

# Economic Partnership Agreements: Building or shattering African regional integration?



EcoNews Africa



**Traidcraft**

Fighting poverty through trade

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EcoNews Africa

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The Southern and Eastern African Trade, Information and Negotiations Institute (SEATINI) is a regional non-governmental organisation founded in 1996 soon after the WTO Singapore Ministerial Conference, after realising that Africa in particular and Third World countries in general were marginalised in the WTO and other trade negotiations. The organisation covers Southern and Eastern Africa. The main purpose of SEATINI is to strengthen the capacity of African trade negotiators and other key stakeholders i.e media, NGOs and Members of Parliament to take a more effective part in the emerging global trading system and to better manage the process of globalisation. Presently the organisation has offices in Harare (Zimbabwe), Kampala (Uganda) and Nairobi (Kenya); and is also represented in Geneva (Switzerland), and Johannesburg (South Africa ).



**Traidcraft Exchange (TX)**

TX is the sister NGO of Traidcraft plc, the leading fair trade organisation in the UK. Traidcraft’s mission is to fight poverty through trade. Working with partners in developing countries, Traidcraft markets fair trade goods in the UK, across a range of sectors, including coffee, tea, rice, fruit juice, wine, textiles and crafts. TX is a registered charity which provides capacity building services to marginalised enterprises in developing countries. TX’s Policy Unit aims to improve the enabling environment for trade, with a particular focus on the perspectives of micro and small enterprises and the informal sector, in recognition of their importance to poverty reduction. The Unit seeks to relate the implications of international trade policy to this key group.



<b>Acronyms</b>
<b>Executive summary</b>
<b>Introduction</b>
<b>Part 1: The Case for Regional Integration in Africa</b>
- Why regional integration?
- Different recipes
- African integration to date: successes and failures
<b>Part 2: ‘Do as we say, not as we did’: the EU experience vs its prescription for Africa</b>
<b>Part 3: The impact of EPAs on Africa’s regional integration: the four empty claims</b>
- ‘EPAs will facilitate intra-regional trade’
- ‘EPAs will help to address the problem of Africa’s overlapping memberships’
- ‘EPAs will bring the investment necessary for African regional integration’
- ‘EPAs will be accompanied by sufficient funding to support regional integration’
<b>Conclusion and recommendations</b>
<b>References</b>

ACP: African, Caribbean, and Pacific  
 AEC: African Economic Community  
 ASEAN: Association of South Eastern Asian Nations  
 BIT: bilateral investment treaty  
 BNLS: Botswana, Namibia, Lesotho, and Swaziland  
 CCIA: COMESA Common Investment Area  
 CET: common external tariff  
 COMESA: Common Market for Eastern and Southern Africa  
 CEMAC: Economic and Monetary Community of Central Africa  
 CSME: Caribbean Single Market and Economy  
 EAC: East African Community  
 ECCAS: Economic Community of Central African States  
 ECOWAS: Economic Community of West African States  
 ECSC: European Coal and Steel Community  
 EDF: European Development Fund  
 EFTA: European Free Trade Area  
 EPA: Economic Partnership Agreement  
 ESA: Eastern and Southern Africa  
 FDI: foreign direct investment  
 FTA: free trade agreement  
 GATT: General Agreement on Tariffs and Trade  
 LDC: least developed country  
 LPA: Lagos Plan of Action  
 MAT: Mozambique, Angola, and Tanzania  
 MFN: Most Favoured Nation  
 NEPAD: New Partnership for Africa's Development  
 ODI: Overseas Development Institute  
 OECS: Organisation of Eastern Caribbean States  
 PTA: Preferential Trade Area  
 REC: Regional Economic Community  
 RIP: Regional Indicative Programme  
 ROO: rules of origin  
 RTA: Regional Trade Agreement  
 SACU: Southern African Customs Union  
 SADC: Southern African Development Community  
 TDCA: Trade Development and Co-operation Agreement  
 UNCTAD: United Nations Conference on Trade and Development  
 UNECA: UN Economic Commission for Africa  
 WTO: World Trade Organisation

The idea that Economic Partnership Agreements (EPAs) will support regional integration has been one of the fundamental arguments used by the European Commission to persuade the African, Caribbean, and Pacific (ACP) Group of States of the value of these agreements. This report looks behind the Commission's rhetoric at the real impact of EPAs on regional integration in Africa, and finds a series of fundamental causes for concern.

The report demonstrates that African countries have an essentially different concept of regional integration from that which the European Union is prescribing for Africa by means of EPAs. The African approach involves regional co-operation in matters of production and infrastructure, as well as harmonisation of trade and other shared policies – in contrast to the EU's more limited focus on trade liberalisation per se. In the words of Ambassador Gunessee of Mauritius: *'the integration of the African continent [...] has a wider perspective than the narrow perspective of regional integration which the Commission seems to be advocating.'*<sup>1</sup> Moreover, the EU adopts a 'do as we say, not as we did' approach towards Africa's regional integration. The EU in its current multi-functional form has strong institutions built up over many decades, and has allowed itself flexible approaches towards members with different interests, large amounts of development support channelled towards weaker members, and variable approaches towards internal and external trade liberalisation. Yet the time, flexibility, and support that the EU allowed itself are seriously diluted when it comes to its EPA prescription for Africa.

Although Africa faces daunting challenges to its own integration, it has nevertheless made some real gains. Examples include successful development projects such as the Maputo Development Corridor, which have maximised the gains from major trade routes to generate spill-over activities in agriculture, industry, commerce, communications, and tourism, in turn enhancing intra-regional trade and supporting broader economic development objectives. According to some estimates,<sup>2</sup> development corridors such as this one reduce the economic growth that is lost by virtue of being land-locked by as much as 1 per cent. Power-sharing schemes, such as the Southern African Power Pool, have provided cost-saving efficiency gains for contiguous countries. The Common Market for Eastern and Southern Africa (COMESA) sponsors a development bank, banking and insurance institutions, and a court of justice, and is in the process of expanding its free trade area. The East African Community (EAC) has a functioning legislative assembly and has agreed a timetable for nothing less than full political integration. There are clear signs that – with the appropriate support – Africa could accelerate such efforts.

An analysis of EPA negotiations to date demonstrates that EPAs will not help this process. On the contrary, the EC's position that EPAs will assist Africa's regional integration is based upon a number of claims that do not stand up to scrutiny:

**(1) 'EPAs will facilitate intra-regional trade.'** This report shows how, in a precursor to EPAs, the previously negotiated free trade agreement (FTA) between the EU and South Africa is undermining diversification into value-added products for the Southern African regional market. In addition, research from Kenya predicts a 15 per cent loss in Kenya's regional trade under an EPA, estimating that trade in value-added goods will be worst hit, and that dependency on primary exports will rise. The United Nations has estimated that under a

<sup>1</sup> Ambassador Gunessee, speaking in October 2006 at South Centre High-Level Conference on ACP-EU Trade Relations.  
<sup>2</sup> Sachs (1997).

reciprocal EPA West African countries would experience net trade diversion amounting to US\$ 365 million, of which US\$ 35.6 million represents forgone exports from the Economic Community of West African States (ECOWAS) to the rest of the region. Moreover, analysis suggests that EPAs will generate increased defensiveness between countries within regions, leading to tighter border controls and more burdensome restrictions for the private sector.

**(2) 'EPAs will help to address the problem of Africa's overlapping memberships.'** The report shows that Africa is anyway taking serious steps to resolve the problems associated with African countries' membership of multiple and overlapping regional economic communities. It also shows that EPAs, far from supporting this process, are making the problem worse, adding further layers of complexity and leading one commentator to conclude that in the potential impact of EPAs upon regional alignments *'there exists considerable destructive potential'*.<sup>3</sup> For example, as a consequence of EPAs – and of the EU's prior negotiation of a free trade agreement with South Africa – Mozambique, Angola, and Tanzania are seeking a separate trade regime from their partners in the Southern African Development Community (SADC), which is further segmenting rather than solidifying the region.

**(3) 'EPAs will bring the investment essential to African regional integration.'** The report argues that in the context of EPAs the EC is promoting an arrangement which offers no guarantees of attracting good foreign direct investment (FDI) or of promoting regional integration. On the contrary, the SADC region has expressed concerns that entering into bi-regional rules on investment with the EU before regional frameworks are in place would risk crowding out regional investors, and hence undermining regional integration. The region has warned that: *'Negotiating [new-generation trade issues] under such conditions runs the risk of delivering unbalanced outcomes that may be prejudicial to national development objectives and to prospects for deeper integration in SADC.'*<sup>4</sup> The report argues that ACP regions may be better off concentrating on developing these regional frameworks and putting in place arrangements that promote intra-regional flows of FDI. In this case, assistance from the EU would be best invested in technical support in establishing such regional frameworks; and in investment promotion to attract EU investors, as some ACP regions – notably Eastern and Southern Africa (ESA) and SADC – have requested. But the EC has refused to commit support for such regional frameworks in the absence of up-front commitments to liberalise investment in favour of the EU.

**(4) 'EPAs will be accompanied by sufficient funding to support regional integration.'** The report argues that additional financing is indeed needed to support Africa's regional integration, and that this is one of the ways in which the EU could help. However, the EC is using creative accounting to disguise the reality that resources are nowhere near sufficient to meet the challenge, unless money already pledged to health and education services is diverted. Moreover, analysis of aid flows to regional programmes reveals a diminishing commitment on the part of the EC towards funding the necessary structural pre-requisites for regional integration.

In sum, the weight of evidence against the EU's claims that EPAs will foster regional integration is overwhelming. The report concludes that EPAs will undermine, rather than support, Africa's regional integration, and that a fundamentally different approach is needed.

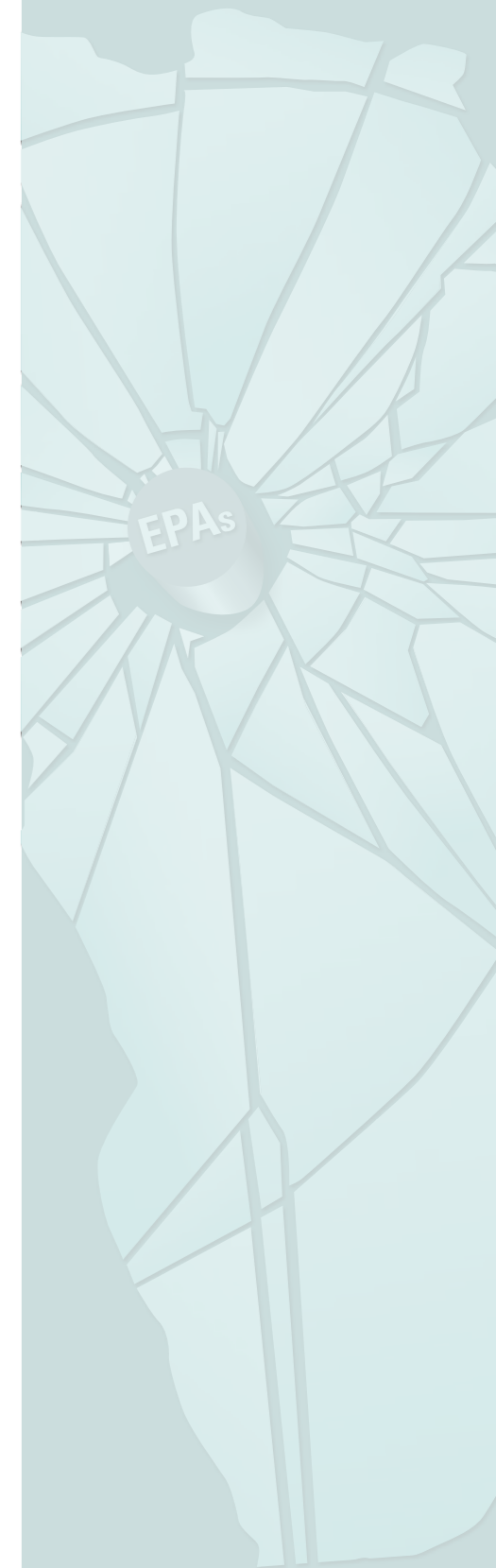
<sup>3</sup> Stevens and Kennan (2005, p.2).

<sup>4</sup> A Framework for the EPA Negotiations between SADC and the EU: note for the members of the ACP Working Party, Brussels, 16 March 2006, Doc. no 43/06 ACP, paragraph 26.

## RECOMMENDATIONS

We call on the EU member states to:

- Ensure that the EC fulfils its obligation - laid out in the Cotonou Agreement - to examine all alternatives to the proposed EPAs that are no less favourable in terms of market access. These should not demand reciprocity on the part of the ACP and must genuinely promote regional integration.
- Instruct the EC to take the pressure off African regions to conclude EPAs that are not – in their current form - supportive of regional integration, by guaranteeing that the equivalent level of preferences will be extended until a suitable solution is found, so as not to disrupt current trade.
- Demand that the EC desists from pushing the pace of African customs unions - or insisting upon single starting lines - in cases where regions have made clear this approach is neither realistic nor helpful.
- In the area of investment, de-link support for regional frameworks and investment promotion from any obligation on the part of the ACP to enter into bi-regional investment agreements with the EU.
- Step up development support for genuinely African-led regional integration priorities, backed up with a clear statement that such support is in no way contingent upon signing up to an EPA.



