recognition or harmonization.

Challenges Ahead: Breaking Small Markets While Dealing with Heterogeneity

In 2013, all of Africa's GDP at PPP was less than Germany's, and the median GDP size of African countries was $12.3 billion, about 10 percent the size of the canton of Zurich's. The potential benefits of economies of scale and of diluted monopoly power

present a case for RIAs to have large memberships, as seen in the TFTA and the CFTA. But a large membership also implies more heterogeneity and greater sources of potential conflicts (more ethnic groups, large and small countries, and landlocked and coastal states belonging in the same regional group) with higher political costs in the provision of public goods. In large membership groups, integration is shallow because it is difficult to reach agreement, and it is likely that the interests of the more powerful members that are naturally less open to the outside world will prevail. Take ECOWAS, where Liberia and Nigeria are both members. Adopting the CET took close to 10 years of negotiations as Nigeria insisted on a 5-band CET (0-35 percent) while West African Economic and Monetary Union (UEMOA) and others were in favor of a 4-band CET (0-20 percent). For Liberia, the move to the CET could double the average tariff and raise the current costs of living for rural and urban households by 6 percent and 3 percent, respectively, with temporary special protection measures only envisaged for products currently above their respective band, but no consideration has been given for tariffs below their respective band (Melo and Laski 2015). The costs of integration to a customs union for small countries in a large membership group with large partners are likely to be high.

This experience poses a challenge for the 26 member TFTA because 21st century regionalism is no longer about an exchange of market access at the expense of non-members but about implementing reforms that will attract FDI, which brings to the region the service activities necessary to participate in the outsourcing of production. In this new environment, where trade is trade in tasks and increasingly involves an exchange of intermediate goods, protection (or exchange of market access) amounts to depriving oneself of participation in global outsourcing. Not only is deep integration (which is necessary to attract FDI) likely to be hard to carry out within a large membership, but there is also the risk that protection towards non-members could remain high.

Deep integration requires some delegation of authority to a supranational level. This is easier to carry out under small membership. The five-member EAC, which in 2010 started implementing a common market in capital, goods, and services, uses a scorecard approach to measure progress (violations of the protocol provisions in services are made public on the EAC website, which is far more informative on progress at integration than websites for other African RIAs). The EAC is also promoting competition in telecommunication by banning roaming charges within the region and issues single tourist visas for northern corridor countries (Rwanda, Kenya, and Uganda). The EAC is the only RIA where the ratio of actual to potential intra-regional trade has risen following integration.

To break the curse of small markets, the large group approach appears to be the most appropriate for exploiting economies of scale, but cooperation associated with public goods like a common currency, a common judicial and legal

framework, as well as appropriate regulatory policies also bring benefits. For the franc zone members, sharing a common currency is associated with more intense bilateral trade attributable to less volatility in bilateral exchange rates. Thus SACU, UEMOA, and Economic and Monetary Community of Central Africa (CEMAC) have benefitted from deep integration, albeit with the costs of institutional development covered by the colonizers and the EAC is moving in that direction. On the other hand, arrangements with larger memberships and more heterogeneous populations like the TFTA, face higher political costs in the provision of public goods. The European experience shows that the trade-off between economies of scale and heterogeneity of preferences can only be partially addressed through decentralization at different layers of administration (Spoalore 2015).

In Africa, regional spillovers are important as transport and communications infrastructure are underprovided, but the ethno-linguistic diversity across "artificial" borders indicate strong differences in policy preferences that will continue to hinder the future supply of public goods through the adoption of common regional policies in large groupings. Common decision making internalizes the spillovers but moves the common policy away from its preferred national policy (i.e., a loss of national sovereignty). Are initiatives like the TFTA and the CFTA the start of institutional and political cooperation along intergovernmental lines, where regional institutions pursue the economic interests of domestic constituencies as has largely been the case of the EU? (Spoalore 2015) Or, more optimistically, as hoped for by the African Union (formerly the OAU), is this a start along functionalist lines where supranational institutions and agents develop autonomous roles leading to further integration?

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The African Continental Free Trade Area: an Integration Trilemma[17]

Plans to establish an African continental free trade area are hampered by three incompatible objectives: solidarity across the continent's diverse countries; large membership to break the curse of small markets; and deep integration to reap all the benefits of close economic cooperation. This column explains Africa's 'integration trilemma' – and suggests that it may in part explain why no North African country has yet ratified the AfCFTA Treaty.

In March 2018 in Kigali, 44 of the 55 members of the African Union (AU) signed an agreement to establish an African continental free trade area (AfCFTA). The architecture of the AfCFTA has two phases (see **Figure 1**):

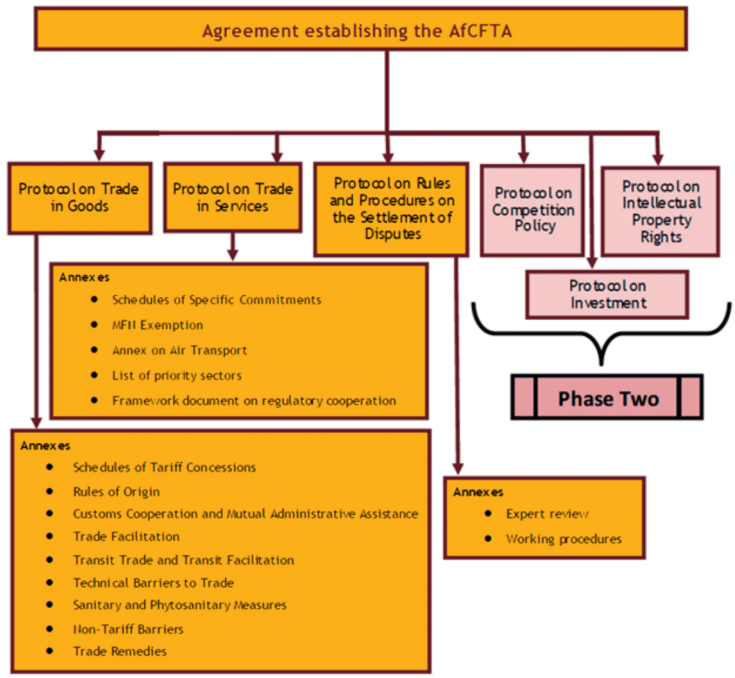
- Phase I includes three protocols – Trade in Goods, Trade in Services, and procedures on the Settlement of Disputes – and associated annexes.
- Phase II includes three protocols – Competition Policy, Intellectual Property Rights, and Investment.

By January 2019, 18 out of the 22 ratifications needed for the agreement to come into force had taken place. Once the 22 ratifications are in hand, the AfCFTA will have the largest membership of a free trade area in the world since the launch of the GATT (now the World Trade Organization, WTO) 70 years ago. If all African countries have joined the free trade area by 2030, the market size would include 1.7 billion people with an estimated US$6.7 trillion of cumulative consumer and business spending.

Three competing objectives in the AU's Agenda 2063 have slowed ratification, with none of the North African countries so far among the 22 required signatories.

17. First appeared on **Economic Research Forum (ERF)** on January 28, 2019 at: https://theforum.erf.org.eg/2019/01/28/african-continental-free-trade-area-integration-trilemma/.

Figure 1. Phases of the African Continental Free Trade Area (AfCFTA)



Source: Tralac, African Continental Free Trade Area (AfCFTA) FAQs.

The three objectives are:
- African solidarity (to accommodate all countries).
- Large markets (no policy-imposed impediments to trade).
- Deep integration to reap all the benefits of integration.

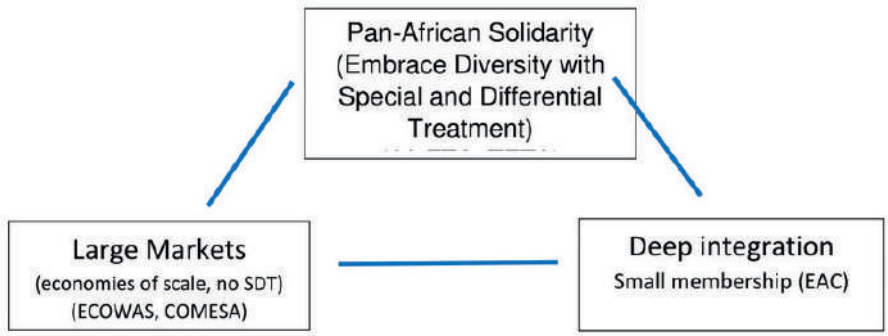
Typically, membership of the eight regional economic communities (RECs) through which integration is to continue to take place includes resource-rich and resource-poor countries, coastal and landlocked countries, and large and small countries in population density. African countries are also highly diverse along multiple dimensions (ethno-linguistic, religious, biological).

These diversities point to an 'integration trilemma' facing the 2063 agenda of integration. This trilemma is shown in Figure 2, where for each objective, further distance from the vertex indicates less achievement.

Figure 2 suggests that even if integration were to progress smoothly within each REC, Africa cannot be at all three vertices simultaneously. The 2019 edition

of African Economic Outlook discusses these challenges facing finalization of the AfCFTA (Africa Development Bank, 2019).

Figure 2. The African Integration Trilemma



Source: Author.

Solidarity requires special and differential treatment (SDT) for least developed countries (LDCs) and financial resources (which are in short supply) to compensate for integration costs. Solidarity requires trust, which falls as membership size increases. During the AfCFTA negotiations, South Africa strongly opposed financial compensation (Parshotam, 2018). The compromise is that SDT is to be built into the Treaty on a case-by-case basis and LDCs have an extended implementation period.

SDT accommodates this diversity but at the cost of market fragmentation. As examples, the Tripartite Free Trade Area (TFTA) among the Common Market for East and South Africa (COMESA), the Economic Community of West African States (ECOWAS) and the South Africa Development Cooperation (SADC) or the AfCFTA can achieve solidarity, but at the costs of a continental market and deep integration.

Fully reaping economies of scale requires large membership (COMESA, ECOWAS) and low trade barriers. This precludes SDT for the LDCs, which segment markets by raising trade costs and effectively limits the size of the market.

Deep integration as in the case of the EAC results in the integration of financial markets and the mobility of people. Deep integration requires trust. Trust is more easily achieved in a small membership setting (such as the East African Community). Because of the lack of trust needed to delegate authority to supranation-

al institutions, embracing diversity to satisfy political objectives impedes deep integration.

African diversity also points to an implementation conundrum. On the one hand, because of diversities – such as between coastal and landlocked countries – potential gains from closer economic integration are large. On the other hand, realizing these gains requires financial resources necessary to compensate countries with large differences in expected gains from closer integration.

The wasteful Common Agricultural Policy amounting to 1% of European Union GDP has often been explained as a political compromise between France and Germany whereby German manufacturers gained access to the French market while German taxpayers helped to subsidise French farmers. In the African context, the AU could only finance 44% of its budget from member state contributions. Reaching financial viability via a 0.2% levy on all eligible goods imported to the continent could be controversial under current WTO law (Economic Commission for Africa, 2017).

Deep integration requires the establishment of supranational entities and delegation of authority, which in turn requires trust and implementation capabilities. Trust is difficult to build under any circumstances, but particularly so, in Africa's landscape of great diversity.

The protracted TFTA negotiations illustrate the difficulties encountered during the AfCFTA negotiations. The negotiations principles of the TFTA follow a 'variable geometry' under the 'acquis' (that is, nothing agreed by the COMESA, EAC and SADC free trade agreements, FTAs, can be undone).

Instead of merging the three FTAs into one, the TFTA has evolved into a new FTA encompassing the three existing RECs. These developments raise the question of how, under the necessity of preserving the acquis to maximise membership by accommodating diverging interests, the AfCFTA, will be able to overcome the heterogeneity of interests across RECs.

In terms of Figure 2, moving towards the top vertex is through 'shallow' integration at the sacrifice of economic efficiency. It is also unlikely that the brake on integration caused by the negotiation principles in the TFTA will reduce heterogeneity of preferences across members. A fortiori, this will be the result of the negotiations under the AfCFTA.

The TFTA, which was initiated in 2008 and signed in 2015, was intended to reconcile the challenge of overlapping REC membership. This overlap has traditionally permitted governments to cherry-pick which commitments they uphold. The TFTA objectives are:

- Removing tariffs and non-tariff barriers, and implementing trade facilitation measures to include a harmonisation of rules of origin.
- Applying the subsidiarity principle to infrastructure to improve the transport network.
- Fostering industrial development.

But to keep momentum going and to accommodate the diversity of interests among partners, negotiations to set up a 'single undertaking' to establish a proper FTA veered towards a 'variable geometry' under the principle of flexibility to allow the co-existence of different trading arrangements.

'[T]he principle of flexibility… allows progression in cooperation among Member /Partner States in a variety of areas at different speeds. The TFTA will allow the co-existence of different trading arrangements which have been applied within COMESA, EAC, and SADC member states and any trading arrangements that may be reached during the negotiations. The principles of variable geometry, reciprocity and acquis are complementary' (Erasmus, 2013).

This means that the negotiations principle of a single undertaking where 'nothing is agreed until everything is agreed' no longer made sense since the result would be a new FTA. This implies that the parties probably did not agree to a prior agreement about the agreement.

Not surprisingly, under the variable geometry with the acquis, the three blocs reached a common position on the proportion of tariff lines to be liberalised, but failed to agree on the common external tariff to be applied on sensitive products (maize, cement, sugar, second-hand clothes, spirits, plastics, electronic equipment, etc.). Other technical difficulties besieged the completion of Phase I on non-tariff barriers (article 10 and annex 3), rules of origin (article 12 and annex 4), trade remedies (articles 16-20 and annex 2), and dispute settlement (article 10 and annex 10) – see Luke and Mabuza (2015).

Despite agreeing that the three RECs would work towards merging into a single REC, this did not happen. Instead, the TFTA evolved into a new FTA encompassing the three existing RECs because it is based on preserving the acquis, a fear voiced by Erasmus. The expression of these disagreements had greater intensity because the negotiations started from the acquis, which is the point reached by the COMESA, EAC and SADC negotiations. Phase II of the TFTA negotiations covering competition policy, intellectual property rights and investment movement of businesspersons are still on the table because of difficulties encountered with the acquis and variable geometry.

Negotiations on 'technicalities' are still besieging Phase I of the AfCFTA. These technicalities include agreement on a common set of rules of origin, a dispute

settlement mechanism and trade remedies. The acquis in the RECs will also likely prevail during Phase II negotiations of the AfCFTA.

As of January 2019, 18 of the 22 necessary ratifications have been obtained. Under these difficult circumstances with multiple objectives, it is not surprising that no North African country has yet ratified the AfCFTA.

Further Reading

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The Tripartite FTA: Is It the Way to Deepen Integration in Africa?[18]

On October 25, the Tripartite Sectoral Committee of Ministers announced that the Tripartite Free Trade Area (TFTA) covering three Regional Economic Communities – the East African Community (EAC), the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA) will be launched in mid-December at the Tripartite Summit of Heads of State and Government in Cairo, Egypt. Talks on the project among the 26 countries ranging from Egypt to South Africa, were launched in 2008 and endorsed in 2011. The TFTA will have a combined population of 625 million people, and an aggregate GDP of US$1 trillion covering 58 percent of the continent's economic activity. The immediate objective is to reduce the thickness of borders across the continent so as to raise inter-regional trade across the continent, now standing at just 12 percent to total trade. An action plan released by the African Union says that the TFTA would be followed by a continental customs union forming in 2019.

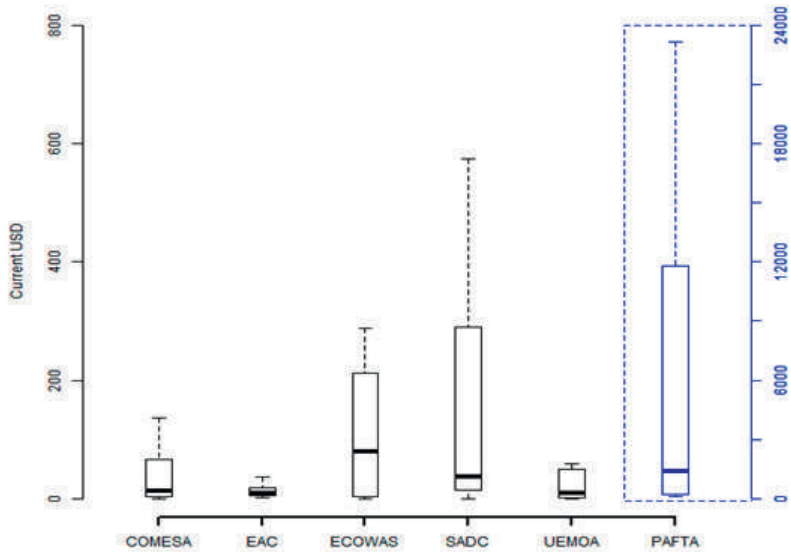
According to the WTO, in 2010, the 58 African countries were involved in 55 Preferential Trade Agreements (PTAs) of which 43 were South-South PTAs. PTAs (RECs or Regional Economic Communities is the usual acronym used when discussing regional integration in Africa) are good politics. Broad evidence suggests that economics and politics are complements rather than substitutes (as argued by defenders of multilateralism): RTAs reduce the probability of war through two channels: (i) by increasing the opportunity cost of war; and (ii) by reducing information asymmetries as partners know each other better. But to survive, PTAs must extend beyond unfilled good intentions and have a sufficiently sound economic basis, the focus of this note.

So far success on the economic front has been modest, not least because of the great diversity in memberships across PTAs. Members include resource-rich and resource-poor (see Figure 1), coastal and landlocked (15 landlocked countries in

18. First appeared on November 4, 2014 at **Brookings**: www.brookings.edu/articles/the-tripartite-free-trade-africa-is-it-the-way-to-deepen-integration-in-africa.

Africa), large and small, artificial borders, and many ethnic groups and languages. Figure 1 shows that the EAC is the REC with the smallest disparities in per capita exports of rent-generating natural resources. It also happens to be the REC—along with UEMOA—where integration has been 'deep', a five-member customs union operational since 2009.

Figure 1. Boxplot of Per capita exports of Fuels, Ores, and Metals exports by RTA groups (2012 US$)



Notes: PAFTA is the 18 member Pan-Arab Free Trade Area.

Source: Melo and Tsikata (2015, figure 4).

The very different interests across partners in each REC has strengthened countries' insistence on the "respect for the sovereignty and territorial integrity of each state and the inalienable right to independent existence", as written in the Organization of African Unity (OAU) charter of 1963. Commitment to pan-Africanism was weak during the first post-colonial wave of regional integration efforts and has remained so during the more outward-oriented second wave of PTAs. Can the TFTA provide the glue needed to integrate African economies more deeply? Several clouds are on the horizon.

The 'One-Size-Fits-All' Constraint

The TFTA is to get around the overlap in membership across PTAs that has prevented 'deep integration' which has also been slowed by large membership. For

example, Zambia is both a member of the COMESA Customs Union (CU)—which requires applying Common External Tariff (CET) to non-members—and of the SADC FTA, putting the country in conflict over its trade policy choices. The large membership in the TFTA (and a fortiori for a continental customs union) exacerbates the "one-size-fits-all" constraint imposed by the desire (and necessity) of achieving convergence in policies to achieve 'deep integration'. The variable geometry approach adopted may help build support, but at the cost of delaying the deepening of integration since what was intended to be a 'single undertaking' to establish a proper FTA that, in the end, will allow the co-existence of different trading arrangements with small integrating effects.

Africa's Linear Model of Integration Has Slowed the Pace of Integration

The TFTA is to be implemented in two sequences: phase one is to focus on tariff liberalization, rules of origin (RoO), trade remedies, and customs and transit procedures; and phase two will address trade in services and other issues such as intellectual property, competition policy, and trade competitiveness. This is the linear model of integration that has been followed in Africa until now. It has been criticized for neglecting 'behind-the-border' measures that have been a break to intra-regional trade and of missing the opportunity to open markets in services which are now essential for ensuring competitiveness in goods markets where outsourcing has been rising rapidly.

Phase one is to be officially concluded in December 2014 after the 3rd Summit of Heads of State and Government which will see the signing of the Declaration on the Conclusion of Negotiations on Phase One – Trade in Goods as the decision takes "into account the fact that the majority of the Tripartite Member/Partner States have made ambitious tariff offers." While the decision to operationalize the free trade area by the end of this year is to be welcomed because it will jump-start negotiations on trade in services, much will remain to be done to reduce barriers to trade in goods, especially regarding the adoption of rules of origin that do not impede trade excessively.

Rules of Origin

In phase one, the COMESA-EAC-SADC troika is to reach agreement on trade remedies and a dispute settlement mechanism. They also face the challenge of harmonizing the currently very different RoO across the three groupings. Up to 56 percent of RoO are different across the three RECs. Negotiators have decided

to adopt a line-by-line approach (or product-specific RoO (PSRO)) to resolve this problem. This approach is a quasi-guarantee that the most restrictive PSRO will be adopted since PSRO are invariably "business-owned" rather than "business friendly" (the EU still has over 500 different PSRO), leading many to conclude that preferential trade amounts to giving with one hand (preferences) and taking away with the other (restrictive PSRO). For example, the main benefits of the Africa Growth and Opportunity Act (AGOA) was the unilateral decision by the U.S. to simplify the triple-transformation requirement for textiles & apparel (T&A) to a single-transformation rule allowing AGOA beneficiaries to source inputs from non-preferential sources. This relaxation has been estimated to amount to an increase in exports of T&A six times greater than the simple removal of tariffs. Difficult as it may be to reach consensus, negotiators could take inspiration from the simple and transparent RoO requirements in ASEAN where a wholly obtained requirement applies for unprocessed agricultural products and a single across-the-board rule of a 40 percent local content for manufactures (or a change of tariff classification if that rule is deemed too constraining).

Challenges Ahead: Thinking 21st Century FTAs

Except for South Africa and Egypt, TFA membership is largely composed of small fragmented and often isolated economies with resources distributed very unequally among them. In addition to political benefits, on economic grounds, this makes for a compelling case to integrate regionally to reap efficiency gains, exploit scale economies, and reduce the thickness of borders. But the distribution of gains from 'deep integration' will be very unevenly distributed, potentially leading to compensation mechanisms that will be distortionary (e.g. exceptions hidden under restrictive PSRO and other opaque measures) as occurred under the first wave of regional integration in the immediate post-independence period.

Equally important, until recently at least, regional integration in Africa was founded on a 20th century exchange of market access at the expense of outsiders. With the reduction in trade costs and the subsequent fragmentation of production, 21st century regionalism is about a new bargain: an exchange of domestic market reforms for FDI which brings home the service activities necessary to participate in the global value chain. In this new environment, where trade is trade in tasks and increasingly involves an exchange of intermediate goods, protection (or exchange of market access) amounts to preventing oneself from participating in global outsourcing. Indeed, Asian regionalism has been characterized by 'race to the bottom' tariff-cutting to bring about the services needed to diversify and participate in international production networks. It is against this changing background that the TFTA must be evaluated.

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Will West Africa's Common External Tariff Protect Consumers[19]

— with Anne Laski

The lofty objective of ECOWAS is to promote economic integration in West Africa. The much-anticipated uniform tariff for ECOWAS economies is due to become reality in January 2015, but questions about its implementation still need to be addressed

In line with a global movement toward Customs Unions (CUs), the Economic Community of West African States (ECOWAS) is introducing a common external tariff (CET). The same customs duties will apply to all goods entering ECOWAS members, regardless of which country within the area they are entering. ECOWAS is due to implement this CET in early January 2015. While West Africa's immediate priority remains the elimination of Ebola, the probable welfare effects of the CET warrant substantial attention if poverty alleviation remains a common ECOWAS goal.

The CET's adoption requires careful preparation and communication by enforcing ministries. Changing tariffs will affect the prices of goods, many of which comprise core purchases of poor households. Ebola's effects on consumer welfare, such as negative income effects from declining economic activity, heighten the required sensitivity. In addition, the CET's adoption will prompt a reaction from firms and producers, as external competition from imports will change.

Part of ECOWAS' new tariff regime includes "special protection measures". Governments will have to explain and justify this policy's design, as well as why some goods are or are not exempt from changes. Finally, in the interest of economic de-

19. First appeared on December 14 2014 at the **International Growth Center (IGC)**: www.theigc.org/blogs/will-west-africas-common-external-tariff-protect-consumers.

velopment, future CET negotiations should address appropriate tariff measures for the smaller ECOWAS economies.