Since 1975, under successive Lomé Conventions, African, Caribbean, and Pacific (ACP) countries have theoretically benefited from unilateral trade preferences into the EU market. However, such non-reciprocal arrangements became increasingly open to challenge in the World Trade Organisation (WTO), because they were seen to discriminate against other developing countries. The proposed solution came in the form of the Cotonou Agreement (signed in 2000), which stipulated that by the beginning of 2008 WTO-compatible trade agreements – to be known as Economic Partnership Agreements (EPAs) – must be in place. In order to achieve WTO-compatibility (itself a moving target, given that the current Doha Development Round remains in flux), the EU has stressed that EPAs must conform to Article 24 of the General Agreement on Tariffs and Trade (GATT), which is the article governing free trade agreements (FTAs). Article 24 currently states that FTAs require an elimination of tariff barriers on ‘essentially all trade’ within a ‘reasonable length of time’.

Aside from the legal motive of WTO-compatibility, the Cotonou Agreement sets out a comprehensive framework for ACP development to be achieved through trade, development, and political co-operation. Cotonou states that the objective of Economic Partnership Agreements is *‘to reduce poverty by supporting the sustainable development and the gradual integration of the ACP countries into the world economy’*.<sup>5</sup>

While the European Commission (EC) argues that EPAs must involve reciprocal trade liberalisation (both for WTO compatibility and because of the intrinsic benefits that it believes progressive liberalisation will bring to ACP economies), it has also regularly stressed that EPAs are not conventional free trade agreements. Rather, the EC presents EPAs as a package of policies designed to promote ACP development and regional integration, emphasising that the EU itself has no offensive market access interests in the EPA negotiations.<sup>6</sup>

The notion that EPAs should support regional integration is one of the basic tenets of the Cotonou Agreement, which states that *‘economic and trade cooperation shall build on regional integration initiatives of ACP States, bearing in mind that regional integration is a key instrument for the integration of ACP countries into the world economy.’*<sup>7</sup>

***‘So what are EPAs? I see them as an opportunity for the ACP regions to fast-track their way to regional integration.’***

EC Trade Commissioner,  
Peter Mandelson<sup>8</sup>

Since negotiations began in 2002, the notion that EPAs will foster regional integration has remained at the heart of the EC’s discourse as it promotes these agreements to the ACP. As the ACP regions largely agree that regional integration is desirable and could bring significant benefits to their economies, the EC’s habit of discursively linking ‘EPAs’ and ‘regional integration’ has had a persuasive resonance. However, the EC’s assertions concerning the benefits of EPAs have been stronger on rhetoric than on evidence, and this is nowhere more the case than on the central subject of regional integration.

This report investigates the real link between EPAs and the ‘regional integration’ that these agreements are supposed to promote. The report asks ‘what is regional integration anyway?’; ‘do the EU and African ACP countries have a shared understanding of it?’; and ‘are EPAs likely to support or undermine the kind of regional integration that is suitable for African circumstances and development prospects?’

While occasional mention is made of the Caribbean and Pacific states, the primary focus of this report is on African regional integration.

***‘While both the ACP and the EC concur that one of the key objectives of an EPA is the strengthening of the regional integration processes in the ACP, there continues to be a clear divergence of views on how this should be approached.’***

Dame Billie Miller,  
Chair of ACP Ministerial  
Council, 2006<sup>9</sup>

<sup>5</sup> Cotonou Partnership Agreement (CPA), Article 1 (2).

<sup>6</sup> See Peter Mandelson’s speeches on EPAs, available at <http://ec.europa.eu/commissionbarroso/mandelson/speechesarticles/sppm121en.htm>

<sup>7</sup> CPA, Article 35.2.

<sup>8</sup> Speech by Peter Mandelson at the ACP–EU Economic and Social Interest Groups Meeting, Brussels, 29 June 2005.

<sup>9</sup> Speech delivered at Joint Parliamentary Assembly of ACP and EU, Vienna, 20 May 2006.

### WHY REGIONAL INTEGRATION?

Proponents of regional integration have long recognised the potential economic, political and security benefits that it can bring to participating countries and their citizens.

Historically, successful examples of regional integration have tended to entail gradual and flexible co-operation between member countries on a range of issues, spanning a great deal more than trade integration.

The European Union itself began life more than half a century ago. Political and security-related objectives were at the core of the European project, notably the importance, post-war, of bringing together France and Germany in a lasting peace by means of shared institutions, as well as restoring European influence in the wider world. Underpinning these political objectives was the critically important economic objective of rationalising and enhancing production. National frontiers between France, Germany, Belgium and Luxembourg stood between steel plants and coalmines. With the formation of the European Coal and Steel Community, the removal of those barriers, accompanied by common governance of the resulting common market, brought major economic benefits, and in doing so created a greater interdependence between countries that would in turn help to cement peace. Over time the EU was to evolve via an early common market into a customs union. But the initial objective was as much about improving production and laying foundations for lasting co-operation between neighbouring countries. In other words, the present EU is – and has always been – a great deal more than a customs union.

Similarly, regional integration schemes in Asia and Latin America have adopted broad-based strategies designed to improve and diversify production at a regional level, with international trade being one route – but by no means the only route – towards achieving this. The founding declaration of the Association of South Eastern Asian Nations (ASEAN), for example, included a commitment by its member states to *'take cooperative action in their national and regional development programmes, utilizing as far as possible the resources available in the ASEAN region to broaden the complementarity of their respective economies'*.<sup>10</sup> The ASEAN Industrial Co-operation Scheme is part of the implementation of this aim. In addition, ASEAN has a strong peace-building component and a mandate to *'improve the living standards of their peoples'*.<sup>11</sup>

With similar objectives, African states have long recognised the potential economic, political, and security-related benefits of an integrated continent. Yet African countries are starting from a much less advantageous position.



The African vision of regional integration is multi-faceted. It has a peace-building component, not dissimilar to the European integration project in its early days, which aims to reduce conflict through greater interdependence and co-operation, as well as by putting in place region-wide security arrangements. Also, it is hoped that by uniting sub-regionally and ultimately continentally, African countries will enhance their international bargaining power. Beyond this is a fundamentally economic rationale: regional integration is considered as a route towards achieving the structural transformation of African economies. As we shall see, intrinsic to the African vision is a holistic approach that addresses infrastructural challenges, human-resources constraints, and the need for political commitment, in addition to trade policies.<sup>12</sup>

Most sub-Saharan African countries are highly dependent upon the production of a narrow range of similar goods – primarily agricultural and mineral commodities<sup>13</sup> – with minimal levels of complementarity between regional neighbours. This situation is compounded by low productivity and poor regional infrastructure, with the result that it is often cheaper to export a product to the EU than to a neighbouring African country. Moreover, Africa's share of world trade in goods and services dropped from more than 5.5 per cent in 1980 to around 2 per cent in 2003, and of this trade there is an overwhelming dependency on trade with the EU.<sup>14</sup> Given these circumstances, there is general consensus that structural transformation is necessary if African economies are to move forward on the road to sustainable development.

A number of prominent African academics and key African organisations have argued that this necessary structural transformation can be brought about through the interlinked processes of continental integration and industrialisation.<sup>15</sup> Industrialisation is the key aspiration because, in contrast to agricultural commodities, manufactures tend to experience more elastic demand and less volatile prices, as well as linking wages and consumption to domestic production, offering potential for higher-wage and higher-productivity economies. It is also recognised that manufacturing offers greater prospects of 'internal' integration, by fostering a more dense set of links across and within sectors, between the rural and urban economies and between consumer, intermediate, and capital-goods industries.<sup>16</sup>

*'The ultimate goal of continental integration is to allow African countries to merge their economies and pool their capacities, endowments and energies together for the development of the continent.'*

Abdoulie Janneh,  
UN Under-Secretary General  
and Executive Secretary of the  
Economic Commission  
for Africa<sup>17</sup>

<sup>10</sup> Declaration of ASEAN Concord Indonesia, 24 February 1976.

<sup>11</sup> Ibid.

<sup>12</sup> See for example, OAU (1981); ADB (2000; 2006); African Union (2006); UNECA (2004b); Oyejide (2000).

<sup>13</sup> For 20 of 47 African countries, a single commodity accounts for more than 60 per cent of exports; and in 31 of these countries only three commodities account for more than 80 per cent of exports. See UNECA (2004b, p.19).

<sup>14</sup> In contrast, intra-regional trade in Africa has remained low, amounting to only 6 per cent of the total officially recorded foreign trade of African nations in 1990 (although if informal trade were counted, this percentage would be much higher).

<sup>15</sup> See for example Adedeji (2002); UNECA (2002); ADB (1989); Asante (1997).

<sup>16</sup> Wade (1990) provides the most cogent explanation of how this worked in the East Asian context.

<sup>17</sup> Speech to 7th Ordinary Session of the Assembly of the African Union, Gambia, July 2006.

Added to this is the widespread acknowledgement that most developed countries, including the newly emerging economies, have developed via diversifying out of primary commodities into higher-value, more dynamic goods linked to the primary sector, such as agricultural processing or textiles, before gradually building up wider manufacturing capacity. For all of these reasons, African academics and organisations, as well as UNCTAD, have argued that diversifying out of dependency on agriculture and into industrial products is likely to offer the best hope of development in Africa.

Furthermore, the proponents of African continental integration have argued that for most African countries with small economies and very small consumer bases, industrialisation at a national level is not practical or feasible. Recognising that most African countries are too small to operate independently, the pan-African vision advocates greater continental co-operation for structural transformation. Through pooling resources for the development of more cost-effective, efficient infrastructure and other regional public goods, and through taking advantage of expanded markets and economies of scale to re-orientate production and diversify, small African states could escape the commodity trap and kick-start industrialisation.

For these reasons, the need for regional integration has been on Africa's agenda quite independently of negotiations on EPAs.

## DIFFERENT RECIPES

At a superficial level, African and European policy makers broadly agree on a list of factors that need to be prioritised as part of a regional integration strategy for Africa. Both parties would cite production, infrastructure, provision of public goods, trade, investment, human resources, financing, political commitment, and institutional capacity as important to greater or lesser degrees. However, there are a number of critical differences between Africa's own approach to regional integration and the EU's recipe for Africa, which relate to prioritisation and ultimately the very objectives that the respective parties have in mind.

18 Private unattributable interview with Traidcraft.

## Africa's recipe for itself

When asked what first needs to be addressed as part of the regional integration process, African stakeholders generally emphasise supply-side constraints, including production deficiencies, infrastructure, human-resource issues, and non-tariff barriers, as well as policy harmonisation and political dimensions, before trade liberalisation *per se*.

Given the characteristics of most African economies, private sector actors, governments, academics, and representatives of civil society across the continent generally agree that addressing inadequate and undiversified production and other supply-side constraints should be the primary objective of regional integration. Major improvements are required in infrastructure such as transport and energy links; in investment in human resources, including basic education, skills development, and health; and in upgrading of quality and efficiency in existing sectors and new ones. It is widely acknowledged that addressing these pre-requisites is essential for successful production and growth. A 2005 high-level conference on infrastructure and poverty reduction estimated that in many African countries lost growth due to poor infrastructure outweighs actual growth.<sup>19</sup> The World Bank has concluded that freight costs act as far more restrictive barriers to African exports than do tariffs.<sup>20</sup> In this context, former World Bank economist Paul Collier argues that approaches to regional integration and co-operation in Africa should directly target overall economic growth by focusing on 'fundamentals': reduction of transaction costs, rapid accumulation of human and physical capital, and maintenance of macro-economic stability.<sup>21</sup>

For African stakeholders, regional integration should be first and foremost about collective efforts to address these fundamental constraints, through 'functional integration' and 'development integration' approaches.<sup>22</sup> Even in regional integration schemes

19 Public Private Infrastructure Advisory Facility (2005).

20 World Bank (1998).

21 Collier (1998).

22 Different models have been adopted in Africa during different periods. The two most prominent approaches have been (1) 'functional integration', which has prioritised co-operation on joint projects aimed at overcoming production and infrastructure deficiencies, and building up regional public goods; and (2) 'development integration', which – building on functional integration – stresses also the need for close political co-operation; policies to balance the benefits of integration between countries of unequal strength; flexibility over the time taken to reduce tariffs between different members ('variable geometry'); efforts to promote co-ordinated regional industrial development; and establishment of regional funds or banks. A third model, introduced alongside 1990s structural adjustment policies, was (3) 'market-focused' or 'trade-focused' integration, with a concentration on the removal of tariff and non-tariff barriers. (See Davies 1996.) This last model was widely criticised for not addressing the barriers to integration deriving from resource constraints, inadequate infrastructure, and other weaknesses; and the model is widely recognised to have been unsuccessful in Africa, in the absence of programmes to address fundamental structural deficiencies. (See, for example, Oyejide 1997, 2000; Collier 1998; Yeats 1998; Helleiner 1999; ADB 2000; UNECA 2004a; Khandelwal 2004.) For these reasons, functional and development integration models have remained dominant among African proponents of African regionalism.