Since its establishment in 1975, ECOWAS has formulated ambitious regional integration targets. Treaty revisions in 1993 stipulated a common market, including a CET, but progress has lagged. Only in 2006 did members agree on the four levels of tariffs to be adopted. After several delays, integration's momentum accelerated when the European Union required ECOWAS representation as a single customs union in the much anticipated EU Economic Partnership Agreement (EPA).

Nigeria's actions have determined much of this trajectory. In 2004 Nigeria proposed a fifth band at 50% on specific goods for regional development, and a fifth band at 35% was approved in 2013. Furthermore, the CET includes an "exceptions list" of about 300 products eligible for exemption from the new tariffs. The former Nigerian Import Ban list includes over 200 products on this list. The agreed date for implementing the CET is now January 2015.

Revenue and Welfare Effects for Liberia

In a very heterogeneous group like ECOWAS—economically dominated by a hegemon pushing for high protections such as those above—the smaller countries will be most severely affected as regional integration deepens. This includes Liberia, one of the small ECOWAS Members. Liberia will have to substantially increase its tariff across-the-board to implement the CET: 45% of goods imported into Liberia have current tariff rates below those specified in the CET for each good; only 25% have rates above it. Many of these products dominate poor households' consumption, implying a large impact on welfare due to higher prices.

IGC research estimates that applying the five band CET and eliminating any product exemptions from tariffs will almost double Liberia's average tariff level if no products are exempt from tariffs. It also finds that price changes from adjusted tariffs will make rural and urban households' current costs of living 6% and 3% more expensive, respectively. The difference between household costs reflects the greater share of non-tradable expenses (like services) in urban household consumption. In Liberia this is not a trivial difference.

Special Protection Measures

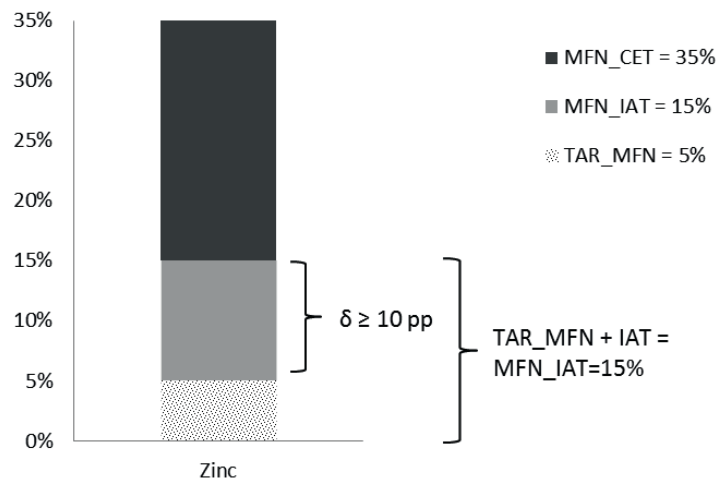
To mitigate the adjustment effects, in October 2013 a list of "Special Protection Measures" were introduced. One Special Protection Measure is the Import Ad-

justment Tax (IAT), which allows members to apply an extra tax on imports from non-ECOWAS members beyond the CET's 0%-35% range. Members can apply an IAT of up to 20 percentage points on a maximum of 3% of imported goods (as defined by the World Trade Organization product classifications) for 5 years. This 3% comprises approximately 177 goods out of a total 5899 defined in the CET.

The rationale of this measure is to protect important or nascent sectors. However, a major disadvantage for smaller members is that the IAT can only be used when the tariff is above the common external tariff; countries that currently apply tariffs below those in the CET cannot use an IAT. Figure 1 illustrates the alternative — an IAT application for an upward adjustment, in the case of zinc imports (an intermediate good not produced in Liberia) — into Liberia from non-ECOWAS members.

For zinc, Liberia currently applies a 5% tariff rate, while zinc's CET rate is 35%. Thus, compliance with the CET would require increasing Liberia's current rate by at least 10 percentage points. By doing so, Liberia would stay within 20 percentage point range of the CET. That is the minimal adjustment possible. As the regulation stands, this minimal adjustment is not an option; Liberia would have to apply a new tariff of 35%, which raises prices much more than that of 15% (5% plus an IAT of 10 percentage points).

Figure 1. Import Adjustment Tax applied to zinc imports

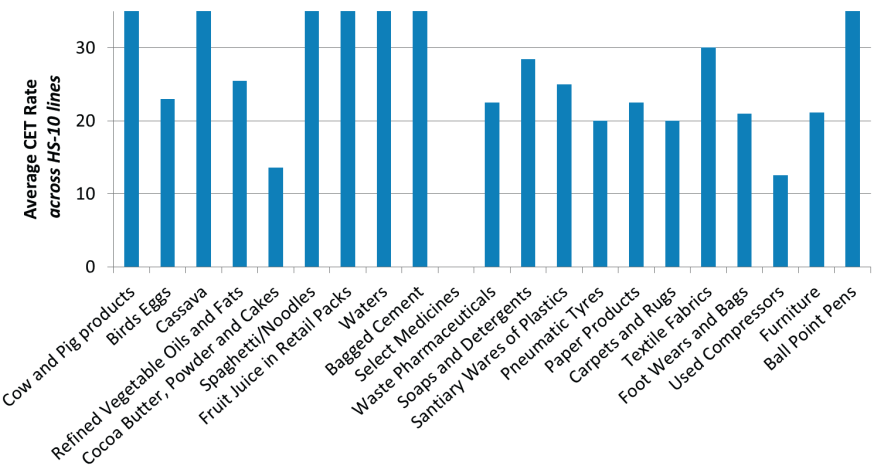


Note: An Import Adjustment Tax application for an upward adjustment, in the case of zinc imports to Liberia from non-ECOWAS members.

Source: Authors.

The exceptions list stipulated in the Special Protection Measures Regulation offers no useful solution to upward adjustment. For current tariffs below the CET, members can apply the IAT to items on the abovementioned exceptions list, apparently largely handpicked by Nigerian producers' associations. Figure 2 shows the CET for products that are on both the CET exceptions list and the former Nigerian Import Ban List.

Figure 2. Common external tariff rates on a sample of imports on the Nigerian Import Ban List



Note: Not included here: Bird and Poultry Products, Glass Bottles, Used Motor Vehicles, Telephone Voucher Cards, and Toothpicks, as they are not on the CET exceptions list.

Source: Authors

Asymmetric Benefits

The products on the exceptions list already have high CET tariffs. When combined with the CET's fifth band of 35%, this structure adversely affects the smaller ECOWAS economies that export less complex products but import manufactured goods, mostly from non-ECOWAS members. Manufactured goods will have much higher tariffs (10-35%) under the CET than raw materials (5%), giving plenty of leeway for trade diversion as manufactured goods previously imported from non-ECOWAS partners will now be sourced from customs union partners. Prices of imported food like rice, which weighs heavily on the consumption basket of the poor, will also rise.

Meanwhile, current regulation fails to discuss how current tariff exemptions, or waivers, will be treated. One immediate priority should be to correct this ambiguity, especially for products comprising a high share of household consumption, such as rice. Whether or not waivers are permissible certainly affects any assessment of the CET's effects on prices. As a second priority, members should push to re-enter negotiations to amend ECOWAS regulations to permit the application of the IAT to Most favoured nation (MFN) duties below the CET, as explored above.

Towards a Better Common Trade Policy Regime

With the January date approaching, transparent communication of the CET will be immediately essential. So will clarification of the technicalities of applying the Special Protection Measures. Next, the low-income countries would benefit from pushing for a renegotiation of the CET. As the smaller low-income members have similar production and tariff structures, they would also benefit from closer cooperation and developing a common stance. Doing so is essential for these smaller countries to achieve the potential gains from ECOWAS trade integration.

Part 3
Deliverables for the African Continental Free Trade Area (AfCFTA)

Africa's Continental Free Trade Area: a Stepping-Stone to Integration?[20]

In a week that marks the first anniversary of the treaty for an African continental free trade area, signed in Kigali on 18 March 2018, this column asks whether it is a turning point on the road towards economic integration. There are signs of progress: the inclusion of negotiations on trade in services; progress-tracking on removing barriers to trade in goods; easing the movement of persons; and improving hard and soft infrastructure to lower trade costs. But starting off with a small membership that does not include all the big players and the possibility of backsliding under the guise of indiscriminate promotion of regional value chains poses serious threats.

With Egypt's parliamentary ratification, three weeks from the anniversary of the signing of the African continental free trade area (AfCFTA), 19 out of the required 22 ratifications are in hand, signaling that meeting the objective of 'entry into force' (30 days later) is within reach.

This is no mean feat given that less than two years have elapsed since the launch of negotiations and the signature in Kigali in March 2018. In contrast, there has been a decade-long process for the Tripartite FTA involving the Common Market for East and South Africa (COMESA), the Economic Community of West African States (ECOWAS) and the South Africa Development Cooperation (SADC). That process, which comprises 26 countries, is still lingering on, finalising tariff schedules and the applicable rules of origin.

20. First appeared on March 17 2019 at the Economic Research Forum (ERF) as https://theforum.erf.org.eg/2019/03/17/africas-continental-free-trade-area-stepping-stone-integration/.

Under African Union guidance, we are, for the first time, witnessing a continental debate about issues previously conducted only in regional economic communities (RECs). So, 55 governments have reached an unprecedented degree of consensus leading them to adopt texts on: establishing the AfCFTA (articles 22 and 23); a protocol on trade in goods; a protocol on trade in services; and dispute settlement with 49 signatures obtained by July 2018.

So, this time may be different. Services, complementary to trade in goods, are included from the start in Phase I, rather than being left for a later Phase II covering 'behind-the-border' measures (such as competition policy, investment and intellectual property). Evidence indicates that regional trade agreements with deep legal commitments have more vertical FDI (Osnago *et al.* (2020)).

There is also greater effort at tracking compliance in the movement of capital, services and goods as in the East African Community's (EAC 2018) 'Common Market Scorecard' which might be replicated at a continental level. Despite mismatches between labour mobility regulations and implementation, migration is also on the rise for those countries that have implemented the regional initiatives on the free movement of persons (Africa Development Bank (2019).

Likewise, if the Single African Air Transport Market initiative of January 2018 is progressively implemented, connectivity across Africa will be improved. With regionalised communication infrastructure, the associated networks can operate more efficiently.

Cooperation on security is also on the rise, with the African Standby Force operational since 2016. These are signs of a move towards some delegation of authority to supranational bodies and signs of greater attention to the provision of regional public goods (Melo 2019).

But entry into force of the AfCFTA before negotiations are completed (tariff schedules, rules of origin and dispute settlement are still under negotiation) creates uncertainties since the treaty will only bind the signatories. And signatories will only be able to trade under the new agreement once the protocols on trade in goods and trade in services and the applicable rules of origin are completed (Erasmus 2019).

Those countries that have not deposited instruments of ratification by the date of entry into force will not be parties to the agreement. If a powerful country like Nigeria joins later on, will the 'acquis' be up for renegotiation?

Other challenges also lie ahead. In the immediate future, reaching continental free trade with a minimal number of exceptions to zero tariffs is still work in prog-

ress for most RECs, as a large share of bilateral trade still takes place at non-preferential (i.e. 'most favoured nation' basis) rates. Free trade will also require harmonising rules of origin at the continental level since most countries still maintain different trade policies with extra-continental partners.

Designing simple and transparent rules of origin has proved elusive (for the European Union and the United States Abreu 2013). The word in policy circles is that African trade negotiators have already identified 800 products for specific rules of origin.

If so, the result will be restrictive conditions for market access with conditions decided by powerful protectionist lobbies in the powerhouse economies. The upshot will be a denial of the intended preferences, as compliance costs will exceed gains from preferential margins so partners will not choose to export at the preferential tariff rate.

Down the road, the biggest challenge will be handling the 'regional value chain' motto: how to participate in supply chain trade by moving to downstream activities. So far, except for 'factory Asia', other regions have barely participated in supply chains. Exports from Africa, for example, have lower shares of foreign value added while their exports are mostly embodied in exports of other regions, a sign of low downstream activity (symposium issue on Global Value Chains International Economics, 2018).

A successful industrial policy will require agreement among partners in customs unions to select short lists. ECOWAS, for example, has five tariff bands in its common external tariff (CET) and a long list of exceptions (Melo and Laski 2014), while the EAC, which currently has three bands, is contemplating a move to a four or five-band CET in the 0-35% range also with an exception list.