23 UNECA (2004b).

24 ADB 2006.

*'Full market integration remains an aspiration, its realisation impeded by inadequate production of goods and deficient capacities in transport, communications, and energy.'*

UN Economic Commission for Africa<sup>23</sup>

*'The importance of regional infrastructure development cannot be overemphasised. Transport infrastructure is at the heart of regional integration, as it supports the movement of people and goods across borders. [...] An integrated communications system in the continent will spur growth of trade and finance and reduce production and service costs by enhancing the accessibility and affordability of information, and linking Africa regionally and with the rest of the world.'*

African Ministerial Roundtable on Infrastructure Development and Regional Integration<sup>24</sup>

where trade liberalisation is high on the agenda, liberalising external trade is seen as best coming later in the process, only *'after an [internal] consolidation phase'*.<sup>25</sup>

African governments have continually emphasised that significant increases in financing to invest in all of the above areas will be critical, in order to put in place the basic building blocks for Africa's sustainable development.

It is also recognised by African stakeholders that harmonising policies and reducing non-tariff barriers are a critical part of the regional integration process. African businesses operating at a regional level have repeatedly argued that the main barriers to regional trade – in addition to high transport costs – relate to non-tariff barriers, including customs procedures, red tape and corruption, divergent standards and requirements, import bans, and suspended duties. Recent primary research into private sector perspectives suggested that participation in regional agreements with a trade-liberalisation focus – even fully fledged customs unions like the Southern African Customs Union (SACU) – did not seem to make intra-regional trade easier in a context where these fundamentals had not been addressed.<sup>26</sup>

Finally, it is recognised that in the case of those ambitious regional integration initiatives that do involve trade liberalisation, weaker states will need to be protected from being overwhelmed by the richer countries within a region, whether through variable approaches to tariff liberalisation, subsidiarity principles, or regional development programmes that channel benefits towards poorer countries within a region (all of which are successfully employed by the EU). Without mechanisms for re-balancing the benefits, many governments fear uneven outcomes and loss of sovereignty, which would undermine their level of commitment to regional integration in the first place. Ownership of the process is crucial, just as it was in the EU's tentative steps towards internal integration.

## The EU's versus Africa's priorities

In contrast to African priorities, the approach of the EC to regional integration for former European colonies via EPAs is primarily focused on trade liberalisation and behind-the-border measures such as investment rules and competition policy. While recognising in principle that the above-cited African priorities are also important, the EC does not appear to consider that poor infrastructure, weak human-resource base, or lack of political support should impede the trade and investment liberalisation process from moving ahead. Moreover, even in the limited context of trade and investment policies, the EU's approach is different from Africa's.

25 EU–Africa Business Forum (2006).

26 Charalambides (2005).

27 Ibid.

*'It seems likely that addressing these [non-tariff] barriers may have a bigger impact on regional trade than, per se, establishing a customs union', and 'while establishing a customs union can be an important step towards addressing transaction costs ... less ambitious but properly implemented plans for regional integration would ... better serve the needs of the private sector'.*

Nick Charalambides, 2005<sup>27</sup>

## Different approaches to trade liberalisation

For the EC regional integration in Africa is first and foremost about trade, hence the EC advocates for the speedy conclusion of African customs unions. African stakeholders are also committed to increasing intra-African trade. The UN Economic Commission for Africa (UNECA), for example, considers that *'an effective means by which African countries can increase their share of world trade is through increased intra-African trade'*.<sup>28</sup> But, equally, they stress that trade liberalisation is only one factor among a much broader set of issues, noting that *'regional integration in Africa is not just about trade and market integration'*.<sup>29</sup>

Indeed, there is widespread consensus that the trade-focused model of regional integration has not succeeded in expanding intra-African trade, increasing Africa's share of global trade, or enhancing the region's overall economic growth, given the absence of appropriate infrastructure, human resources, and political support.<sup>30</sup>

While the EU and Africa disagree on the degree of importance to be accorded to trade liberalisation in the first place, they also disagree about how and when trade liberalisation should take place. The EU is guided by a model of 'open regionalism'. Rather than neighbouring countries liberalising trade with one another as they build up regional capacities and regional markets to a certain level – *before* liberalising trade with developed-country trading partners – the open regionalism approach advocates lowering barriers to South–South and North–South trade in tandem. This model derives from the neo-classical economic orthodoxy which holds that protectionism, whether at a national or regional level, is to be avoided because it may encourage inefficiencies, rent-seeking and higher prices for poor consumers. While the EC states that EPAs should promote intra-regional trade between neighbours, in its view this process should not take place behind high common external tariffs, but within moves to progressively dismantle external tariff protection around regional markets along a pre-determined time frame.

African stakeholders, in contrast, favour building regional markets to a certain level *before* liberalising trade with a much more developed bloc such as the EU.

**[As important as the trade component of regional integration may be] 'it cannot serve as a substitute for the other key elements of the agenda, such as the building of regional infrastructure and production'.**

African Union Trade  
Commissioner Elizabeth  
Tankeu, January 2007<sup>31</sup>

Conclusions from the EPA Review, in which public-sector and private-sector stakeholders were interviewed from across the four African EPA regions, called for the EU's efforts to deepen integration:

**'to be guided by Article 35.2 of the Cotonou Agreement, which foresees building regional integration, and by extension the building of regional markets, as a pre-requisite to market opening'.**<sup>32</sup>

28 UNECA (2005b, p. 17).

29 UNECA (2006, p. xv).

30 Oyejide (1997, 2000); Collier (1998); Yeats (1998); Helleiner (1999); ADB (2000); UNECA (2004a); Khandelwal (2004).

31 Statement by Elisabeth Tankeu, AU Commissioner for Trade and Industry, at the Third Extraordinary Session of the Conference of AU Ministers of Trade, 16 January 2007, Addis Ababa, Ethiopia.

32 UNECA (2006a, p.7).

## Open regionalism

Underpinning 'open regionalism' is 'trade creation/ trade diversion' methodology,<sup>33</sup> which is the favoured approach towards measuring overall costs versus benefits that arise when countries enter into Regional Trade Agreements (RTAs).

'Trade creation / trade diversion' methodology measures the effects on overall levels of trade in cases where countries grant preferences to certain countries over others. It is based on the Ricardian theory of 'comparative advantage'. For trade to be optimal, an RTA should lead country A to switch from less efficient sources of imports in favour of whichever countries are producing the desired product most efficiently: this will lead to trade creation. But, if an RTA instead leads country A to import from a less efficient exporter, simply because it originates from a country with which country A has a preferential trade arrangement, this will lead to trade diversion. According to this approach, an RTA is positive overall only if it maximises trade creation and minimises trade diversion.

Advocates of 'open regionalism' argue that a wider trade agreement which includes developed countries like the EU is more likely to result in maximising trade creation and minimising trade diversion than a narrow agreement that is confined to a limited number of developing countries where there are likely to be inefficient producers in a large number of economic sectors. For this reason, the World Bank prefers RTAs that are as wide as possible, with a preference for North-South arrangements, and ideally requiring countries simultaneously to reduce Most Favoured Nation (MFN) tariffs in order to minimise trade diversion.<sup>34</sup>

The EU is a firm believer in this 'open regionalism' approach. It argues that such RTAs help to initiate the process of liberalisation and are therefore a stepping stone – not a stumbling block – on the road towards multilateral liberalisation.

But 'open regionalism' poses potential problems for regional integration. Its approach to the issue of trade creation versus trade diversion applies only to existing comparative advantage, without considering the potential of regional co-operation to overcome obstacles and create new comparative advantages in higher value-added sectors. It neglects the possibility that short-term inefficiencies may be a worthwhile trade-off in order to achieve this.

It also neglects the important role that tariffs have played in the past. The leading economies of the EU developed behind protectionist barriers, as did the USA and later the newly emerging economies. China's take-off in the 1990s was assisted by average tariffs in excess of 30 per cent, while Viet Nam has used import quotas and high tariffs to generate annual growth rates of 8 per cent since the mid-1980s.<sup>35</sup> Since most African countries' economies are too small to support such a strategy nationally, countries may want to negotiate mutual preferences with regional neighbours as part of a regional strategy for diversification and industrialisation. Yet the open regionalist approach would limit the scope for African regions to maintain relatively high common external tariffs as part of such a strategy.

Related to the above, the neo-classical economics underpinning open regionalism is based on econometric techniques such as regression analysis and modelling, which tend to assume a stable external environment when, in fact, national macro-economic conditions and the state of the global economy are variable and have a major impact on outcomes. They also assume perfectly competitive markets with instantaneous adjustment, which do not exist in the real world and in particular in developing countries.<sup>36</sup>

Harmonisation is a further area of disagreement. The EC wants ACP regions to start liberalising their trade with the EU as already formed customs unions, or at least from a 'common starting line'. This would mean that countries within a region – often themselves at varying levels of development and with different sensitive sectors – would be expected to liberalise the same sectors vis à vis the EU at the same speed. The ACP countries take a different view. African (and Caribbean and Pacific) regions have asked for flexible approaches that would allow different countries within a single region to modify their commitments according to their circumstances (a variable geometry used effectively by the EU in its day), as opposed to the single-framework agreements advocated by the EU.

### *Different approaches to investment rules*

The EU and Africa agree that providing an environment conducive for investors is critical to any development strategy, and an essential part of regional integration. But again they differ on the importance of introducing bi-regional *rules* to enhance predictability for foreign investors.

The EC claims that EPAs can add value to African regional integration strategies by locking in bi-regional rules on trade-related issues, including investment, competition, and government procurement, which they believe will provide the necessary incentives – transparency, security, and predictability – for foreign investors. Indeed for the EC, rules on these 'behind the border' issues must be at the core of any EPA in order for it to facilitate regional integration and deliver development. African states themselves have clear aspirations to attract more FDI to support industrialisation and development, as evidenced by the high number of bilateral investment treaties (BITs) in Africa. However, Africans tend to argue that improvements to infrastructure and human resources, as well as the benefits of economies of scale that go with larger market size, will provide the greatest pull factors for investors (whether national, regional, or international). In other words, consolidating regional markets may be good for attracting investment, but investment *rules* are not the main factor.

African private sector actors consistently fail to place investment agreements with the EU near the top of their list of priorities (if they even mention them at all). And as we see below (in 'Claim 3' p40), there is little compelling evidence to suggest that international investors regard the existence or otherwise of such agreements as significant factors determining their decisions about where to invest.

There is also a difference of emphasis on the role of FDI vis à vis national and regional investment. FDI can play a positive role in regional and national development strategies. Yet the EU tends to focus overwhelmingly and uncritically on this potential advantage.

*'In the negotiating sessions the EC has been pressuring the various ACP regional configurations to establish Customs Unions immediately or, at least, to put in place regional arrangements which could take common commitments in all disciplines [...] [this] is not an acceptable approach, nor is it practical in the existing circumstances in most ACP regions.'*

Dame Billie Miller,  
Chair of the ACP Ministerial  
Council, June 2006<sup>37</sup>

*'With sustained development of physical infrastructure, removal of commercial obstacles to free movement of factors and goods, and the harmonisation of monetary, fiscal and financial policies across the region, an expanded regional market is likely to be vastly more attractive to foreign investors than the small national markets.'*

UN Economic Commission  
for Africa 2004<sup>38</sup>

<sup>33</sup> Outlined in Viner (1950).

<sup>34</sup> See, for example, World Bank (2005).

<sup>35</sup> See, for example, Ha-Joon Chang (2005).

<sup>36</sup> See Akyuz (2005).

<sup>37</sup> Dame Miller (June 06), speaking at the Joint Parliamentary Assembly, Vienna.

<sup>38</sup> UNECA (2004b, Section 8 of Highlights).

However, increasingly it is also recognised that FDI – if not appropriately channelled and regulated – can undermine the objective of sustainable, broad-based development, by generating negative spill-overs for labour standards and the environment, by crowding out national and regional investors, and by creating enclave development, disconnected from the wider economy.<sup>39</sup> Bi-regional rules on investment – between countries or regions at very different levels of development – can, at worst, exacerbate these potential disadvantages and restrict government's ability to maximise the benefits. It was with these concerns in mind that most African countries rejected the EU's earlier proposed inclusion of investment rules in the WTO and have been reluctant to include them in EPAs.

Given the major differences between African and EU approaches to African regional integration, it is necessary to identify the approach that is likely to hold the most promise, and to determine what EPAs will or will not do to help. The next sections examine first the successes and failures of African integration to date; and second the EU's approach to its own integration. The final section considers the likely impacts of EPAs.

## AFRICAN INTEGRATION TO DATE: SUCCESSES AND FAILURES

### A brief history

The history of regional integration in Africa dates back to the colonial period and to the supra-national ideals and aspirations of the Pan-African movement, which sought the political and economic emancipation of the continent.<sup>40</sup> Following independence, this ideal was translated into a number of models involving more than twenty economic co-operation arrangements and more than 120 sector-specific organisations, all seeking to promote technical and economic co-operation. These existed alongside three more trade-focused regional-integration entities – the Economic Community of West African States (ECOWAS), the Preferential Trade Area (PTA)/Common Market for Eastern and Southern Africa (COMESA), and the Economic Community of Central African States (ECCAS) – created between 1975 and 1983. The numerous arrangements meant that a large number of countries held multiple memberships, with some countries belonging to as many as 25 different organisations.<sup>41</sup> This was in many respects an over-enthusiastic response to the pan-Africanist ideal. But the intention was, and still is, for these regional economic communities to act as building blocks in a process leading eventually to full continental integration.

<sup>39</sup> See for example UNCTAD (2003, 2005); Rodrik (1999).

<sup>40</sup> Adedeji (2002).

<sup>41</sup> Adedeji (2002), Khandelwal (2004).

The Lagos Plan of Action (LPA, 1980), succeeded by the Abuja Treaty (1994), represented this African vision of regional integration. These treaties are based on the proposition that economic growth will be neither sufficient nor possible without fundamental transformation of African economic and social structures. Both take a comprehensive approach not dissimilar to the EU's conception of its own integration. The LPA seeks African regionalism through mutually interdependent processes, including integration of infrastructure, production structures, and markets; resolution of inter-country conflicts and prevention of acts of political destabilisation; maintenance of stability and security, at both nation-state and inter-country levels; and creating an enabling environment for initiative and enterprise, as well as facilitating cross-border factor movements.<sup>42</sup> Borrowing from the EU's concept of variable geometry, the LPA takes a flexible, pragmatic approach towards strengthening sectoral integration at the national, sub-regional, and regional levels, particularly in the fields of agriculture, transport, communications, industry, and energy, where countries are allowed to opt in or out as appropriate.<sup>43</sup>

The ultimate aspiration is for full continental integration as the African Economic Community. The AEC Treaty provides for the establishment of this continentally integrated community over a number of phases, culminating in 2025. The first phase, 1994–99, focused on strengthening the Regional Economic Communities (RECs) as effective building blocks for the African Economic Community; following this phase, regional communities are supposed to evolve into free trade areas and customs unions, eventually consolidating and culminating in a common market covering the continent.

### The successes

In practice, the more successful African schemes have tended to be those that have focused on practical efforts to improve production, infrastructure, and the provision of public goods, without which trade cannot occur.

Numerous, often self-financed, regional development integration and co-operation arrangements attest to the significance that African countries are increasingly according to their model of regional integration – and the potential of this model. In addition to state-driven arrangements for regional co-operation, there are notable initiatives linking the public and private sectors. For example, successful initiatives, such as the Maputo Development Corridor have maximised the gains from major trade routes to generate spill-over activities in agriculture, industry, commerce, communications and tourism, which in turn enhance intra-regional trade and support broader economic development objectives. Land-locked countries in particular find Development

<sup>42</sup> Adedeji (2002).

<sup>43</sup> OAU (1981).

Corridors useful, because they facilitate improved transport networks as well as more efficient customs operations. According to some estimates<sup>44</sup>, the corridors reduce the lost economic growth due to being land-locked by as much as 1 per cent. Power-sharing schemes, such as the Southern African Power Pool, have provided cost-saving efficiency gains for contiguous countries.

### Power pools

Power pools offer large gains, because each country can meet peak demand while maintaining lower generating capacity, since peak loads do not always coincide. The Southern African Power Pool (SAPP) is the first formal international power pool, and the only functional pool in the developing world.<sup>45</sup> Established in 1995 to address differences in electricity-generating capacities, demand, and prices in southern Africa, it benefits the sub-region by making more efficient use of the available sources of power. This regional co-operation project consists of 12 countries that pool power from three different sources – the Kariba Dam (Zambia), the Inga Dam (DRC), and coal-fired power stations (South Africa) – and distributes it across the sub-region. A feasibility study conducted in 1990–92 estimated that the project would generate a saving of 20 per cent (or \$785 million) over the 1995–2010 period. The SAPP experiment demonstrates that with an effective regional market for electricity, countries need not duplicate investment in capacity and facilities. The Lesotho Highlands Development Project, which supplies water to South Africa and electricity to Lesotho, and the Nile Water Agreements in the Great Lakes Region are other examples of successful regional co-operation projects in the development of shared water resources in East and Southern Africa for the generation of energy and other economic benefits.

### The Maputo Development Corridor

The Maputo Development Corridor links South Africa's industrial heartland of Gauteng with the Mozambican port of Maputo. Established in August 1995, the corridor programme involves upgrading road and rail links between South Africa and Mozambique and dredging the port of Maputo. The Maputo corridor has 180 projects, operating at an estimated cost of US \$7 billion. It has generated numerous spin-offs to both the formal and informal sector economies, including the Mepanda-Unca hydro-electric project on the Zambezi River, to be developed at a cost of US\$ 200 million to supply electricity to Mozambique; and the joint venture involving the electricity utilities of Mozambique, Swaziland, and South Africa to supply power to the new Mozal aluminum plant in Mozambique.<sup>46</sup>

<sup>44</sup> Sachs (1997).

<sup>45</sup> World Bank (1998, 2000b); Oyejide (2000); Cadot et al. (1999); Simuyemba (2000).

<sup>46</sup> Simuyemba (2000).

In addition to such schemes, since 1991, in line with the objectives of the African Economic Community (AEC) Treaty, African governments have been taking steps to deepen regional integration on the continent, through broader-based more ambitious schemes. For example:

- The Economic and Monetary Community of Central Africa (CEMAC) has its own stock exchange, which supports a customs and monetary union comprising Cameroon, Central African Republic, Chad, Congo Brazzaville, and Equatorial Guinea. CEMAC has a common central bank and a common currency, with the CFA franc pegged to the Euro. It is increasingly moving towards fuller economic and monetary integration.
- COMESA is increasingly expanding, not only in terms of its membership (which includes Egypt, for instance) but also in scope: it already sponsors a development bank, banking and insurance institutions, and a court of justice. The group also plans to expand the free trade area, with two to three countries expected to join the 13 current member states by next year.
- The East African Community (EAC) – the earlier incarnation of which collapsed in 1977 – has been revived, has a functioning legislative assembly, and has a timetable for nothing less than full political integration.
- Both ECOWAS and SADC have long had regional security arrangements, which have been credited with successful conflict-mediation efforts in countries such as Liberia, Sierra Leone, Lesotho, the Comoros, and the Democratic Republic of Congo.
- ECOWAS and EAC have both introduced regional passports, a major step towards eliminating barriers to the cross-border movement of citizens.

Certainly African regional integration has adopted gradualist approaches, but these are not unlike those that have characterised regional integration in Europe. From a much less disadvantaged starting point, it has taken the EU close to half a century to reach its current depth and scope.

### The challenges

Notwithstanding the undisputed successes surveyed above, African regional integration has also been characterised by serious challenges and many failed initiatives, which tend to receive more attention from EU policy-makers. While the EU faced – and fifty years into the process continues to face – major obstacles to the difficult process of integration, the challenges confronting African regional integration are even greater.



There is a range of impediments to Africa's regional integration (related to the very characteristics that make its countries 'developing' or 'least developed' in the first place), such as financial and human-resources constraints, poor infrastructure, lack of institutional capacity, and the challenge of policy formulation and harmonisation. These problems reinforce the case for regional integration, and at the same time illustrate what makes regional integration so difficult to achieve.

The African Union Commission and the African Development Bank (ADB) have identified further challenges, which include the following:

- Overlapping memberships of multiple regional economic communities have the effect of spreading resources too thinly, complicating the overall continental integration process, and putting strain on governments' abilities to manage diverse agendas. Rationalising Africa's regional economic communities has consequently become a priority issue for the African Union, supported by the United Nations Economic Commission for Africa, which has a timetable in place for addressing this problem.
- Fears of losing sovereignty and of uneven outcomes, especially where there is a lack of compensatory mechanisms for equitable sharing of the benefits of regional arrangements, have diluted commitment to regional integration in some cases. Without the available resources for compensating weaker states, in the way that the EU has been able to do in its own internal evolution, tensions arise between poorer least developed countries and the more advanced in a political bloc.
- Underlying political instability has severely impeded the acceleration of regional integration in Africa.<sup>47</sup>

In this context, attempts at ambitious levels of economic integration have not tended to live up to expectations.

More pragmatic approaches – such as some of the power-sharing schemes and development corridors described above – have tended to be more successful in the short term, as well as providing a foundation for more ambitious longer-term arrangements. Such pragmatic approaches are usually less conflict-laden, because they tend to provide gains to all parties, thereby not necessitating compensatory claims or mechanisms. They pose little threat to national sovereignty. They are flexible and can involve different sets of countries without necessarily occasioning tensions and inefficiencies as a result of overlapping memberships. And, most importantly, they have helped to facilitate the build-up of critical infrastructure with lower unit costs when provided on a regional basis rather than an individual country basis.<sup>48</sup>

47 African Union (2006); ADB (2000).  
48 Oyejide (2000, p14); Rwegasira (1997).



## The promise

Regional integration in Africa is thus a very dynamic process. Despite the difficulties, there are signs of renewed commitment, combined with a more promising external environment, for instance, the establishment of the African Union – as the successor to the Organisation of African Unity – and the founding of NEPAD (New Partnership for Africa's Development).

Globally, trends towards regionalisation – including South–South trade agreements in Latin America and Asia – are reinforcing African regional aspirations. And at a national level, a number of African countries have undergone fundamental political reforms that bode well for political stability. These factors combined have led many to argue that the prospects for regional integration in Africa are now brighter than ever.<sup>49</sup>

The EU can make important contributions to help Africa to address the challenges to its regional integration process. For example, it could increase its technical and financial support to regional infrastructure and regional development programmes, to a scale on a par with the resources that it has invested in its own regional integration. It could expend greater political capital in the WTO to create an enabling environment that would foster the regional integration process, recognising that it will take many years for Africa, just as it did for the EU itself.

However, despite the rhetoric, EPAs seem unlikely to deliver any of this. Furthermore, as will be shown in Part 2, the EC does not seem to be learning from its own experience, given that its recipe for Africa bears little resemblance to what it did for itself.

49 ADB (2000); Adedeji (2002); African Union (2006).  
50 Forward to UNECA (2004b).

*'[T]he establishment of the Commission of the African Union and agreement on its priorities makes it clear that Africa's leadership is committed to moving forward (...) The resounding commitment of Africa's leadership to regional integration mean that we are now poised to fast track our efforts.'*

Alpha Oumar Konare,  
Chair of the African Union  
Commission<sup>50</sup>

The EU's approach to Africa's regional integration has not been the same approach that it used for its own integration. A brief look at the broad vision of the EU's own regional integration, as well as its complex and lengthy evolution, begs the question of why the EU is proposing for Africa what the EU found inadequate for itself.

### A GRADUALIST AND MULTIFUNCTIONAL APPROACH...

**What the EU did for itself:** *The EU took a gradual approach, integrating over a period of several decades.* Like the African model of regional integration, the EU model is a product of specific historical and political circumstances that have defined its scope, design, and evolution. Starting as the European Coal and Steel Community (ECSC) in 1951, six countries previously at war came together to pool resources and try to build a lasting peace. Gradually, over a period of several decades, what is now the European Union took on new functions, developed its institutional structures, and welcomed new members with the Treaty of Rome in 1957 and subsequent treaties and rounds of accession. Going well beyond merely a trade-integration agreement, the EU has a Parliament, a Court, common policies for agriculture, development and fisheries, a common foreign and security policy, as well as a common market, a single currency, and a Central Bank. With respect to trade, it took 36 years for EU member states to remove barriers to internal trade, turning the 'common market' into a single market in which goods, services, people, and capital can – at least in theory – freely circulate. Even now there remain barriers to trade within the union.

**What the EU expects of Africa:** *The EU reduces African regional integration to a matter of trade and investment liberalisation; and it is setting an unrealistic pace for African regions, asking them to agree to the formation of customs unions to coincide with the externally driven deadline of EPAs.* The Lagos Plan of Action and the African Economic Community Treaty set out a multi-dimensional approach to eventual continental integration, underpinned by common policies and institutions, just as the EU has had. Yet the EU's vision for Africa's regional integration, via EPAs, appears much more restrictive in scope. Even in the limited context of trade liberalisation, the EU is pushing African regions to integrate at a pace that has been described by African officials as 'unworkable' and 'unrealistic'. For example, in the SADC region '[There is a] serious concern that the EU is pushing regional integration too quickly through EPAs, by asking for a Common External Tariff (CET) when countries are not ready for this.'<sup>51</sup>

### FLEXIBLE MEMBERSHIP...

**What the EU did for itself:** *The EU's own membership has always been complex and has evolved over time.* Although the EU did not face the task of having to rationalise membership of pre-existing regional economic communities – as Africa is now trying to do – the EU's membership has certainly not evolved in a straightforward manner. Earlier versions competed with the European Free Trade Area (EFTA), which until 1972 included the United Kingdom, for instance.<sup>52</sup> Not only do EU members join when they are ready, but they are entitled to opt out of certain central measures even after they become members. In addition, just as in the case of many fledgling African regional arrangements, there are fears among EU Member States of losing sovereignty. Such fears partly explain Britain's reluctance to join the euro zone, and the rejection of the EU constitution in France and the Netherlands.