These difficult choices are compounded by the fact that the new technologies are skill-intensive with few possibilities of substitution with unskilled labour, leaving little room for low-income countries to offset their technological disadvantage in manufacturing activities with low-cost labour (Rodrik (2018)).

By raising the debate about integration to the continental level, the AfCFTA has, at the very least, made explicit the challenges that lie ahead. Steps along the road are now well defined.

Elements of the architecture, notably the simultaneous tackling of barriers to trade in goods and services, recognise that trade agreements with deep legal commitments are favourable to investment from both within and beyond the region. Beyond juggling the objectives of breadth, depth and solidarity, success

will hinge on moving to downstream activities, avoiding capture by lobbies in the most powerful economies.

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The Long-Road to Supply Chain in Africa[21]

— with Anna Twum

Low-cost inputs trade, simple rules-of-origin, and digital connectivity are key to regional trade integration and global value chain participation.

The recent Africa Continental Free Trade Area (AfCFTA), in force since May 2019, is an important opportunity to develop and deepen supply chain trade across Africa. Evidence shows that integration into production networks - Global Value Chains (GVCs) or Regional Value Chains (RVCs) - provides new opportunities for developing countries to participate in global trade and diversify their export baskets through hyper-specialisation in fragmented production processes.

Without an ecosystem of supply chain trade, a country needs to produce a complete product before entering a new line of business. By allowing countries to specialize in a part of a production process, supply chain trade can position a country to move rapidly from labor-intensive to capital-intensive, skill-intensive, and information-intensive activities. The World Development Report 2020 estimates that a one percent increase in GVC participation boosts per capita income growth by more than one percent, about twice as much as standard trade.

The East African Community and Regional Trade Integration

The East African Community (EAC) has travelled furthest towards integration among African Regional Economic Communities (RECs) and is keen to develop RVCs as part of its regional industrialisation strategy. Since 2018, negotiations have been underway to review the EAC's four-band Common External Tariff (CET).

21. This text first appeared at the **International Growth Center** on April 27 2020 at: www.theigc.org/blogs/long-road-towards-supply-chain-trade-africa.

One of the proposals on the table is to adopt a longer tariff band structure to "facilitate production processes with strong forward and backward linkages, in particular, products of 'strategic' regional interest" (EAC 2018, p.xii).

Recent estimates over the period 1990 - 2015 show that African RECs have increased their participation in supply chain trade, but that this increase in participation has been almost entirely with partners outside the region, rather than with geographically close partners. These trends raise a challenge for the EAC and ultimately, the ACFTA's goal of increasing RVCs.

We argue that *encouraging low-cost trade for intermediate inputs, harnessing affordable and reliable digital connectivity, and moving towards simpler and more transparent rules of origin are key steps for encouraging stronger supply c@hain trade and global value chain participation* (de Melo and Twum, 2021). The EAC should also resist the pressure to put high tariffs on intermediates in its revised CET.

Supply Chain Trade in Sub-Saharan Africa

A country's (or a region's) participation in supply chains is high when foreign imports are a high share of a country's gross exports (backward participation) and/or its exports are inputs into another country's downstream exports (forward participation). Over the period 1990 - 2015, all regions have increased their participation in supply chain trade.

Sub-Saharan Africa (SSA) kept up with other regions, raising its participation slightly more than the Middle East and North Africa (MENA), a region closer to the European hub. By 2015, SSA had raised its participation rate by five percentage points from 1990 levels: Around 40 percent of its gross exports either embodied foreign imports or went into further processing in destination countries (**figure 1a**).

By extending reduction in trade costs beyond those negotiated at the World Trade Organisation (WTO) (e.g. including behind-the-border measures like harmonisation of standards and reduction to barriers on the movement of factors), one can expect Regional Trade Agreements (RTAs), like the RECs, to see increased participation in supply chain trade.

The evolution of GVC participation across African RECs shows that *the EAC's GVC participation has risen most rapidly* (**figure 1b**), now surpassing the Economic Community of West African States (ECOWAS) and closing in on the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA).

Figure 1. GVC participation

Figure 1a. By major geographic regions

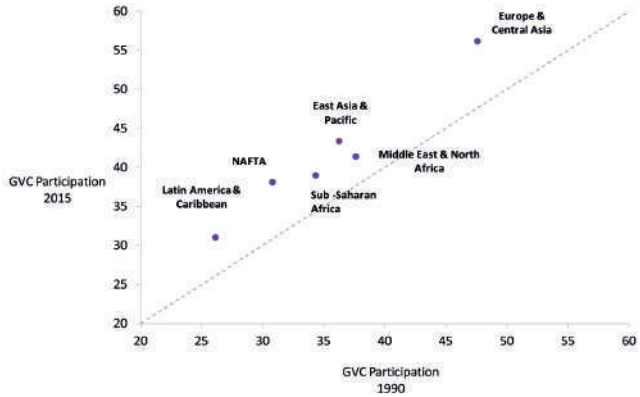
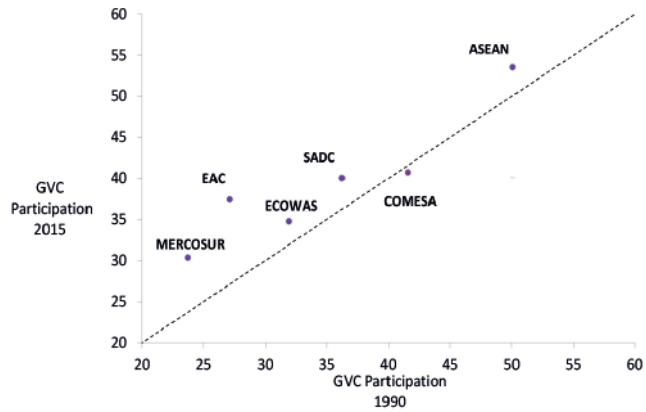


Figure 1b. Across RTAs



Note: GVC participation is the sum of backward and forward participation, both expressed as a share of gross exports. Points above 450 indicate an increase in GVC participation.

Source: de Melo and Twum (2020, figures 3 and 6) from the UNCTAD-Eora multi-regional input-output tables. The definitions of regions follow the World Bank classification.

Supply Chain Integration: Regional versus Global Linkage Patterns

Three patterns stand out in a decomposition of supply chain trade by regional vs. non-regional GVC participation (figure 2a):

1. For all RECs, development of production networks with extra-regional partners dominates those with regional partners (all points are above the 450 line for all RECs).
2. The non-African trading blocs have moved towards developing regional networks.

3. There is a striking absence of RVC growth for all African RECs.

Even though comparator groups have higher per capita income memberships and larger industrial bases than African RECs, the striking difference between the RECs and comparator RTAs suggests that intra-membership trade costs are still high across African RECs.

Although only a conjecture, the large increase in non-regional value chain participation for the EAC might reflect a stronger reduction in trade costs (or a greater response to an equal reduction in trade costs) with partners outside the EAC.

Figure 2. Patterns of RVC participation across regions and within RECs

Figure 2a. Regional vs. non-regional participation

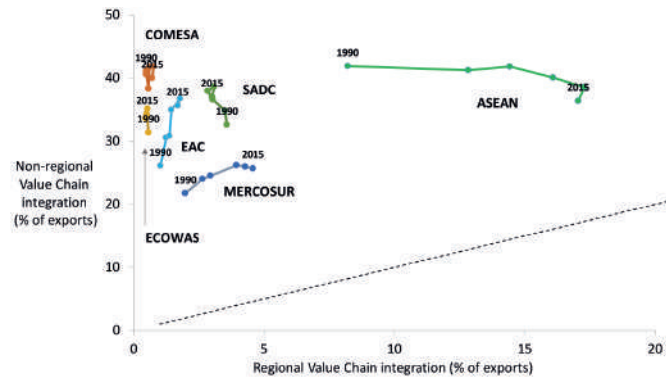
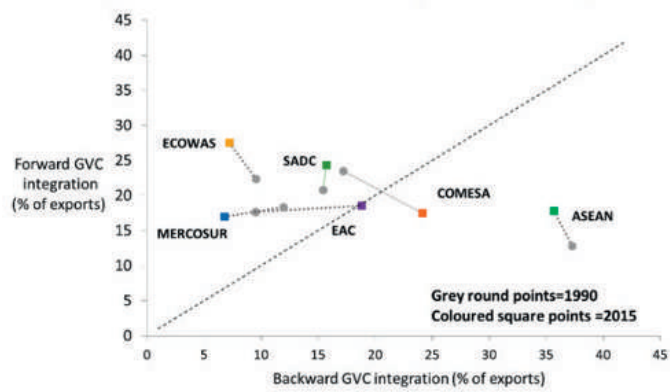


Figure 2b. Backward vs. forward (within PTAs)



Note: Measures (computed at five to six year intervals) are weighted by each country's share in the corresponding region total trade. Points above 450 indicate an increase in GVC participation. Figure developed using data from Borin and Mancini (2015, 2019).

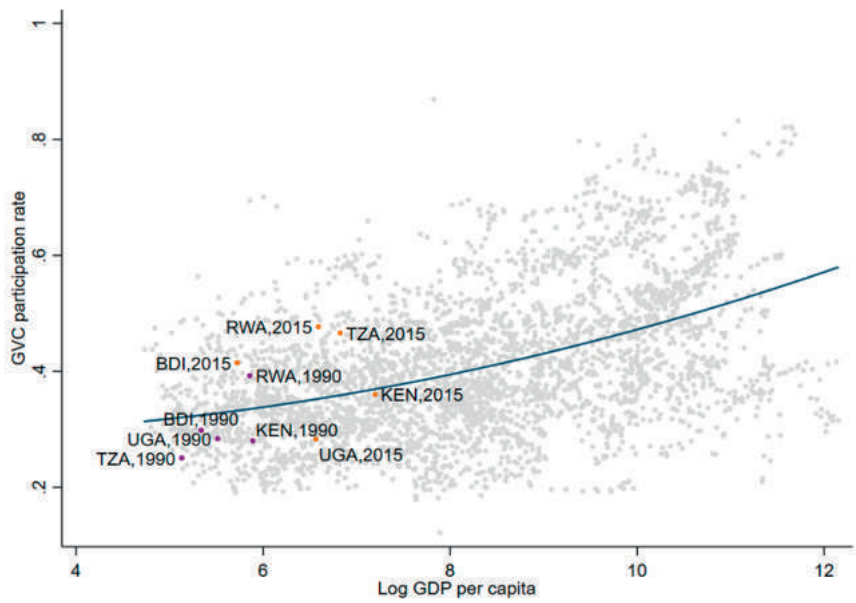
Source: de Melo and Twum, 2021, figure 7.

Patterns of GVC participation differ across the five African RECs (figure 2b): The share of intermediate imports in gross exports of SADC and ECOWAS have not increased during the period. By contrast, the EAC and COMESA have increased their share of imported intermediates in gross exports, an indication of a reduction in trade costs, probably reflecting a reduction in policy-imposed barriers to trade.

Backward GVC integration is low across the RECs. Except for ASEAN (Association of Southeast Asian Nations), where supply chain trade has grown with extra-regional partners, an indication of still high intra-regional trade costs.

Yet, the share of imports in the EAC is still only half the rate in ASEAN. Among EAC members, Rwanda and especially Tanzania have shown the greatest increase in overall participation in GVCs, while Kenya and Uganda have remained below average (**figure 3**).

Figure 3. GVC Participation of EAC members



Note: GVC participation measures the share of a country's exports that either makes use of value-add imported from another country or is exported to another country for further processing. Points above the line represent an increase in GVC participation.

Source: Authors calculations using GVC the database from Borin and Mancini (2019).

Challenges: Deepening Supply Chain Trade in Africa

Three obstacles impede progress to greater participation in supply chain trade:

1. High tariffs on intermediate inputs

Africa still lags in the reduction of tariff protection relative to other regions, notably for intermediate inputs: The average tariff on intermediate inputs is around ten percent, still around twice the average rate for other developing-country regions. High tariffs on intermediates are a brake on participation in GVCs as the cost of delivery to the final consumer increases exponentially when production stages take place across tariff-ridden borders.

The evidence shows that lower tariffs on intermediates stimulate production of final goods and raise productivity. In Indonesia, they were found to have a greater impact on the productivity of manufacturing firms than increases in the tariff of final products of those firms (Amiti and Konings, 2007). In the EAC, Rwanda's ascent to the customs union saw firms facing lowers tariff on intermediate inputs, which was found to have resulted in an increase in exports of between five to ten percent for exporting firms (Frazer, 2012).

Most recently, Trump's trade war with China led to significantly higher tariffs on inputs and final products. However, the impact of these tariff hikes did not lead to stronger industry. Domestic consumers ended up paying more for goods (Amiti *et al.*, 2019), while exporters hardest hit by tariffs on their imports of intermediate goods experienced a two percentage point lower export growth relative to products with no exposure to tariffs (Handley *et al.*, 2020).

2. Complicated rules-of-origin

Rules of origin (RoO) differ across the RECs. For example, value-content requirements, certification and verification, as well as tolerance and absorption rules differ across RECs. RoO at the product-level also differ greatly across RECs. The challenge facing the AfCFTA negotiations on RoO is to design rules that are simpler and easier to apply so that RoO are not a brake for growth of RVCs.

These rules will satisfy no one partner, but they are necessary for the development of RVCs if this continues to be an overarching objective of the AfCFTA. These RoO will have to be harmonised to a common set as part of the completion of Phase I of the AfCFTA negotiations.

3. Expensive and unreliable digital connectivity

Digital connectivity matters. Firms in GVCs need to communicate with both their suppliers and their customers through internet-based technologies. Coun-

tries with a higher share of the population using the internet exhibit stronger backward GVC integration.

The East Africa Single Digital Market (SDM) initiative aims to bring East Africa on board by: (i) a single connectivity market; (ii) a single data market; and (iii) a single online market to access digital content and information seamlessly.

The successful development of SDM would add between 0.57 percent and 1.6 percent to gross domestic product (GDP) growth and create between 1.6 million and 4.5 million new jobs. Existing internet users would capture between US$ 1.2 billion and US$ 4 billion in consumer surplus as a result of falling broadband prices (World Bank, 2019).

The Road Ahead: Overcoming Supply Chain Trade Challenges

The current renegotiation of the EAC's tariff structure and the ongoing negotiations of the AfCFTA are two major developments in trade policy that will redefine trade within the EAC and across the continent and the prospects for the hoped-for development of RVCs.

So far, EAC member states have agreed to a longer tariff band structure at a rate above 25 percent. Moving forward, member states need to be cautious about proposals for tariff increases on intermediates and consensus must be based on a clear understanding of such increases in tariffs on the development of supply chain networks.

Pro-EAC industry sentiments must be tempered with recognition that EAC exporters are themselves major importers, through backward integration, and therefore any increase in the costs of their imports will reduce their participation in supply chains.

For the AfCFTA, success will also hinge on the implementation and management of the trade area's rules of origin framework. Liberalization is only a first step. If countries are unable to trust and verify the origin of a product, borders will become concrete obstacles to trade in intermediate products.

Additionally, if firms find it expensive and difficult to navigate the process of obtaining certificates of origin, they will forgo the benefits of the free trade area and simply trade under most favored nation (MFN) tariffs, thus undermining the foundational goals of the AfCFTA.

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Harmonising Rules of Origin for the African Continental Free Trade Area[22]

— with Julien Gourdon, Dzmitry Kniahin and Mondher Mimouni

For the African continental free trade area to become fully operational, it is essential for the 54 signatory countries to reach agreement on harmonisation of rules of origins – the 'Made in Africa' criteria to ensure that only bona fide African products will benefit from tariff concessions. This column reports on progress and the remaining challenges.

To become fully operational in terms of reducing tariff barriers, AfCFTA signatories must submit their tariff concessions to the African Union. As of early 2021, 41 out of 54 signatory countries had submitted their offers. Signatories must also harmonise rules of origin (ROOs) across Africa's preferential trade agreements (PTAs) to arrive at a common set of continental ROOs.

ROOs can be understood as 'Made in Africa' criteria that are tailored to the specifics of each product. They are necessary to ensure that only bona fide African products benefit from tariff concessions under AfCFTA.

While a 'Made in Africa' label may seem trivial for raw products, such as cocoa beans, tea or green coffee, which are grown locally in one country, they become increasingly complex for multi-stage products such as machinery, electronics, apparel and autos, which rely on multinational supply chains. The exact product-specific rules (PSRs) such as value-added percentage criteria, are subject to intense negotiations between the 54 signatories of the AfCFTA.

22. First appeared on June 22, 2021 at the **Economic Research Forum (ERF)**: https://theforum.erf.org.eg/2021/06/22/harmonising-rules-origin-african-continental-free-trade-area/.

The benefits accruing from harmonisation of pan-continental ROOs can be illustrated in the following example. Under the AfCFTA, an exporter of men's shirts (HS 6205) from Kenya to Nigeria (a member of ECOWAS, the Economic Community of West African States) will be subject to the same origin requirement as if it exports that same shirt to South Africa (a member of SADC, the South Africa Development Cooperation). In other words, countries in ECOWAS and SADC will have to apply the same origin requirement for Kenyan shirts.

In a recent study, we review progress and remaining hurdles, as the deadline to reach an agreement on tariffs and ROOs is currently set at 30 June 2021. ROOs come in two categories: regime-wide rules (RWRs), of which there are approximately 30 different ones for each PTA; and PSRs.

Across nearly all 500 PTAs globally, ROOs are often complex and filled with minutiae. They are a headache for negotiators, customs officials and exporters alike. For the AfCFTA, agreement was reached on RWRs in early 2018, but for different PSRs only for about 82%. PSRs are defined at the most detailed common product level defined by customs (around 5,300 HS6-level products) at the level of each regional economic community (REC).

We report on progress at harmonisation for the following multiple-membership PTAs engaged in negotiations: Agadir, the Arab League, the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), ECOWAS and SADC. Negotiators have to compare over 850 different PSRs across the continent.

Importantly, negotiations will be complete only once 100% of the HS6 tariff codes are covered. Complications arise if a PSR is not defined for a specific HS6 code. Then a tariff reduction under the AfCFTA cannot apply because it is not clear whether the product is 'originating' or not, and thus whether it is eligible or not for preferential treatment.

In the absence of completely agreed PSRs, the full ambition of the 'non-sensitive' product list (90%) might not be realised. A temporary (interim) solution could be to rely on Article 5 in Annex 2 of the Agreement laying out the 'wholly obtained' criterion. However, this would be unrealistically stringent for many products on the current outstanding list (see Table 3 in the paper), such as autos and motorcycles.

Harmonisation Has Resulted in Simpler RWRs

To evaluate if harmonisation has resulted in simpler (that is, more transparent and more flexible) RWRs, we classify each of the 16 requirements on process and the 14 requirements on certification into two categories (here): provisions provid-

ing transparency (rules on packaging, and on non-qualifying operations provide transparency on process) and provisions providing flexibility (see below provisions on certification).

All negotiating PTAs share the same set of provisions on process, but not on certification. Differences over flexibility are greater than over transparency, probably a reflection of the greater difficulty in reaching agreement on flexibility than on transparency.

Harmonisation has resulted in simpler RWRs. But further simplification would have been achieved if provisions, present in some PTAs, such as those listed below would have been adopted:

- Provision for duty-drawback.
- Provision for self-certification.
- Third-party invoicing, arguably an important missed opportunity.
- Allow for non-direct transport without burdensome documentation.
- Allowing some outward processing as a relaxation of the principle of territoriality.

Remaining Hurdles

As of early 2021, negotiators have apparently reached agreement on PSRs for 82% of tariff lines: all sectors except foodstuffs, textiles and apparel, and automobiles. The figure classifies the 5,387 HS6 products under negotiation into PSR categories where agreement has been reached and those still under negotiation.

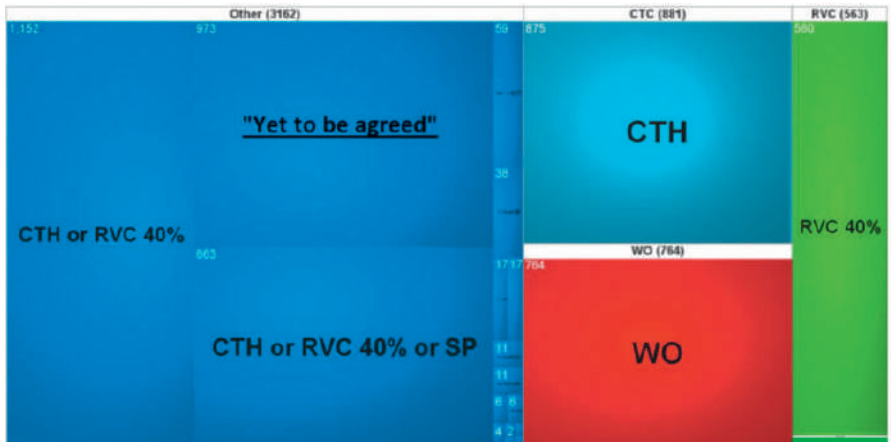
Figure 1 shows that agreement has been reached with single criteria PSR for 41% of HS6 codes (WO, RVC 40%, CTH). Agreement on another 37% has been reached for a mixed (alternative) criterion (CTH or RVC 40%, and CTH or RVC 40% or SP). (Definition of acronyms in Figure 1).

Presumably, sectors where negotiations are stuck correspond to those where interests diverge most across RECs, that is, where preferential margins (approximated by the most favoured nation tariff) are high, at least in some RECs. Comparisons between the two groups of PSRs gives the following patterns:

- Agreement has not been reached for 973 out of 5,387 HS6 products.
- Average preferential margin for PSRs under negotiation, stand at 21%, about twice the average for products where agreement has been reached.
- Regulatory distance (in the sense of different PSRs by REC at the HS6 level) is less among PSRs where agreement has been reached.
- R-index values, an indicator of the complexity and restrictiveness of PSRs (an ordinal observation-based in which a higher value indicates a more restrictive

PSR – for example an RVC of 60% is more restrictive than an RVC of 40%) are higher among PSRs where agreement has not been reached.

Figure 1. Distribution of PSR in AfCFTA across HS6 codes: agreed and to be agreed



Notes: Figures in parenthesis refer to the number of HS codes in each category. WO (wholly obtained); CTH (Change of tariff heading); RVC (regional value content); SP (specific processing)

Source: author's calculations based on AfCFTA draft PSR text.

Table 1. Comparing agreed PSRs with PSRs still under negotiation

PSR in AfCFTA a/	Pref margin b/	Regulatory similarity c/s	R-index d/
Yes	11%	28	25
No	21%	14	35

Notes: All values are simple averages over all hs6 products across all countries in the 6 negotiating PTAs. PSRs under negotiations are those for the sectors identified in table 3.
a/ YES (NO) refers to PSRS where agreement has been reached (under negotiation).
b/ Unweigthed average applied Preference margin (MFN minus preferential tariff) over the 6 PTAs
c/The regulatory proximity index used in tables 5 and 7 computed over the 6 PTAs. A higher value indicates closer match of PSRs
d/ R-index is an ordinal index based on an observation rule. For example an RVC of 60% is more restrictive than an index of 40% and a CTC requiring a CC (change of chapter) is more difficult to satisfy than a CTC requiring a CH (change of heading). A higher index value indicates a more restrictive PSR.

Source: Gourdon *et al.* (2020), table 8.

Towards Simpler Business-Friendly ROOs for AfCFTA

Africa is a still a region with high tariffs across-the-board, so tariff liberalisation among African countries can have substantial effects in promoting intra-regional trade, among others, through expansion of regional value chains.

Firms' access to zero AfCFTA tariff rates in practice will hinge on agreed ROOs. ITC surveys of firms' experiences with rules of origin consistently highlight this type of non-tariff measure as among the most burdensome and annoying, especially for the manufacturing sector. Therefore, the design of ROOs matters.

The success of the AfCFTA will depend on widespread acceptance and application by businesses of the agreed ROOs, accompanied by correct enforcement and encouragement by government authorities. Design will continue to matter even if certificates of origin (COOs) are delivered electronically since preparation and validation will still be needed, one way or another.

Our detailed forensic inspection of these rules and preliminary analysis of the restrictiveness of the agreed PSRs point in the direction of rules close to those prevailing in SADC and an overall high PSR restrictiveness.