**What the EU expects of Africa:** *The EU expects African countries to make complex decisions about which single regional economic community to join, under pressure of external deadlines.* In Africa the situation is vastly more complex than in the EU, given that many countries are members of several regional economic communities. African countries participating in various processes leading towards the formation of customs unions will soon have to make difficult decisions about which REC to commit to. However, rather than recognising that this is a sensitive political problem, in the words of a senior official from the SADC region, 'the EU is pressuring us to move faster, and we are not happy about this because there are reasons why countries are in the various RECs that they belong to; and countries have a sovereign right to make their own decisions about this.'<sup>53</sup>

### VARIABLE GEOMETRY...

**What the EU did for itself:** *The EU has used variable geometry for itself.* Because EU member states have always disagreed on the pace and manner of deepening integration, the EU has adopted gradualist, flexible, and pragmatic approaches, characterised by the principles of variable geometry and subsidiarity. For example, various members belong not to the monetary union but to the common market and the political union. In addition, different policies have applied to different members: before the creation of the single market, there were differing economic conditions or policies in sectors that countries believed required differing levels of protection, such as the country-by-country quotas under the Multi-Fibre Arrangement, and differing treatment of Japanese car exports.<sup>54</sup>

52 The EFTA was formed in 1960 by seven European states – the UK, Denmark, Norway, Sweden, Austria, Portugal, and Switzerland – that were not then members of the then European Economic Community (EEC). The UK and Denmark left EFTA for the EEC in 1972, Portugal in 1985, and Austria, Sweden, and Finland in 1995.

53 Unattributed remark by senior official within the SADC region, interviewed by Traidcraft in April 2006.

54 Page (2004).

**What the EU expects of Africa:** *The EU wants African regions to adopt simple harmonised approaches, in which countries adopt the same set of commitments from the start. For example, the EC has suggested that the Southern African countries negotiating an EPA as part of SADC should liberalise in respect of EU imports at the same speed as South Africa, a significantly more advanced economy.<sup>55</sup> It has also rejected requests for least-developed countries (LDCs) in the ESA region to be excluded from tariff-reduction commitments, with the assertion that ‘exemption from commitments for LDCs would impair the achievement of the regional integration and development objectives of the agreement.’<sup>56</sup>*

## DEVELOPMENT SUPPORT...

**What the EU did for itself:** The EU recognises the large socio-economic disparities between member states and regions in Europe, and acknowledges that *‘these gaps in wealth and dynamism arise from structural deficiencies in certain key factors for competitiveness such as investment in physical infrastructure, innovation and human resources’.*<sup>57</sup>

In recognition of these internal disparities, the EU balances the trade dimension of its internal relations with a highly effective development dimension. High levels of EU financing have been channelled through regional aid programmes and structural funds to poorer countries and regions. In 2005, regional aid – intended to boost the economies of the poorer members – was the second highest budget item after expenditure on agriculture and rural development.<sup>58</sup> Indeed, the EU’s concern for poorer member states is not unlike Africa’s vision of regional integration embodied in the Lagos Plan of Action, which puts a premium on the plight of least-developed African countries. And of course for many years the EU has had policies to protect farm incomes and stabilise prices.

**What the EU expects of Africa:** The EC argues that European Development Fund (EDF) and aid-for-trade resources will be sufficient to cover the costs of adjustments to EPAs as well as to support regional capacity. But no additional support is available under EPAs for rebalancing potentially uneven outcomes across regions. Moreover, there are fears that while EDF resources are increasingly to be used for implementing EPAs ‘broader programmes for development and regional integration could be sidelined’. (See Claim 4, page 44).<sup>59</sup>

55 EC Staff Working Document, accompanying the Communication from the Commission to the Council, ‘Communication to Modify the Directives for EPA Negotiations with ACP Countries and Regions’, COM 2006 673 final.

56 EC Comments, September 2006, on ESA Draft EPA ‘Trade Cooperation’ chapter.

57 Third Report on Economic and Social Cohesion: ‘Proposals for Regional Policy after 2006’, <http://europa.eu/scadplus/leg/en/lvb/g24007.htm>.

58 In 2005 the EU spent 106.3 billion euros on itself, out of which 46 per cent was spent on aid to farmers and rural development, while 30 per cent went as regional aid to poorer regions (Choudhury 2006). In addition, money from the EU budget and loans from the European Investment Bank (EIB) have been used to improve Europe’s transport infrastructure (for example, to extend the network of motorways and high-speed railways), thus providing better access to outlying regions and boosting trans-European trade.

59 Francis Mangeni, African Union Trade Adviser, speaking at a public meeting hosted by Open Europe in London on 26 March 2007.

## FLEXIBLE TRADE LIBERALISATION...

**What the EU did for itself:** *The EU has benefited from decades of protectionism and has taken a flexible approach to its own liberalisation. Long before the creation of the Community, key European players had – on an individual nation-state basis – used tariffs and other protectionist measures at critical moments in their industrial development during periods of the late nineteenth and early twentieth centuries.<sup>60</sup> From the post-World War II period until the recession of the early 1970s, European trade policy had tended more towards liberalisation (with the notable exception of the Common Agricultural Policy). However, in the 1970s and early 1980s there was a new period of protectionism, largely implemented through non-traditional trade measures, such as quotas – defined at a national level – and ‘voluntary export agreements’ made between national industries.<sup>61</sup> Even now, the EU maintains high tariff peaks and escalation in sensitive product areas, as well as a range of non-tariff barriers.*

**What the EU expects of Africa:** *The EU expects Africa to progressively liberalise without any turning back. Under the EC’s vision of what EPAs would look like, countries will not be permitted to raise tariffs for strategic objectives, as the EU and its member states have done in the past, but permitted only to lower them progressively. For example, a proposal from the ESA region to insert a review clause in their EPA which would allow for tariffs to be raised as well as lowered was rejected by EC negotiators, who stressed that ‘while we are not against well defined review clauses, we think that they should be limited in their scope and mainly aimed at accelerating or extending liberalization’.<sup>62</sup>*

**TABLE 1: SUMMARY OF THE ‘DO AS WE SAY, NOT AS WE DID’ APPROACH**

Elements of Regional Integration	The EU allows for itself	Africa wants or allows for itself	Will EPAs facilitate this?
Gradual and multi-functional approach	•	•	X
Flexible membership	•	•	X
Variable geometry	•	•	X
Development support	•	•	X
Flexible trade liberalisation	•	•	X

In summary, the EU’s progress has been slow and halting and has always retained the flexibility to accommodate economic differences and political sensitivities. Moreover, the EU’s approach to its own integration has always been much broader than mere trade liberalisation and has followed an approach not so different in nature from that to which African governments are themselves aspiring. It is surprising then that such approaches are not part of the EU’s recipe for the ACP.

60 See for example Akyuz (2005, pp.6-7); Wade (1990, p.xv); Chang (2005).

61 Page (2004).

62 EC Comments, September 2006, on ESA Draft EPA, ‘Trade Cooperation’ chapter.

Given African priorities for regional integration, and the lessons that can be drawn from both the European and the African experience to date, the question remains whether EPAs will help or hinder African regional integration.

The section argues that the notion that EPAs will help African regional integration is based upon a series of claims that do not stand up to scrutiny.

### Claim 1: 'EPAs will facilitate African intra-regional trade'

*'The ACP economies are too small to go it alone, and most trade more with Europe than they do with their neighbours. This means that regional integration has potential – joining forces and stepping up economic links. Most ACP countries currently depend on their exports to the EU. Take the case of Ghana: 49 per cent of their exports go to the EU, exports to its neighbour Benin only account for 2.6 per cent. Eliminating barriers between neighbouring countries and creating real integration would favour trade exchanges and boost economic growth.'* (Peter Mandelson<sup>63</sup>)

European Union Trade Commissioner Peter Mandelson regularly argues that enhanced intra-regional trade within ACP regions could be a positive route out of over-dependence on EU markets; and African stakeholders largely agree. It is positive to note therefore that increased intra-regional trade for Africa is not merely an unfulfilled aspiration. Despite the many obstacles, including production weaknesses and human-resource constraints (outlined in the earlier sections), there are signs that intra-African trade has been tentatively on the rise.

- In ECOWAS, while overall trade between the region and the EU is still much more significant in volume, intra-regional trade has been growing steadily, and has not been subject to the wide fluctuations that have affected trade with the EU.<sup>64</sup>
- Intra-regional trade is also increasingly important within the COMESA region, where Kenya, for example, now trades more within the region than it does with the EU.
- The UN Food and Agriculture Organisation argues that while *'intra-regional trade in Africa as a share of total foreign trade has traditionally been low compared to other regions [...] recorded trade underestimates the volume of actual trade and, if proper account was taken of the size of informal trade, the African numbers would not look so out of line. Furthermore there is evidence that the importance of intra-regional trade has been steadily increasing in recent years.'*<sup>65</sup>

*'With an evaluation of the EPA negotiations so far, one would be rightly tempted to ask why our EU partners did not deem it significant to assist Nigeria and her regional brothers to integrate first.'*

Ken Ukaoha, President of National Association of Nigerian Traders<sup>66</sup>

But how will EPAs affect this increasing but still fragile intra-regional trade, when at the heart of EPAs is the obligation to liberalise not only in respect of regional neighbours but *vis à vis* the EU?

A central motivation for negotiating EPAs in the first place is the requirement – in the EC's eyes – to make the trade regime between the EU and ACP WTO-compatible. To achieve this compatibility a more or less reciprocal free trade agreement, compliant with Article 24 of the GATT, must be agreed upon, which would liberalise 'substantially all trade' between the two parties, 'over a reasonable time period'. The EC has tended to interpret 'substantially all trade' to mean 90 per cent of trade, albeit with a willingness to consider asymmetry between the parties – i.e. the EU might agree to liberalise close to 100 per cent, while the ACP could liberalise closer to 80 per cent. The EC also acknowledges the need for transition periods before full liberalisation on the side of the ACP is expected to occur, but has rejected proposals from the ACP to link these transition periods to achievement of development indicators. The EC prefers instead to talk about pre-determined timeframes of little more than twelve years.<sup>67</sup> Such a time-frame stands in stark contrast to the 36 years that the EC – starting from a far more advantageous position – took to liberalise its own internal trade, let alone the much longer periods over which its members maintained barriers to imports from outside the EU. This raises the question: would enhanced trade between countries within a region have time to become established before facing competition from more efficient (and sometimes subsidised) EU imports? In other words, will 'open regionalism' foster intra-ACP trade? The evidence points to the contrary.

The examples below suggest that EPAs – in the form advocated by the EC – will undermine rather than support intra-regional trade. Moreover, they indicate that this is especially the case in precisely those higher value-added sectors that the ACP is seeking to prioritise, and which the EC claims that EPAs are designed to promote. Early trends towards increased regional trade look set to be undermined by EPAs, for three reasons:

1. EU imports are likely to displace regional production and intra-regional trade, especially in higher value-added sectors.
2. The types of rules of origin (ROOs) that the EU adopts in relation to ACP imports will affect the ACP countries' ability or otherwise to undertake transborder regional production.
3. ACP countries are likely to become more defensive in their relationships with each other, in an attempt to avoid trans-shipped EU goods arriving in their markets.

These points are explored in turn.

*'Unless there are clear mitigating measures, the EPA could seriously undermine the gains that have been achieved so far in the integration process of the [COMESA] region.'*

Hakim Ben Hamouda, UNECA<sup>68</sup>

63 'Economic Partnership Agreements: Questions and Answers – Brussels', 19 October 2006, [http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc\\_130678.pdf](http://trade.ec.europa.eu/doclib/docs/2006/october/tradoc_130678.pdf)

64 UNECA (2005c, pp.18-20).

65 Matthews (2003, Chapter 6).

66 'This Day', Opinion, 16 May 2006, Abuja.

67 As recently as February 2007, Commissioner Mandelson told a delegation of UK Members of Parliament that transition periods would probably be 12 years.

68 Hamouda et al (2006, p.30).

## EPAs to displace regional production and regional trade

In a situation in which production capacities and outputs are limited, and in which transport and energy links and human resources are weak, the EU's 'open regionalism' approach risks undermining regional production and trade before they have become fully established. This is especially the case in a situation where EU subsidies remain untouched and beyond the scope of the EPA negotiations.

### **Threatening value-addition for regional markets – the case of the Swazi sugar sector**<sup>69</sup>

The case of the sugar sector in **Swaziland** provides an example of how a free trade agreement with the EU is already undermining the development of the regional market for value-added sugar products in Southern Africa.

Swaziland's major source of export earnings comes from sugar and sugar-containing products sold to the EU and to regional markets. Swaziland has been a major beneficiary of EU preferences under the sugar protocol, which traditionally provided a guaranteed market and artificially high price for Swazi raw-sugar exports. The Swazi sugar sector has fully exploited this opportunity, while at the same time diversifying into value-added white sugar and sugar-containing products for the regional SACU market.<sup>70</sup>

From the mid-1980s, a policy was adopted to encourage the location of sugar-based value-added processing industries in Swaziland, to serve the wider SACU market. Manufacturers of sweets, chocolates, and soft drinks, such as Sugar Daddy and Bromer, provided increased employment in the sector as well as supporting the development of the sugar value chain to include the higher-value end. Refining and packing of white sugar for the South African market also expanded.

Fostering this diversification towards value-added sugar products for the regional market makes sense for Swaziland, for various reasons. First, it provides an important step on the development ladder and a route out of dependency on raw-commodity exports. Second, Swaziland is a low-cost sugar producer at the field level, but as a land-locked country it faces high freight and handling charges, which increase the costs of exporting to international markets. Exporting to neighbouring markets rather than farther afield reduces these costs. Third, a regional focus is viable because there is scope for growth in the SACU market, particularly in the

*'One may wonder whether the EPA process will help the SADC to foster its integration, as claimed by the European Union, or whether, on the contrary, it will compete with the regional integration process by reinforcing the economic linkages of the sub-region with the EU, to the detriment of the local partnership.'*

UNECA SADC review<sup>71</sup>

area of sugar-containing products.<sup>72</sup> Finally, EU sugar-trade reform is rapidly leading to much-reduced prices for Swazi sugar exports to the EU market,<sup>73</sup> so in the face of this changing market reality the need to foster regional markets has become even more critical.