But PSRs are heterogeneous across products. Some sectors such as agrifood, rubber and wood products are quite restrictive, with 'wholly obtained' (WO) criteria dominating. Other sectors, such as chemicals, machinery and vehicles, give flexibility through the choice of alternative rules between a change of tariff classification (CTC) and a regional value content (RVC) criterion.

These criteria are applied extensively across the board in ECOWAS and COMESA, which are relatively liberal free trade agreements. These choices represent an 'improvement' in terms of simplicity and transparency over those prevailing in SADC.

But the high overall PSR restrictiveness of the AfCFTA is partially mitigated by a high trade-facilitating score for RWRs. For example, by virtue of diagonal cumulation, companies are allowed to source originating intermediate inputs from all across Africa. This should help achieve the required PSR threshold.

In conclusion, to our knowledge, this is the first study that assesses systematically the landscape of PSRs for 82% of products where tentative agreement has been reached across the AfCFTA membership. While negotiations on the remaining PSRs and tariffs are still in progress, we have used three novel metrics (wording similarity, regulatory proximity and an index of restrictiveness for PSRs) to monitor progress at harmonisation.

As with all trade reforms that involve a transfer of rents (and associated costs), the AfCFTA negotiations show that agreement is difficult to reach when high rent

transfers are at stake. From an economic perspective, the challenge is to agree on ROOs that are business-friendly rather than business-owned in the sense of penalising small firms by their complexity. Other suggestions include a waiver of proof of origin on MFN tariffs below 2%, and on shipments (both personal and commercial, for example, e-commerce) below a threshold, say $500.

Significantly, the two indices used to describe heterogeneity across PSRs also display expected differences. Regulatory similarity is higher among those PSRs where an agreement has been reached.

In addition, R-index values, indicators of the complexity of PSRs, are higher among PSRs where agreement has eluded negotiators. These average values between the two groups are also indirect evidence of the usefulness of these two indicators to summarize the complexity of ROOs across PTAs. If PSRs negotiated for those sectors turn out to be too restrictive, it will be a barrier, rather than a boon, for the development of regional value chains across Africa.

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Implementing the Trade Facilitation Agreement Should Boost Trade Among African Free Trade Area Members[23]

— with Zakaria Sorgho and Laurent Wagner

The main objective of the African Continental Free Trade Area is to eliminate trade barriers and boost intra-Africa trade. This column argues that implementing the Trade Facilitation Agreement's provisions would be a powerful complement to the free trade area's tariff-reduction agenda. A realistic implementation of TFA measures could reduce time in customs for imports by 2.7 days for exports by 1.7 days. These reductions in time translate into a tariff ad-valorem equivalent reduction in the range 3.6–7% for imports and an 8.1% extra growth for exports.

The Trade Facilitation Agreement (TFA), signed in 2013 with entry into force in 2017, is the first multilateral agreement since the creation of the WTO, and one in which all WTO members participate (172 WTO members are TFA signatories, including 42 African countries). The TFA includes publication of information, advance rulings, appeal or review of decisions, freedom of transit, transparency and border agency cooperation, and the setting up of formalities that implement least trade-restrictive measures to achieve underlying policy objectives (e.g. 'single-window' systems, a ban on mandatory Pre-Shipment Inspection (PSI) for classification/valuation). The introduction of measures making the use of customs brokers mandatory is also forbidden. The freedom of transit (i.e. the prohibition of non-transport related fees) objective is particularly important for landlocked countries.

The bottom-up approach in the TFA gives extensive leeway (Hoekman 2016 notes that the occurrence of the wording "should" in the TFA provisions is twice as

23. First appeared on January 24 2024 at **CEPR:** https://cepr.org/voxeu/columns/implementing-trade-facilitation-agreement-should-boost-trade-among-african.

high as in the related WTO agreements on customs valuation and import licensing). Technical assistance may not be forthcoming, and TFA provisions cannot be enforced through the WTO dispute settlement mechanism. Thus, the TFA presents no effective commitment threat for signatories. In sum, the TFA is a best-shot endeavor based on promises rather than on legal content. However, one benefit of the TFA is that it is sufficiently specific that progress on implementation can be monitored relatively easily at the country level, making it easier to estimate compliance with the proposed objectives of reducing time at customs.

The African Continental Free Trade Area (AfCFTA)

The AfCFTA's main mandate is to eliminate trade barriers to boost intra-Africa trade. All but one African country has signed the AfCFTA, which entered into force on 30 May 2019. Yet, many odds and ends are still to be concluded, notably negotiations on a common set of rules of origin (RoO) for some products with high applied tariffs as products where MFN tariffs are highest have been excluded from lists of tariff offers.[24]

Time and costs associated with crossing borders are best estimated from customs-level data where shipment characteristics are described in sufficient detail and the shipment is classified into an inspection or no-inspection channel allowing us to establish a causal relation between time in customs and assignment to customs channels. [25] For Peru, Carballo *et al.* (2021) estimate that shifting import shipments from inspection to no-inspection in Peru returns a 20% tariff-reduction estimate for a 1-day reduction at the median time. For Albania, Fernandes *et al.* (2021) estimate that a similar shift results in an estimated 1.8% annual percent increase in import volumes. Volpe *et al.* (2015) carry out a similar exercise for all HS6 product-level exports of Uruguayan firms where the choice is between 'green' (no customs inspection) and 'red' lanes (customs inspection)' over a long period. They estimate that a 10% increase in the median time spent in customs is associated, on average, with a 1.8 percentage point reduction in the growth of firm-level exports.

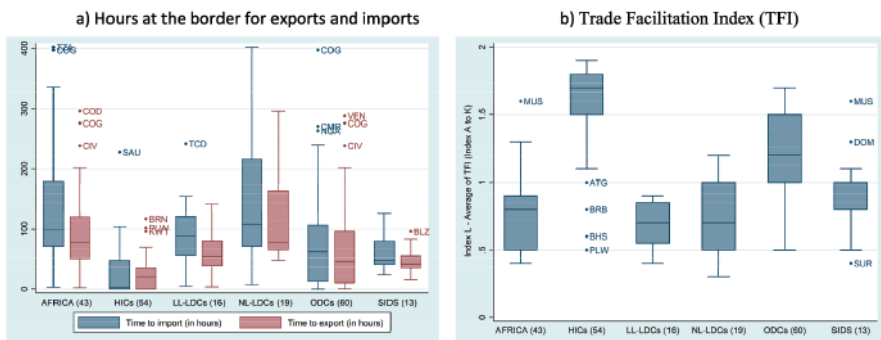
24. Melo *et al.* (2021) document that negotiations have resulted in simpler regime-wide rules but show that agreeing on Product-specific rules has stalled for those products with restrictive rules and (usually) high MFN tariffs.
25. Time spent at the border is an important component of the total time between origin and destination, accounting for 37% of the total time for Peruvian maritime import data in 2013 (Volpe 2016, p.3). Since slow delivery of goods is disutility to consumers, time in customs is a measure of trade costs. WTO (2021) is the first review of detailed progress at commitments by measure. https://tfadatabase.org/en gives a regular update of the state of notifications by members.

Our Study

Lacking the granularity of shipment-level data to carry out case studies for a sufficiently large sample of countries, in a recent paper (de Melo *et al.* 2023d) inspired by Hillbery and Zhang (2017), we present ballpark estimates of achievable reductions in customs-related trade costs from implementing the TFA across several country groupings. The estimates are based on survey-based measures (e.g. Doing Business (DB) data displayed in figure 1a) combined with the OECD customs performance indicators (summarised in the Trade Facilitation Index (TFI) values displayed in figure 1b).

The box plots show large heterogeneity for border compliance times (**Figure 1a**), especially for the AfCFTA, NL-LDCs, and LL-LDCs groups. The two LDC groups have the lowest median values for the average TFI index (**Figure 1b**). The median score for the HICs is higher than the best score (Mauritius) in the Africa group, an indication of the relative efficiency of customs across Africa. Overall, there is less heterogeneity within the ODC and HIC groups.

Figure 1. Box plots



Notes: Number of countries in group in brackets. Abbreviations: LL is landlocked: HICs is High income countries; ODCs are other developing countries; SIDS is small island developing states. Box plot: Bar in the middle is the median value, shaded area is the interquartile range and minimum maximum values correspond to +/- 1.5 times the interquartile range. For the Small island Developing States (SIDS) group, SIDS that are also LDCs (3) or HICs (7) are excluded. The ODCs group excludes all developing countries that are also LDC and/or SIDS. TFI scores range from 0 (no implementation) to 2 (full implementation of TFA measures).

Source: Melo *et al.* (2023 figures 2 and 4) from World Bank, Doing Business (DB) data 2020. Data captures regulatory reforms implemented between May 2018 and May 2019.

Table 1 reports our preferred estimates by group and Figure 2 gives estimates for selected countries in AFCFTA. Estimates are obtained in two steps. In the first step, Doing Business values of time in customs for each (163) country are regressed on a

cross-section of the Trade Facilitation Index (TFI) indicator values and control variables (geographic, and structural economic variables) using a negative binomial estimator. For all estimated models, a higher TFI score is significantly associated with less time spent in customs for imports and exports. Satisfied that predicted values are close with time in customs recorded in the Doing Business, in a second step we carry out two simulations reported in Table 1. Scenario 1 captures a more aspirational long-term objective, with scenario 2 considered a plausible objective for the medium term.

Table 1. Ad-valorem equivalents (AVEs) of improvements in Trade Facilitation indicators (TFIs) (group averages, 2019-2020)

Region/Group							
AfCFTA (38)		LL-LDCs (16)		NL-LDCs (19)		ODCs (60)	
Predicted Mean [median] time in customs for imports and exports by scenario (in hours)							
Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports
120 [117]	93 [78]	91 [88]	60 [55]	139 [108]	110 [78]	79 [63]	62 [46]
Imports Predicted reduction in hours (mean and [median]) by scenario[a]							
Scenario 1	Scenario 2	Scenario 1	Scenario 2	Scenario 1	Scenario 2	Scenario 1	Scenario 2
90 [86]	66 [65]	107[93]	65[50]	92[90]	66[63]	43[43]	35[35]
Tariff Ad-valorem equivalents (AVEs) in percent[b]							
4.9%[11.2%]	3.6%[7.0%]	5.8%[11.7%]	3.5%[4.7%]	5.0%[12.1%]	3.6%[6.6%]	2.3%[7.1%]	1.9%[5.3%]
Exports Predicted reduction in hours and equivalent percentage increase in exports in brackets[c]							
Scenario 1	Scenario 2	Scenario 1	Scenario 2	Scenario 1	Scenario 2	Scenario 1	Scenario 2
69 [11.7%]	42 [8.1%]	79 [12.9%]	30 [4.0%]	71[11.9%]	42 [6.9%]	37 [5.8%]	28 [4.1%]

Notes: Mean and median values [in brackets] reported for each group. The two convergence scenario estimates are from simulating the reduction in time at customs from improvements in the OECD TFI indicator.

a/Scenario 1 – Convergence to the average of top-2 countries in the sample defined on ODCs: TFI of each country takes the average of the top 2 TFI index values in the ODC group.

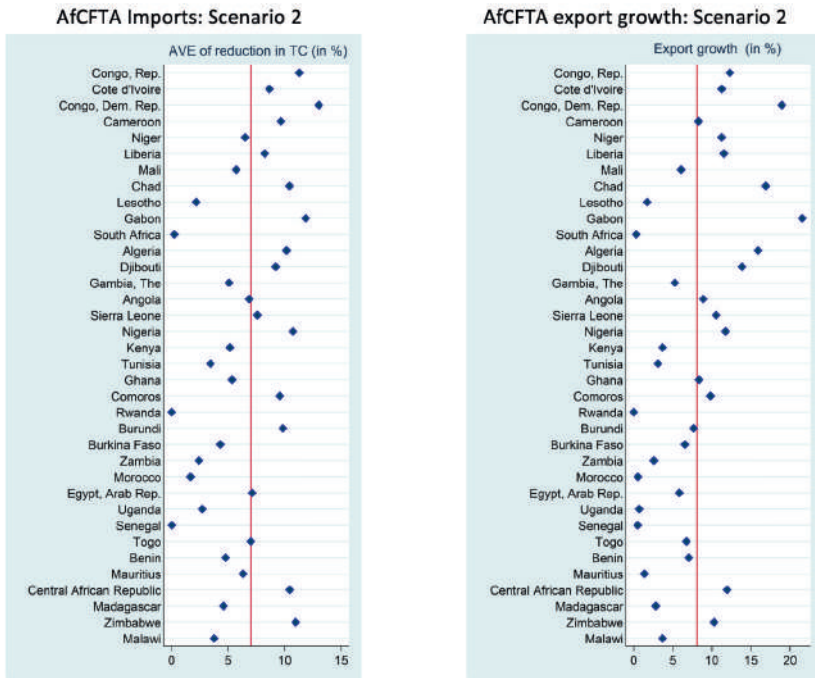
a/Scenario 2 – Convergence to the average top-2 within each region/group. TFI of each country takes the average of the top 2 TFI index values within each region/group. b/For imports, the time reduction estimate is translated into an AVE using two conversions: (i) from Hummels and Schaur (2013) that an extra 24 hours in customs is equivalent to a 1.3% tariff at destination; (ii) From Carballo *et al.* (2021) reported in brackets discussed in text. c/For exports, reduction in times are translated into extra export growth using the Volpe *et al.* (2015) estimate for Uruguay exports that a 10% reduction in time raises export growth by 1.8%.