The Trade Development and Cooperation Agreement (TDCA) between the EU and South Africa risks undermining this strategy of diversification to regional markets, as it systematically dismantles tariffs on processed sugar and sugar-containing products entering the region.<sup>74</sup> The closure of the Swazi-based Bromer soft-drinks factory in 2002 was partly attributed to the expectation of increased EU imports as a consequence of the TDCA, combined with the impact of EU sugar reform. Unless Swaziland and the other countries within SACU can successfully push for a re-negotiation of the tariff schedules in the TDCA, there is a very real threat that the regional market within SACU could be captured by EU imports, rather than Southern African companies providing jobs and other linkages to the domestic and regional economies. The EC has already said that it opposes 'as a matter of principle' any such renegotiation of tariffs,<sup>75</sup> an approach which could have hugely damaging consequences for regional production and trade in processed sugar products.

In this context, Swaziland's sugar sector could become locked into supplying raw sugar to the world market at prices lower than those that it received under the EU sugar protocol, and without the benefits to be gained from domestic value addition. As we see below, EPAs look likely to bring more of the same.

### **Reciprocity and regional integration pull in opposite directions**

Calculations made by the United Nations Commission for Africa (UNECA) estimate that a reciprocal EPA<sup>76</sup> would severely reduce intra-regional trade, at the expense of ACP countries' trade balance and their producers, and to the benefit of EU exporters. UNECA's predictions include the following:

72 SACU encompasses a market of 51 million consumers, the bulk of whom are part of an economy enjoying a 4.5 per cent growth rate. In the SACU market, 66 per cent of sugar is consumed directly as sugar, and only 34 per cent indirectly in food and drink products; this is the opposite of the consumption profile in a developed market like the EU, where 70 per cent of sugar is consumed in the form of sugar in food and drink products. It is predicted that economic growth in South Africa will cause the consumption profile to become increasingly like that of a developed country, in which case the main growth in per capita consumption of sugar will come from increased consumption of sugar-containing food and drink products. See Goodison (2006a).

73 From 2006 a 36 per cent reduction in the EU sugar price paid to ACP sugar suppliers is being introduced over a four-year period.

74 By 2008, import duties on sweets and chocolates imported from the EU will be halved, and by 2012 they will be completely eliminated, with no corresponding EU commitment.

75 Communication from the European Commission to the Council, 'Communication to Modify the Directives of Economic Partnership Agreements with ACP Countries and Regions', SEC (2006) 1427, Brussels, 28.11.06.

76 The scenario for a 'reciprocal EPA' involves full reciprocity based upon the current level of access to EU markets; this scenario assesses the implications of the EPAs in case Sub-Saharan Africa would apply the same preferential treatment to the European Union as that from which it currently benefits from the European Union.

77 Interviewed by Paul Goodison, July 2006.

*'We need to nurture the development of our regional markets for sugar products, so that in Swaziland we can more fully exploit our low production costs at the field level [...] and with declining prices on the EU sugar market the future development of the southern African regional market for sugar products will take on even greater importance.'*

Dr Michael Matsebula, Chief Executive of the Swaziland Sugar Association<sup>77</sup>

69 Goodison (2006a).

70 In Swaziland, 220,000 tonnes of white sugar was produced for the SACU market in 2004, up from 148,812 tonnes in 2002. Regional trade in sugar is not only important to Swaziland, but also significant for a number of countries in the Southern African region, including Zimbabwe and Zambia. In 2004, intra-regional traded sugar accounted for 11 per cent of the sugar production in the region. See Goodison (2006a).

71 UNECA (2006a).

- COMESA countries would lose US\$ 242 million through a 5.8 per cent decline in intra-regional trade,<sup>78</sup> while the EU would earn more than US\$ 1,152 million through an increase in its exports to COMESA countries.<sup>79</sup>
- ECOWAS countries would see net trade diversion amounting to US\$ 365 million, of which US\$ 35.6 million represents forgone exports from ECOWAS countries to the rest of the region. Of this total, Ghana would face the greatest losses in exports (approximately US\$ 23 million), while Nigeria would lose US\$ 4.5 million, Burkina Faso US\$ 2.9 million, Benin US\$ 2.7 million, Côte d'Ivoire US\$ 1.8 million, and Mauritania US\$ 250,000.<sup>80</sup>
- Imports from the EU to Burkina Faso would increase by about \$US 40 million – about 8 per cent, compared with current levels – while Burkina Faso's exports to other West African countries could experience an overall decline of more than \$US 2 million or 6 per cent of the country's current exports to the region.<sup>81</sup>
- Elimination of tariffs on 80 per cent of the ACP's trade with the EU would displace up to 22 per cent of growth of the ACPs' own regional trade.<sup>82</sup>

UNECA concludes that 'sub-Saharan Africa's industrial sectors could significantly decline'.<sup>83</sup> Even when other scenarios involving lesser degrees of reciprocity are tested, the overall conclusion is that 'the two principles of reciprocity and deeper regional integration are likely to pull in different directions'.<sup>84</sup>

UNECA predicts that the contraction of intra-regional trade will be 'more pronounced in the sectors that are seen as the bases of industrialization, namely, low- and medium-technology industries; heavy industries; and clothing and textiles'.

### The case of Rwanda

According to a UNECA study, for Rwanda EPAs will mean further entrenchment in a dependence upon agricultural commodities destined for EU markets, and its potential to industrialise will be undermined. Other countries in the region would also suffer as a result of increased EU imports of industrial goods into Rwanda, as the 'EU's share of exports to Rwanda would increase from 27.4 to 32.2 per cent to the detriment of other partners of Rwanda' (p.5). It is predicted that this will be particularly the case 'in the low-technology sectors, which are potentially good foundations for deepened regional integration based on trade in industrial goods' (p.viii), for example products imported from the EU relating to vehicles, electrical machinery, and textiles, which are all sectors that Rwanda and its COMESA partners have the potential to develop. The study concludes that this threatens to 'weaken regional integration efforts, as COMESA countries are significantly losing from the agreement to the benefit of the EU countries (especially Belgium, France, Germany and Netherlands)' (p.6).<sup>85</sup>

### The case of Kenya

Kenya also stands to lose from the capture of regional trade by the EU. It trades extensively with East African Community (EAC) partners Tanzania and Uganda, as well as with other COMESA countries. Strengthening its trade in regional markets is a major plank of Kenya's development strategy, and there is already a base of regional trade, particularly in light-industry products including small electrical equipment, car spare parts, processed petroleum oils, plastics and rubber products, pharmaceuticals, food, beverages and metal. Indeed, the regional market is more important than the EU market for Kenya's exports of manufactured exports: in 2003, 67 per cent of its manufactured exports (excluding agro-processed products) went to the COMESA market, compared with 9 per cent to EU markets. Kenya's government research office, KIPPRA, estimates a 15 per cent loss in Kenya's regional trade under an EPA and concludes not only that 'the EU stands to gain significantly in terms of expanded trade into EAC/COMESA', but also that 'with manufacture a large part of Kenya's exports to the region, this will undermine the country's trade in value-added goods and increase dependence on primary exports, narrow the range of products that Kenya currently trades in as well as the diversity of its trading partners'.<sup>86</sup>

78 UNECA (2005b, p.27).

79 Ibid, p.24.

80 UNECA (2005c, pp.44-5). In total, the 25 EU countries could gain increased exports to ECOWAS countries worth more than US\$ 1.87 billion. The largest gainer would be France (26 per cent of the additional exports, at just under US\$ 500 million of increased exports), followed by the UK (almost 17 per cent of total export gains). Together, these two countries plus Germany (15.5 per cent), Italy (11.4 per cent), and Belgium (9.7 per cent) should reap more than 80 per cent of the increased exports to ECOWAS. (See p.40 of the same article.).

81 Ibid, Annex, p.64.

82 UNECA; 'Are the EPAs a first best option for ACP countries?', *Journal of World Trade* available at [www.acp-eu-trade.org/library/files/Perez\\_EN\\_0306\\_UNECA\\_Are-EPAs-a-First-best-Optimum-for-ACP-countries.pdf](http://www.acp-eu-trade.org/library/files/Perez_EN_0306_UNECA_Are-EPAs-a-First-best-Optimum-for-ACP-countries.pdf)

83 UNECA (2005c, p.34).

84 Ibid., p.55.

85 UNECA (2005).

86 Mwegu (2005).

UNECA has concluded that it is only in a scenario where countries liberalise trade with one another *without* liberalising their trade with the EU that they have a chance of building their regional markets. UNECA calculates that eventual liberalisation towards the EU would have to be at the level of no more than 60 per cent of trade, if intra-regional trade – and especially intra-regional trade in the higher-value products – is to be enhanced rather than undermined. However, this is difficult to reconcile with the ‘substantially all trade’ requirement of Article 24, which underpins the EPA negotiations. The EC has been unclear about the actual per centage of trade that would ultimately be expected – citing different numbers on different occasions – but has never been willing to contemplate anything close to 60 per cent for the ACP. So, this discrepancy between what is needed to enable intra-regional trade to flourish and what the EC is willing to accept in an EPA presents the first serious concern.

### EU defensiveness to undermine regional value-addition

Further, there is a serious question about whether the rules of origin (ROOs) regime adopted by the EU – in relation to ACP imports coming into the EU – will be designed in a manner that allows for regional cumulation and therefore fosters cross-border production arrangements. ACP and EU member states have long been awaiting clarity from the EC on this issue, which even at this late stage in the negotiations remains highly uncertain. Meanwhile, however, a recent EC proposal on how the SADC EPA should be treated and the role of ROOs<sup>87</sup> gives cause for alarm, as it appears to place a higher priority on EU defensive concerns than on promoting regional integration in SADC. The EC’s proposal for SADC advocates a tightening of ROOs on products coming into the EU from the region, in order to accommodate EU defensive concerns about imports from South Africa. The EU would differentiate between its offers of market access to South Africa on the one hand and to Botswana, Namibia, Lesotho, and Swaziland (BNLS) on the other, by applying differentiated tariff schedules, backed up by strict ROOs. This presents a risk that ROOs guarding against trans-shipment of South African goods into the EU would also undermine BNLS exports of products that contain South African inputs. If this was the case, it would severely limit value-addition within the region.

For example, Lesotho and Swaziland’s textile sectors use mixed fibres from South Africa; Botswana and Namibia use cattle born in South Africa for rearing and slaughter for export to the EU; a canning plant in Lesotho uses asparagus grown in a neighbouring province in South Africa, in order to achieve economies of scale. Such trans-border production arrangements become increasingly

87 EC Staff Working Document, accompanying document to the Communication from the Commission to the Council, ‘Communication to Modify the Directives for EPA Negotiations with ACP Countries and Regions’, COM 2006 673 final, Paragraph 11.

important in processed-food sectors, where the volumes that cannot be achieved without trans-border production are necessary in order to reduce unit costs of compliance with food-safety standards.<sup>88</sup>

If the EC’s current proposal is accepted, it will provide a further example of how EPA negotiations are doing more to thwart than to help regional initiatives towards industrialisation.

### EPAs to create segmentation within regions

A further problem arises in terms of relations between regional neighbours as a consequence of EPAs. Research on the likely effect of EPAs on regionalism concludes that ACP countries ‘*may be encouraged to reinforce rather than eliminate barriers to the free circulation of goods between them*’.<sup>89</sup> There are a number of reasons why this seems likely to occur.

- First, EPAs are provoking various kinds of regional re-alignment that could result in an increased level of defensiveness between neighbours. For example, there could be a split between those countries within a region that decide against signing an EPA and other countries within the same region that decide to enter into an EPA. In this scenario, those opting out of the EPA risk facing knock-on effects from EU imports entering their markets via their regional neighbour. If, say, Uganda opted out of an EPA but Kenya opted in, Uganda would face EU imports coming in via Kenya. Uganda could avoid this trans-shipment effect in one of two ways. It could opt out of the East African Community, which would undermine an existing far-reaching and promising regional integration process. Alternatively, it could put in place extra procedures to prevent transshipment via Kenya, which ODI predicts would in turn ‘*tend to make even harder the task of reducing the barriers to intra-regional trade*’.<sup>90</sup>
- ODI further predicts that this problem could be compounded in relation to rules of origin, which could ‘*become a greater barrier if different rules apply to EU originating and regionally originating goods*’, with the possibility that these barriers may ‘*in turn, impact on investment*’.<sup>91</sup>
- Moreover, this regional fragmentation is likely to be even further exacerbated in a situation in which countries within a single region have different or incompatible product lines that they are seeking to protect within EPA flexibilities. ODI simulations suggest that there is very little natural overlap between the product lines that countries within regions are seeking to protect. In all cases, apart from ESA, more than half (and as much as 92 per cent in the case of West Africa) of the

88 Goodison (2006b).  
89 Stevens (2005, p.1).  
90 Ibid., p.4.  
91 Ibid., p.4.

products included in any one country's basket of exclusions would be absent from the exclusion lists of all its partners.<sup>92</sup> This means that when regions have to make decisions about which product lines to exclude from liberalisation, they face a difficult choice. They can strive to harmonise their incompatible product lines at a regional level – as the EC is pushing for, with its preference for single starting lines – before they are necessarily ready to do so. Alternatively, as some regions are proposing, they could adopt separate tariff-liberalisation schedules, but again – even if the EC will agree to it – this would mean putting in place burdensome border controls to guard against trans-shipment.

Rigorous border procedures are just the kinds of impediment that private-sector actors operating in Africa identify as being the main obstacle to regional trade.<sup>93</sup> ODI's research suggests that EPAs will make this particular obstacle to intra-regional trade worse, not better.

Declining intra-regional trade flows, increased defensiveness between neighbouring countries, and rigid rules of origin that undermine cross-regional production hardly sit well alongside the EC claim that EPAs will promote regional integration.

### Claim 2: 'EPAs will help to address the problem of Africa's overlapping memberships'

While the EC regularly points out the importance of the ACP countries 'owning' their trade and development policies, through EPAs it implicitly maintains that external pressure can provide a useful impetus towards necessary policy reform. In recognition of the fact that Africa's overlapping memberships of multiple regional economic communities (RECs) present a problem for Africa's regional integration, the EC suggests that the EPA process is at the very least providing the momentum to resolve this issue. Yet once again, it is not clear what added value EPAs are bringing to the process. Indeed, experience from ACP regions suggests that EPAs are making matters worse.

### Why are African countries members of multiple RECs?

As noted in Section 1, multiple RECs were established after Independence, in keeping with an overall enthusiasm for eventual continent-wide integration, towards which the RECs were intended to be stepping-stones. In addition to this long-term objective of pan-African unity, different RECs were introduced as practical responses to a variety of objectives, and on the basis of existing political ties and feasibility. In Southern Africa, for example, development of regional arrangements tended to reflect a political and security motive in the struggle against

<sup>92</sup> Ibid., p.7.

<sup>93</sup> See Charalambides (2005).

<sup>94</sup> Stevens, op. cit., p.12.

*'All in all, the outlook for EPAs to support regionalism is not good'.*

Stevens, 2005<sup>94</sup>

apartheid in South Africa; in this case, the political agenda was more important than the trade aspect. Many RECs prioritised co-operation on functional programmes, such as the kinds of initiatives described above (see Section 1: African integration to date).

Over time, many RECs have tended to adopt a stronger focus on trade than previously, but still other objectives beyond trade have remained firmly on the agenda of most RECs.<sup>95</sup> Of those interviewed in a recent African Union-led survey, half cited political and strategic reasons as the main determinants of the decision whether or not to join a REC, with economic interests ranked second in importance.<sup>96</sup> Countries have often elected to join a number of RECs, because different RECs bring different benefits.

Nevertheless, particularly as RECs have become more closely focused on trade, overlapping membership has increasingly become a recognised problem.

### African countries addressing the problem themselves

African governments themselves concede that these overlapping memberships reduce the effectiveness of many of their regional arrangements and organisations, as a result of high transaction costs, burdensome layers of complexity, and limited resources, related to – for example – complex rules of origin and multiple membership fees.<sup>97</sup> Since African leaders have recognised some of these limitations, they are increasingly committed to solving them.

The First Conference of African Ministers of Economic Integration (AU 2006) initiated a number of measures aimed at rationalising membership of RECs. As a result, the African Union and the main RECs have adopted a protocol that paves the way for rationalising regional integration at a continental level, the objective being to promote closer co-operation among RECs, particularly through co-ordinating and harmonising policies, programmes, and activities.

Discussions with African stakeholders suggest that the key to resolving the issue of overlapping membership is likely to be the creation of more broad-based regional integration arrangements that incorporate the multiple objectives currently sought separately by the various regional bodies in Africa. However, this is a deeply political process which requires a high degree of flexibility, sensitivity, and pragmatism, such as that which characterises the AU approach, as well as the EU's own integration process. The AU stresses that *'the rationalisation process will have*

*'Countries are members of different RECs for different purposes. One regional organisation may offer regional co-operation instruments, such as a common watershed management policy or common power-pool ... while another REC will offer economic co-operation instruments such as an FTA, regional competition policy, harmonisation of external tariffs leading to a CET, etc.'*

Nick Charalambides<sup>98</sup>

<sup>95</sup> As noted in footnote 30 trade-focused integration arrangements have tended to be unsuccessful in cases where the production and infrastructure pre-requisites are absent, which is why there remains a tension between the momentum towards customs unions and the recognition that it will not work unless production capacities are extensively overhauled.

<sup>96</sup> UNECA (2006b, p.xvii).

<sup>97</sup> African Union (2006).

<sup>98</sup> Charalambides (2005, p.2).

to address national sovereignty because member countries may not be prepared to cede powers to a supranational body for fear of losing independence', noting that it must be 'realistic and embraced by all the RECs. It must take into account the multiple agreements that already exist. All RECs must be considered full partners in the rationalisation process.'<sup>99</sup>

The rationalisation of overlapping memberships purely for trade-integration purposes – and according to an externally imposed timetable – is unlikely to solve the problem, given that regional integration in Africa is motivated by more factors than simply trade concerns.

### Putting the problem in perspective

In his research with the private sector in Africa, Nick Charalambides concludes that the urgent drive to establish customs unions is elevating the issue of overlapping membership into a greater problem than necessary. According to his research, the priorities of the private sector are elimination of non-tariff barriers to trade, in particular overcoming red tape, policy uncertainty, corruption, discriminatory taxes, temporary bans, divergence in standards and requirements, non-payments or late payments, and lack of financial services. He stresses that most of these constraints and impediments could be addressed by measures that do not technically require the establishment of a customs union. Rather, 'less ambitious but properly implemented plans for regional integration would better serve the needs of the private sector. Furthermore, the problem of overlapping membership that so occupies policy circles does not prevent many of the priority needs of the private sector being addressed.'<sup>100</sup>

Yet the EC is pushing for customs unions in Africa to be concluded as soon as possible, as the top priority. This begs the question of whether this external push will compromise the process that African governments have already worked out for resolving their own overlapping memberships at a feasible pace and in a politically sensitive manner.

### EPAs exacerbating the problem

'The drama being played out over EPAs is providing an example of what happens if an external power tries to force the pace of change in other countries. There already exists a strong literature on such leverage at a country level ... but the EPA illustration will be at a regional level.' (Stevens, 2005, p.11)

The signals were a cause for concern from the start. It was the EC that insisted upon dividing Africa into four sub-regions for EPA negotiations. This immediately presented problems, because it created entirely new regional groupings that are inconsistent with existing African economic and political blocs, adding a further

*'[T]he whole argument of regional integration boils down to one thing: you established the Customs Union simply because that will provide the basis for them to start liberalising trade with the European Union, and that is not on. [...] Our configuration is based on our political choices. In Africa we put our configuration in the wider context of the integration of the African continent [...] which has a wider perspective than the narrow perspective of regional integration which the Commission seems to be advocating.'*

Ambassador Gunessee of Mauritius, October 2006

layer of complexity. Moreover, there is a risk that this further entrenches the hub and spoke effects of African regions' greater focus on the EU than on intra-African exchanges. This is particularly unhelpful, given that Africa's objective is pan-African integration, under the African Economic Community.

The position was further complicated by the fact that the EU had already negotiated agreements with two countries which are lead members of COMESA and SADC (Egypt in COMESA and South Africa in the SADC), depriving these regions of their two most experienced negotiating members, and further splintering the regions.

The case of the bilateral agreement between the EU and South Africa is the most extreme example of EU choices splintering rather than supporting African regional integration initiatives. In the lead-up to the signing of the Cotonou Agreement, South Africa, as a member of the Southern African Customs Union (SACU) and the broader SADC configuration, had wanted to negotiate its trade relations with the EU as part of that region's EPA.<sup>101</sup> At the time the EU rejected this request, pushing instead for a bilateral agreement with South Africa (the Trade Development and Co-operation Agreement [TDCA]), involving commitments from South Africa to liberalise as much as 86 per cent of trade. This prior negotiation of a bilateral trade agreement with South Africa has presented problems for the four ACP countries that were already part of SACU. These countries – Botswana, Namibia, Lesotho, and Swaziland (BNLS) – have found themselves in a de facto customs union with the European Union – via South Africa – which they did not choose and were not consulted about. As a consequence, the BNLS countries, along with the remaining three countries negotiating an EPA as SADC – Mozambique, Angola, and Tanzania (MAT) – face the prospect of accepting the tariff-reduction schedules previously negotiated by South Africa, in their SADC EPA. This unwelcome prospect has fragmented the region, as different groups of countries understandably break off into different groups in order to protect their own interests.

On one side Mozambique, Angola, and Tanzania – all LDCs – are now seeking to opt out of all liberalisation commitments under an EPA, which would place them in a different trade arrangement from their fellow SADC members, Botswana, Namibia, Lesotho and Swaziland. The EC has objected to this proposal, pointing out that 'these countries should not be aside of the EPA negotiating process, as it would lead to further fragmentation of the region, rather than fostering regional integration, which is a core EPA objective'<sup>102</sup> – a rather ironic observation, given the EC's role in forcing these countries into such a dilemma in the first place.

*'[T]he EU's request for Africa to divide into groups to negotiate (EPAs) ... does little to help Africa co-ordinate its trade policies – thereby reinforcing the legacy of our colonial economic relationships.'*

Trevor Manuel, South African Minister of Finance<sup>103</sup>

<sup>99</sup> UNECA (2006b,p.xxiii).

<sup>100</sup> Charalambides (2005, p.20).

<sup>101</sup> According to private conversations with Southern Africa officials, conducted by Traidcraft, April 2006.

<sup>102</sup> Communication from the Commission to the Council: 'Communication to modify directives...', SEC(2006)1427.

<sup>103</sup> From a lecture delivered at the University of Sussex, 2 December 2004, quoted in Melber (2005).

Another group of SADC countries – Zambia, Zimbabwe, Malawi, and Mauritius – are split off from SADC, having made the difficult decision to negotiate their EPA as part of the ESA region. In the case of Zambia and Zimbabwe, these countries are reported to have elected this route precisely because they feared being subjected to previously-negotiated liberalisation commitments, as part of SADC, at a faster rate than they would hope to negotiate as ESA. Such decisions are defensive ones, rather than necessarily reflective of countries' long-term strategic best interests.

It is very difficult to see how SADC's own Trade Protocol and its own Regional Indicative Strategic Development Plan can be followed through in such a fragmented context, let alone how it can maintain commitment to its much broader remit of regional development co-operation, which has been successful in SADC in the past. Moreover, the splintering of SADC could have a negative impact on existing programmes of regional co-operation, such as the Maputo Development Corridor, Lubumbo Spatial Development Initiative, and Southern African Power Pool. (See boxes on p20)

The prospect of LDCs and non-LDCs being party to the same terms in a free trade agreement with the EU is also highly problematic and potentially divisive.

Given this picture, it is no wonder that the potential impact of EPAs upon regional alignments has been described as having *'considerable destructive potential'*.<sup>104</sup>

### Claim 3: 'EPAs will bring the investment necessary for African regional integration'

The European Commission maintains that the introduction of bi-regional rules on behind-the-border issues, including investment, competition, and government procurement, will facilitate regional integration for African regions. However, there is scant evidence that investment treaties actually attract investment, let alone foster regional integration. The evidence tends to point to a reverse causality, i.e. that regional integration – where it is focused on improvements to production and infrastructure, combined with the economy-of-scale benefits of larger markets – will attract investment, rather than investment rules themselves being likely to attract investment for regional integration. So long as the EC continues to insist upon inserting investment treaties at the heart of EPAs, these agreements again appear to present more problems than they solve.

### Investment rules not the main draw for investment

The evidence that bi-regional rules on investment have a significant positive impact is mixed. A 2003 World Bank study argued that *'countries that had concluded a Bilateral Investment*

<sup>104</sup> Stevens (2005, p.2).

*Treaty (BIT) were no more likely to receive additional FDI than were countries without such a pact'*.<sup>105</sup> Brazil is one of the main recipients of FDI, yet it has not ratified a single bilateral investment treaty, while African countries have a total of 600 BITS between them – yet the continent has had difficulties in attracting FDI.<sup>106</sup> UNCTAD has drawn similar conclusions in relation to the weak correlation between the existence or otherwise of investment treaties and FDI flows.<sup>107</sup>

It is difficult to see how investment rules in the context of an EPA will bring about a notably different impact. On the contrary, as UNCTAD also argues, *'the idea that making life easier for TNCs ... is what attracts FDI runs the risk of downplaying more important structural determinants such as income level and market size, growth prospects, technological capacities, infrastructure provision and degree of diversification'*. UNCTAD goes on to argue that *'Africa attracts about as much FDI as is to be expected given its structural conditions'*.<sup>108</sup> These structural determinants, which are of the highest importance to ACP countries, are also generally identified by private-sector actors as being of far greater significance than the existence of 'rules' (if indeed they mention rules at all).<sup>109</sup>

### The EC's investment agreements could undermine development

In addition to scant evidence that investment rules attract investment, there are major concerns about the ways in which the rules proposed by the EU could restrict the scope of governments to channel investment in pro-development directions.<sup>110</sup> Because of these concerns, ACP governments and informed citizens have been understandably wary about agreeing binding rules in these areas.