Source: Melo *et al.* (2023, table 4).

The results give a range of estimates at the group level. For the 38 AfCFTA signatories, feasible improvements (as captured by improving to an average of the two best indicator values in the respective group) suggest a reduction of 65 hours (2.7 days) for imports which translates into an equivalent reduction in tariffs in the range of 3.6% - 7.0%. This is significant since average applied tariffs for African countries are 12.4%. To these gains should be added the reduced time of 42 hours (1.7 days) in customs for exports, translating into 8.1% increase in exports. This extra export growth estimate suggests that implementing the TFA should be important for the development of regional value chains in Africa.

Figure 2 reports country-level estimates under scenario 2 for the 38 AfCFTA signatories countries with no missing data. By construction, countries at the top of their respective groups (e.g. Rwanda, Senegal, and South Africa on the import side and South Africa, Morocco, Uganda, Rwanda, and Senegal on the export side) are assumed not to reduce time in customs. This is pessimistic, so estimates at the group level are arguably on the low side.

Figure 2. Country-level estimates of reduction in hours at customs from TFA implementation among AfCFTA members



Notes: See table 1 for scenario 2. AVEs = Ad-valorem equivalents, TC= Trade Costs. D. R. Congo, Algeria, and Comoros are not TFA signatories. Vertical red line is the median value for the 43 African countries in the AfCFTA group. Estimates are for countries with no missing data.[26]

Source: de Melo *et al.* (2023), figure 4.

Conclusions

A handful of case studies of time in customs based on transaction-level data show that customs reforms, some along the lines suggested by the disciplines in the Trade Facilitation Agreement (TFA), should benefit developing countries, especially for those in groups with adverse geographical characteristics. Our ballpark

26. Classified as a high-income SIDS, Singapore is included in the group "HICs". It does not appear in figure 2 because of its extreme score beyond 1.5 times the interquartile range.

estimates for a large sample suggest that taking the TFA disciplines seriously would boost significantly intra-African trade, the key objective of the African Continental Free Trade Area (AfCFTA). Taking results from the less ambitious counterfactual scenario suggests that feasible improvements in Trade Facilitation Indicator values would translate into significant reduction in time at customs for 38 African countries engaged in the AfCFTA. On the import side, times in customs would be reduced by 2.7 days, equivalent to a reduction in tariffs in the range of 3.6-7.0%. On the export side, the average time in customs would be reduced by 1.7 days, translating into an 8.1% increase in exports. These are quantitatively significant gains since average applied tariffs for African countries are currently 12.4%.

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Part 4
From the Negative to the Positive Agenda: Nurturing Regional Public Goods (RPGs)

The African Continental Free Trade Area: An Opportunity to Deepen Cooperation on Regional Public Goods[27]

The Africa Continental Free Trade Area (AfCFTA) signed in March 2018 aims to establish a single market across the continent. This challenge is also an opportunity to extend the provision of regional public goods beyond hard infrastructure. Peace and security, mining, and energy are such examples covered in the Africa Economic Outlook 2019.

Until now, evaluation of the progress of integration across Africa has centered on the eight African Union-recognized Regional Economic Communities—and seven other economic organizations—all primarily aimed at deepening intra-regional trade. But regional integration has always been about more than an exchange of market access and cooperation (Estevadeordal and Goodman (2017)). At the very least, there is always a need for rail, road, and other means of communication. In its assessment of progress and prospects for the recently signed African Continental Free Trade Area (AfCFTA), the Africa Economic Outlook (AEO) 2019 concentrates on the progress of cooperation to develop regional public goods. A tally of regional organizations dealing with regional public goods shows that five deal with energy, 15 with the management of rivers and lakes, three with peace and security, and one with the environment.

The key distinctive feature of regional public goods is that, unlike national public goods, no single body with the authority of a state exists to ensure the supply of the goods. Since all Regional Economic Communities have more than two members, some collective action is necessary to provide these regional public goods. Governance (implementing shared standards and policy regimes) is the inter-

27. Appeared on March 4, 2019 at **Brookings**: www.brookings.edu/articles/the-africa-continental-free-trade-area-an-opportunity-to-deepen-cooperation-on-regional-public-goods.

mediate public good necessary to generate the desired regional public goods: knowledge (education and scientific research), construction and operation of cross-border infrastructure, environment, health, peace, and security.

From an economic perspective, the application of the principle of subsidiarity requires that the scope of the established regional institutions should match the region benefiting from the spillover. This is not an easy task across Africa's landscape where the benefits of common policies are high because of widespread cross-border physical (i.e., environmental) and policy (air transport, corridors) spillovers. The costs are also high because of policy preference differences across member countries. Common decision making internalizes the spillovers, but it moves the common policy away from its preferred national policy (i.e., a loss of national sovereignty). Because of low trust in Africa, but also in other regions, most regional cooperation is intergovernmental. Each state then retains veto power, and the regional organization is a secretariat that coordinates and/or harmonizes policies, sets standards, or provides services. In short, these regional bodies lack real authority over member states to deliver these regional public goods.

The Africa Economic Outlook 2019 gives evidence of growing cooperation in several areas: (i) peace and security; (ii) hard infrastructure (roads, ports, railways, and corridors); (iii) soft infrastructure (logistics markets including regulatory policies for mining and energy). Progress and challenges for peace and security, and soft infrastructure (mining and energy) are summarized here.

Peace and Security

As political scientists have argued, the creation of supranational institutions when regional integration is deep reduces international insecurity through dialogue and the exchange of information on military capabilities. Discussions among members spill over to political issues diffusing political disputes that could escalate into political conflicts. Sufficiently deep regional trading arrangements increase the opportunity costs of conflict and reduce information asymmetries as partners know each other better. These two channels reduce the probability of costly conflicts.

Deep regional trade arrangements like customs unions and common markets require more encompassing political institutions than shallow arrangements like free trade areas. Evidence shows that membership in a deep regional trade arrangement reduces the probability of a dispute escalating into war (Vicard 2012), giving direct support to the often-mentioned objective of peace in Regional Economic Communities (e.g., ECOWAS and EAC). Viewed in this light, the costs associated with negotiating the deep African regional trade arrangements (SACU, CE-

MAC, WAEMU) have been borne by colonizers. Increased trade among members then raised the opportunity cost of future wars among members by increasing their interdependence.

The reports Assessing Regional Integration in Africa VIII (ECA) and Africa Economic Outlook 2019 (ADB) give examples of increasing cooperation on security across Africa. Significantly, the African Standby Force, operational since 2016, is organized along geographical lines, an application of the principle of subsidiarity necessary for the success of a regional public good. Among its successes, ECOWAS member states prevailed in its intervention into the 2017 presidential election in the Gambia. The African Union also has its own military mission in Somalia to destroy al-Shabaab strongholds in central Somalia.

Regionalizing Infrastructure Regulation

Most infrastructure industries across Africa have performed poorly. The internationalization of infrastructure reform to the regional level would help at several levels. First, inefficiencies in infrastructure become more important as barriers to trade fall if only because goods transit through infrastructure networks. Second, as trade liberalization has developed internationalized communication infrastructure, their associated networks will operate more efficiently if organized internationally. Third, the likelihood that regulation can serve as protection against international competition will be reduced if regulation is at the regional level. (Kessides *et al.* 2010). Coordination of policies, harmonization of regulations, and, to the extent possible, harmonization of legal institutions are important steps in the path towards deep regional integration. Taxation of mining activities and the development of power grids are examples of challenges and progress at cooperation.

Mining

Many African countries are pursuing a mineral-based industrialization strategy. This requires coordination across states for the exploitation of minerals. The African Minerals Development Centre is to help develop a regional approach to illicit financial flows in extractive industries, estimated at $25 billion per year by the Economic Commission for Africa (ECA), and to coordinate fiscal regimes. However, a summary of the fiscal regimes across 21 African gold exporters conducted by the Fondation pour les études et recherches sur le développement international (FERDI, 2019)shows that the sharing of the rents between the state and multinational mining enterprises has varied greatly across countries. For instance, across

WAEMU, despite a community directive applying to all countries, tax rates on gold exports varied between 2 percent and 16 percent in 2016.

Energy

The development of regional electricity markets continues to be a challenge worldwide. Cross-border trade in electricity is low everywhere. In 2012, exports of electricity were around 3 percent of global production while it was 17 percent for coal, 31 percent for gas, and 52 percent for oil. In Africa, with many small countries, trade in electricity would bring many benefits provided that the hard infrastructure is at scale and functioning and that the soft infrastructure (governance) is trustworthy. A huge desert solar program across the Sahel, the Desert to Power Initiative supported by the African Development Bank (ADB), is to link 250 million people to electricity. The project, expected to save 2-4 percent of the continent's GDP every year, is to make Africa a renewable powerhouse. The Africa Economic Outlook report describes these benefits and the hurdles on the way to developing power pools.

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Delivering Regional Public Goods is Key for Successful African Regional Integration[28]

— with Bruce Byers

The "Africa Rising" narrative of strong economic growth over the past 20 years fueled by rising demand for primary commodities has failed to generate enough good jobs, despite the demographic dividend of a large working-age population. As recently put at the African Innovation summit, the development agenda has shifted from socioeconomic transformation to the lowest common denominator, managing poverty (Duarte 2021). This trend is exemplified in the African Continental Free Trade Area (AfCFTA) Agreement which, so far, still largely concentrates on a "negative" agenda; in other words, the focus is on *removing policy-imposed barriers to trade*.

Now, though, regional integration agreements are moving toward a "positive" agenda *requiring resources to provide goods not supplied by the market*. One example is the Desert to Power Initiative, an effort stretching over the Sahel aimed at connecting 250 million people with green electricity through a combination of public, private, on-grid, and off-grid projects expected to deliver 10 gigawatts of solar energy by 2025 (*Africa Economic Outlook,* 2019). Such projects require cooperation among many actors, which is why regional integration agreements are increasingly described in terms of "regional cooperation and integration".

In a recent paper, Cazals *et al.* (2021), we revisit African regional integration through the lens of providing regional public goods (RPGs) rather than removing distortions to help markets function better. Our approach departs from the traditional top-down one used by the eight African Union (AU)-recognized regional economic communities (RECs) and the other 25 or so specialized regional organizations (ROs), which have sought to introduce new institutional forms and management systems, with external support but often beyond absorption capac-

28. Appeared on January 16,2021 at **Brookings:** www.brookings.edu/articles/delivering-regional-public-goods-is-key-for-successful-african-regional-integration.

ities. Combined with overlapping country memberships across RECs and ROs—a logical outcome of the fragmented political and geographic landscape in which spillovers often do not correspond to the geography of the organizations overseeing integration—this top-down approach has led to a regional "implementation gap." Indeed, most often, regional agreements and commitments have met with overstretched national administrations and failed to take account of political interests and incentives.

Such a result is hindering the region's progress toward its shared goals: To succeed with economic transformation and, indeed, to deal with emerging problems related to climate and security, integration requires greater regional cooperation and implementation of commitments.

At its 50th anniversary in 2013, the AU launched the 50-year Agenda 2063 program "The Africa We Want" with 15 flagship projects, heralding a shift toward continent-wide projects. As opposed to the "removing-distortions" focus of REC integration efforts, this agenda is one of providing RPGs where markets are lacking, so success depends more strongly on collective action across jurisdictions.

The agenda 2063 program has not been presented in terms of RPGs, which is a more adaptive approach to different circumstances and "problem driven." For any public good, the issue is how contributions materialize into the public good. For example, when eradicating a disease or when building a regional corridor, success depends on the effort by the country that contributes least. This type of public good is known as "weakest link"—among the different "aggregator technologies"[29]—and is a key co-determinant along with political incentives of the availability of any RPG. The paper presents the 15 Agenda 2063 flagships from this perspective, which helps evaluate the probability of success.

Let's consider the AfCFTA, a threshold RPG both for signature (22 ratifiers are required for AfCFTA to become operational) and for overall benefits since much depends on the large economies fully implementing the agreement. Moreover, since low transport costs also enter the determination of aggregate benefits, weakest-link transport bottlenecks could arise since a small country along a corridor between two large countries could drastically reduce overall benefits. Together, these different RPG characteristics determine the likelihood of success and overall benefits of the AfCFTA.

We then examine five examples of RPG projects. The first example—cooperation over COVID-19 around mid-2020—reveals that cooperation was limited and focused mainly around sharing information or nudging countries to increase test-

29. Holzinger (2020) gives a definition and examples of the aggregator technologies that help categorize the different categories of public goods.

ing. Collective action on harmonizing joint procurement and distribution of test kits has only taken place at a limited scale.

In another case, digital connectivity across East Africa through the One Network Area (ONA), a summation-type RPG, has shown success, illustrating the benefits of being driven bottom-up by the private sector (Kemei and Kennel, 2016). While distributional conflicts across members arose when it came to setting up a common mobile network, such obstacles are being addressed as parties are about to drop surcharges and roaming fees for calls among members within the region.

River basins show the limits to cooperation when externalities are one-way like the "upstream-downstream" opposing interests along rivers, as has been the case with the Grand Ethiopian Renaissance Dam example. (Mbaku 2020). In the case of the Senegal River Basin Development Organization, (Komara (2014) early success from joint infrastructure has given independence to the supranational organization. Leadership by Senegal, which acted as a "benevolent hegemon," helped overcome the weakest-link problem to the benefit of all.

Efforts to set up regional power markets have been plagued by promises and hurdles. Gains from exchanging power across power pools would be huge, but lack of confidence and a long list of critical conditions (sufficient excess capacity, reliable interconnections, independent utility companies, and regionalization of regulatory bodies) have largely prevented the development of well-functioning power pools.

Finally, while cooperation on physical connectivity through road networks is taking place along transport corridors, progress has often been slowed down by indivisibilities (a hurdle to obtain threshold supply) and the challenge of addressing administrative weakest links across the networks.

These observations motivate closing remarks about prospects for the new continental projects. We propose a bottom-up, six-step "find and fit" iterative strategy (Cazals *et al.* 2021). Rather than starting from a top-down strategy where the approach often seeks to apply best-practice solutions, we recommend starting by addressing the problem through the provision of an RPG, then identifying suitable coalitions, and then implementing with follow-up adaptation and repeated identification of the regional problem and its RPG type. Iteration continues until functional capabilities needed to coordinate cooperation across countries take hold. By then, growing legitimacy should open the door to deeper cooperation.

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COVID-19: An Opportunity to Jump-Start Collective Action in Africa[30]

Africa is the last continent to be hit by COVID-19. Toward the end of June, reported cases neared 300,000 and deaths 8,000 across the 54 countries. Coordination across countries has been low despite the cross-border nature of the pandemic and its effects. The Regional Economic Communities (RECs), whose principal function was coordinating trade policy, and other supra-national institutions provide the institutional framework for the needed cooperation and joint action. The latter has proved difficult in the past, but recent actions give hope that COVID-19 might be the spark to start implementing the Africa Continental Free Trade Area (AfCFTA) in earnest.

The COVID-19 pandemic is a perfect example of a Global Public Good (a bad in fact) that calls for the kind of collective action intended by the Africa Continental Free Trade Area (AfCFTA). Action is required to address the two elements of the crisis. On the health side, in the short-run, countries need international trade to secure the medical equipment required to test, care and treat patients so as to relieve pressure on hospital capacities. In the longer-run, countries need to develop a (several) vaccine(s) in the shortest possible time. On the wealth side, the cost of flattening the epidemiological curve is curtailing economic activities. How each element is handled affects the other; a long lockdown to meet the medical constraint exacerbates the wealth constraint as economic activity plummets (and citizens lose patience) and vice-versa for lax containment measures. Neither element leaves much room to manoeuvre, especially in African countries.

So far, countries have turned inwards. Faced with the fall in availability of essential goods (medical supplies, but also food) on international markets, countries have tried to secure these goods by reducing import barriers while simultaneous-

30. This chapter first appeared at **UK Trade Policy Observatory (UKTPO)**: https://blogs.sussex.ac.uk/uktpo/2020/07/01/covid-19-an-opportunity-to-jump-start-collective-action-in-africa/.

ly restricting exports. Export curbs by frightened governments undermine the incentives to exporters to produce more and raise doubts about security in importing countries. Global level estimates for food that take into account that countries are risk-averse suggest that uncooperative trade policies could multiply the initial COVID-19 shock on trade by a factor of 3 (Rocha *et al.* 2019)with food-dependent low-income countries hit hardest. To remedy this prisoner's dilemma situation, Evenett and Winters propose a time-limited WTO-consistent bargain whereby exporting countries commit to limit their restrictions on exports in return for importing countries keeping their import restrictions at current low levels.

In reaction to uncertainty about supply chains resulting from the scale of the disruption, some observers suggest that Africa should prioritize regional rather than global value chains. An example is the potential for Africa to reduce its dependency on imports of medical supplies like disinfectants and surgical gloves through sourcing from African suppliers. Fast-forwarding the launch of AcFTA while not raising trade barriers with the outside world is the way to go. However, so far, according to the International Trade Centre, as of June 16, 29 African countries have reported 43 temporary trade measures on medical-related products,[31] of which 22 were liberalizing (i.e., reduction on barriers to import) and 21 were restrictive (across-the-board export restrictions/bans). Can the pandemic accelerate integration across the continent?

However, despite these uncoordinated policies, there are also signs that cooperation is taking place across the continent, mostly within RECs – See table 1. At the top, informing (COVID-tracker) is the easiest to carry out. It has taken place from the start. REC secretariats have used their infrastructure to issue technical guidance. At the bottom of the table, coordination, and especially, collective action, are more difficult to achieve, but they bring greater benefits (e.g. joint procurement and distribution of medical equipment slows down the spread of the disease). But here serious compromises are required. Harmonization faces two challenges. First, where states are taking different approaches to managing the pandemic, agreement must be reached between heads of state on containment and trade policies. Second, with overlapping REC membership, harmonization requires that members in all RECs agree. Thus, under the Tripartite FTA, all 28 members of COMESA, EAC and SADC must agree on the measures to be adopted. Even under the current crisis, this is a challenge. Pragmatically, then, a bottom-up approach may be more fruitful, for example, on both sides of a single border between Kenya and Uganda, leaving wider harmonization with other EAC member states for later.

So far, the recently created Africa medical platform represents collective action at the continental level. The platform is designed to address shortages and securi-

31. Concerned products include personal protection equipment, pharma products, hand sanitizer and certain food products.

Table 1. Examples of cooperation to tackle COVID-19 in the health sector across Africa

	Level	Action	Types of measures	Examples
1	Information & communication	Collecting and sharing useful information	Centralising and providing regular statistics on COVID cases by member state and region; information on country-level measures	The AU CDC COVID-19 tracker. The WAHO in West Africa building on experience with Ebola outbreak of 2014-5; IGAD Secretariat, EAC Secretariat webpage, COMESA information on testing and measures among the 21 members.
2	Nudging & guidance	Recommending or urging states to adopt policies to address the pandemic	Calling on member states to increase testing and increase national heath expenditure. Suggest standards to facilitate trade	ECOWAS recommended member states to allocate 15% of budget to strengthen health care systems. EAC recommended containment strategies and encouragement of partner states to invest in public health systems to ensure resilience and health security.
3	Coordination	Joint monitoring within the REC	Point of entry screening standards and certification; Harmonising border measures and prioritising value chains and productive capacity	Re-activation of the Technical Committee for Coordinating and Monitoring the Implementation of the SADC Protocol on Health. Development of a regional mechanism for COVID-19 testing in EAC with certification and monitoring of truck drivers and a harmonised system for certification and sharing of COVID-19 test results; COMESA call for Member States to develop uniform standards for COVID-19 responses.
4	Collective action	Harmonisation. Using joint structures to the benefit of all REC members	Joint procurement and distribution of test kits, PPE and medical equipment; Joint resource mobilisation and regional budget reallocations Africa medical supplies platform	ECOWAS allocated additional funding for WAHO to purchase and distribute testing kits, PPE, and a limited number of ventilators. IGAD is making efforts to secure the necessary finance to head off the crisis. One-stop shop to deliver medical supplies sourced from African countries and China through hubs like Addis Ababa and Johannesburg.

Abbreviations: AU: Africa Union. Africa CDC: Center for Disease control. COMESA: Community of East and South Africa. EAC: East Africa Community. ECOWAS: Economic Community of West Africa. IGAD: Intergovernmental Authority on Development. PPE: Personal protection equipment. REC: Regional Economic Community. WAHO West Africa health organization.

Source: Author adapted and expanded from Medinilla *et al.* 2020.

ty of supply, ensure price competitiveness and transparency in procurement, and reduce logistical delays. The platform should give the continent a fairer chance in the international scramble for COVID-19 test kits, protective equipment and vaccines when they emerge. The volumes transiting through the platform should lower costs to access services from quality-certified suppliers. It is the most promising step towards starting the implementation of the AfCFTA. A concrete example of the benefits of cooperation, if it operates smoothly, this platform should be an example of the beginning of the long-sought-after supranational decision-making in Africa.

The REC responses to COVID-19 could represent a 'tipping point' for jump-starting collective action across Africa, first at the REC level and then at the continental level. Arguably, this happened with the 2003 Tsunami that triggered cooperation in the ASEAN region, for example, with the setting up of an early warning system. With luck, the early steps at regional cooperation on medical measures will deepen and later spread to other regional public goods like regional power markets, river basin management, road networks and digital connectivity.

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Essays on Africa's Integration: Prospects and Challenges for Markets and Regional Public Goods

Regional integration arrangements are good politics, but to survive they must extend beyond unfilled good intentions and have a sufficiently sound economic basis. Ever since their independence, African countries have engaged in a series of treaties creating 8 Regional Economic Communities (RECs) that were (and still are) to pilot this integration starting with a Free Trade Area (FTA) followed by a customs union, a common market, and a monetary union following a 'variable geometry', along a 'Minimum Integration Program' at different speeds.

The thickness of borders remains stubbornly high, the highest across regions as measured by the lowest intensity of regional supply chains across regions. If intra-African trade has grown at the continental level, the ratio of within-REC trade to between-REC after rising from 1.2 in 1960 to 2.75 in 1990 has fallen back to 2.0 in 2022. The essays organized in four parts report on reflections I carried out in 'real time' starting around the launch of Vision-2063 "The Africa we want" around 2013 up until the launch of the Africa continental Free Trade Aera (AfCFTA).

Part I (*Challenges and Pathways*) examines Africa's continued de-industrialization and the constraints hindering structural transformation: notably, labor costs that are high relative to income levels, and weak non-tradable sectors that prevent the continent from realizing its potential in labor-intensive manufacturing.

Part II (*Architecture Choices*) addresses the design trade-offs facing regional integration —between membership size, depth of integration, and differentiated treatment. In the absence of compensation mechanisms, integration often amplifies disparities between diverse economies. Flexibility becomes essential to accommodate overlapping memberships and varied national interests.

Part III (*Deliverables for the AfCFTA*) focuses on the operational challenges of building regional value chains, including: divergent exception lists, restrictive rules of origin (ROO) favoring protected sectors, and inefficiencies at borders. Implementing the Trade Facilitation Agreement is key to reducing costs and delays.

Part IV (*Nurturing Regional Public Goods (RPGs)*) explores the positive agenda of integration: investing in shared infrastructure, institutions, and services that markets alone cannot provide. Through a bottom-up, adaptive approach, the AfCFTA could foster cooperation in critical areas such as energy, transport, natural resources, and health.

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