Regardless, the EC has adamantly insisted on including in EPAs the kinds of rules on investment, competition, and government procurement that they previously failed to get inserted into the WTO. (At the WTO Ministerial in Cancun, these rules were roundly rejected by a majority of ACP and other developing countries.) For example, the EC is aggressively advocating a particular framework of rules to govern investment on a 'non-discriminatory' basis that would include the following obligations, among others:

- (a) National governments would be prohibited from discriminating against foreign investors in favour of domestic

<sup>105</sup> World Bank (2003, p.129).

<sup>106</sup> Hallward-Driemeier (2003).

<sup>107</sup> UNCTAD (2006).

<sup>108</sup> Ibid., pp.64-5.

<sup>109</sup> See for example Charalambides (2005), in which customs procedures, red tape, and divergence of standards was identified by the private sector as key concerns (among others), but the existence or otherwise of investment treaties is not mentioned at all. See also EU-Africa Business Forum (2006), in which the working group identifies structural challenges such as poor infrastructure and production capacities as the most important obstacles to be tackled in order to attract investment.

<sup>110</sup> See for example Christian Aid (2006); UNCTAD (2006).

*'On the issues of investment policy, competition policy and government procurement [...] we reaffirm that these issues be kept outside the ambit of EPA negotiations. We specify that regional instruments can be developed for the sole mutual benefit of Member States of regional groupings.'*

African Union Ministers of Trade, Nairobi Declaration on EPAs, April 2006

*'Building successful regional markets is of course about much more than just harmonising tariffs. To attract investors you need clear rules; legal security and transparent frameworks.'*

Peter Mandelson, European Parliament, Brussels, October 2006

or regional firms, at the pre-establishment level. This would undermine the scope for a government to deliberately select investors from within the region to fulfil particular contracts, as part of a regional co-operation strategy.

- (b) Once established in a country, national governments would be obliged to offer foreign investors 'national treatment', which would reduce their power to oblige investors to satisfy certain performance requirements, such as promotion of technology diffusion, sourcing inputs from local or regional firms, training of local staff, and so on. It would also curtail government's scope for imposing limits on the activities of foreign investors, in order to protect environmental and labour standards for example.

The rules that the EC is seeking to get adopted in EPAs would undermine governments' ability to regulate and direct investment in ways that would ensure that they contributed to development rather than undermining it. Such arrangements would also undermine governments' scope for prioritising regional investors as part of their regional integration strategies, or indeed investors from other African regions as part of the process of continental integration.<sup>111</sup>

### African governments' own proposals for attracting investment

While ACP governments may be reluctant to enter into the kinds of investment treaty that the EC is proposing, this does not mean that they are 'anti-investment'. Nor does it mean that they are necessarily averse to different types of investment policy that may indeed be useful in a national and regional context.

For example, ACP governments do tend to see the advantages of harmonising policies on investment and competition into regional frameworks. In the context of endeavouring to strengthen regional markets, harmonisation of regulations at a regional level will reduce transaction costs for businesses operating within the region (whether domestic, regional, or international) and thus promote the smoother and more efficient running of intra-regional trade.<sup>112</sup> This was an important part of the East Asian development experience. Regional co-ordination of policies governing investment can also prevent a 'race to the bottom' for incentives and standards in countries competing to attract investors.<sup>113</sup>

*'New generation trade issues would pose serious policy challenges, as SADC has no common policies in these areas. Negotiating these subjects under such conditions runs the risk of delivering unbalanced outcomes that may be prejudicial to national development objectives and to prospects for deeper integration in SADC.'*

SADC submission to ACP Working Party, 2006<sup>114</sup>

Harmonisation of rules at a regional level into a regional framework is perfectly possible without negotiating binding rules on a bi-regional basis with the EU, although the EC consistently obscures this distinction. And conversely, it is increasingly recognised that entering into bi-regional obligations with a much more developed economic bloc such as the EU, before regional frameworks are in place, could risk crowding out regional investors and hence undermine regional integration.

Given this risk, ACP regions may be better off concentrating on developing these regional frameworks and putting in place arrangements that promote intra-regional FDI flows. In this case, the most appropriate forms of assistance from the EU would be technical assistance in establishing such regional frameworks; and investment promotion to help to attract EU investors, as some ACP regions – notably ESA and SADC – have requested.

- A recent COMESA summit ordered the finalisation of a framework agreement for accelerating the harmonisation of investment rules across the region, to establish what will be called the COMESA Common Investment Area (CCIA). Under this agreement, investment will initially be liberalised only between COMESA countries themselves. It also has a strong investment-promotion component. In the East African Community (EAC), the three member countries are in the process of revising and harmonising their investment laws.<sup>115</sup> In order to enhance and accelerate these regional programmes, ESA has requested funding and capacity-building support from the EC as part of its EPA.<sup>116</sup> However, ESA is not seeking bi-regional investment rules of the kind that the EC has in mind, and they have drawn this distinction very clearly.
- The Caribbean region's draft investment framework has a chapter on investment promotion and co-operation which seeks EC support for Caribbean small and medium enterprises (SMEs) and regional investors and assistance with the 'promotion and facilitation of foreign investment into [CARIFORUM] states, in particular by their own investors'.<sup>117</sup>
- Although SADC has categorically stated that it does not wish to negotiate bi-regional rules with the EU, it has requested technical exchange and co-operation from the EC to assist in the development of its own regional institutional, policy, and legislative infrastructure.<sup>118</sup>

The EC has been dismissive of these requests for EU support for regional arrangements in the context of EPAs, warning to them only on condition that they are linked to commitments to enter

*'The EU talks more about investment liberalisation and investor protection, whereas we in COMESA talk more about investment promotion.'*

Ambassador Gunessee of Mauritius, Speaking at Round Table on Investment, Brussels, December 2006

111 Interestingly, the EC has recently begun to suggest that transition periods could be allowed, to enable governments to give temporary preferences to regional investors over EU ones. But there has been no suggestion of enabling African governments to favour investors from other regions of Africa over EU investors.

112 Harmonisation of policies is a top-priority reform desired by businesses, according to research conducted by Charalambides (2005).

113 Christian Aid (2006).

114 'A Framework for the EPA Negotiations between SADC and the EU', note for the members of the ACP Working Party, Brussels, 16 March 2006, Doc. no 43/06 ACP, paragraph 26.

115 Mwega (2005, p.10)

116 Draft EPA between ESA and the EU, COMESA secretariat, Ref: 4th Draft EPA/8th RNF/24-8-2006/.

117 5.28a: Investment Promotion & Cooperation chapter in CARIFORUM Draft EPA Investment Chapter, Rev 3- 16 November 2006.

118 'A Framework for the EPA Negotiations between SADC and the EU', note for the members of the ACP Working Party, Brussels, 16 March 2006, Doc. no 43/06 ACP, paragraph 29.

into binding bi-regional investment liberalisation agreements. For example, in response to SADC's position the EC has stated that *'request for support without commitment is not acceptable'*.<sup>119</sup>

In sum, in the context of EPAs the EC is promoting an arrangement that offers no guarantees of attracting good FDI that would promote regional development. Conversely it is failing to support arrangements that could do precisely that. The Commission seems to be driven more by ideology than by evidence or by the sovereign wishes of African countries in this matter. Certainly the evidence that their approach to investment will promote regional integration is not convincing.

#### **Claim 4: 'EPAs will be accompanied by sufficient funding to support regional integration'**

The EC has consistently downplayed the claim made by ACP governments that additional financing will be necessary to support EPA-related adjustments and to underpin regional integration, believing that the real benefits to ACP countries will instead come from trade and investment liberalisation. As noted above, the ACP countries on the other hand have regularly stressed that trade and investment liberalisation will not enhance regional integration nor bring associated development benefits in the absence of first addressing the structural problems of poor infrastructure, weak production capacity, and low levels of human resources, all of which require additional and timely financing.

At the time of writing, requests for additional financing to support regional infrastructure had been rejected by the EC's DG-Trade as not appropriate for consideration in the context of EPAs. For example, the ESA region had proposed a development chapter in its draft EPA which included support for regional transport and energy infrastructure, as well as for the restructuring and modernisation of ESA industry and promoting regional 'industrial co-operation projects'.<sup>120</sup> The EC categorically rejected the inclusion of such development components in the ESA EPA, stating that *'the Cotonou Agreement specifically mandates the EC and ESA to negotiate new trading arrangements and not to renegotiate development finance co-operation. Consequently, the development dimension of EPA is to be reflected in the trade provisions'*.<sup>121</sup>

119 EC Staff Working Document, accompanying document to the Communication from the Commission to the Council, 'Communication to Modify the Directives for EPA Negotiations with ACP Countries and Regions', COM 2006 673, final paragraph.

120 ESA-EPA/draft/12-5-2006/3.

121 EC comments to ESA EPA draft – Part 3 with regard to Development Cooperation.



In so far as the EC acknowledges that certain levels of financing will be important to underpin both EPAs and regional integration, they argue that what is already available via the EDF and newly promised aid-for-trade envelopes will be more than sufficient to meet the challenges. Once again the evidence does not support the claim that the funds will be adequate, nor that they will be channelled towards the areas that Africans see as priorities for their own regional integration. Worse still, the EC has even used the aid link to exert external influence upon African (and Caribbean) regional integration configurations, going against the principle of ACP ownership.

#### **Creative accounting and slow disbursement**

Analysis of the EC's financing commitments indicates the prevalence of creative accounting. The EC says that aid to cover the costs of implementing and adjusting to EPAs will come from the tenth EDF, for which €22.7 billion has been pledged. Yet, before consideration of any EPA-related needs, it was estimated that €21.3 billion was needed to fund the costs of the existing aid portfolio, and to maintain the EU commitment at 0.38 per cent of GNI.<sup>122</sup>

Research by the Commonwealth Secretariat conservatively estimates that the overall costs of a minimum level of restructuring adjustment support required by ACP countries is likely to add up to €9.2 billion (at 2005 prices) over 10 years, with 60 per cent being front-loaded in the first five years.<sup>123</sup> This means that if the EDF is to provide new funds for EPAs, it would have to be diverted from other areas such as health and education.<sup>124</sup>

Furthermore, delays in the start date of the ninth and tenth EDFs mean that less money will be available year-on-year than the overall figure would suggest. Previously EDFs ran for five-year periods, with EDF 8 finishing in 2000. In theory, during the period from 2000 to 2010 there should therefore have been two EDFs (EDF 9 and EDF 10). However, the ninth EDF started in 2002 – after a two-year gap since the end of EDF 8 – and runs until 2008. The tenth EDF is unlikely to commence before 2010, given the predicted delays in getting ratification from all the 27 EU member states. This means that from the end of EDF 8 (2000) to the beginning of EDF 10 (2010) there will have only been one EDF (EDF 9) instead of the two that should have run during this period. Considered in this way, EDF 10 actually represents a fall in resources from EDF 9, if calculated on a year-on-year basis.<sup>125</sup>

122 Oxfam International (2006).

123 Milner (2006).

124 Oxfam International (2006).

125 See Goodison (2007).

126 Letter to Financial Times, 30 November 2006, 'Aid support for ACP is recycled and relabelled', [www.ft.com/cms/s/e4909d32-8017-11db-a3be-0000779e2340.html](http://www.ft.com/cms/s/e4909d32-8017-11db-a3be-0000779e2340.html).

127 Speech delivered to South Centre High Level Conference on EU-ACP Trade Relations: The Development Challenge of EPAs, Brussels, 12 October 2006.

*'This [Aid for Trade] is not new money. It is a recycling and a relabelling of existing aid commitments. Talk of increased amounts of EPA-related assistance under the next European Development Fund is equally disingenuous.'*

Glenys Kinnock MEP<sup>126</sup>

*'We [ACP governments] foresee the risk that the amounts provided in the 10th EDF would be spread too thinly, since the sources are meant to cover ... the traditional obligations in the area of poverty alleviation in ACP states ... and the obligations envisaged under the EPAs.'*

Aliyu Modibo Umar, Minister of Commerce, Nigeria<sup>127</sup>

In addition the EC has promised €2 billion for aid-for-trade – €1 billion of which is to be drawn from member states and €1 billion from EU programmes. However, this appears to include reallocated money, and there remain serious doubts as to whether the member state contributions will materialise.

Putting aside problems with the *amount* of aid available, the EDF poses very considerable process problems, not least the length of time that it takes to commit and disburse EDF resources.

According to the Commonwealth Secretariat, there is a major discrepancy between the aid allocated to each five-year cycle and the amount of funding actually spent within the five years of each cycle.<sup>128</sup> Close to one-third of the €9 billion allocated to the 9<sup>th</sup> EDF was still available at the end of 2005.

There are frequent complaints from ACP regions that even financing that has been allocated does not materialise in a time-sensitive way, including for regional programmes. For instance in SADC 50 million euros of EU-allocated financing for regional integration and trade projects remained stuck in the pipeline from 2003 to 2005.<sup>129</sup>

### The EU shifts funds to its own priority sectors

In this context it is hard to see how EPAs will deliver the necessary support required to address the production and infrastructure pre-requisites for regional integration.

Outside the EPA process, the EC has had a strong tradition of supporting regional programmes, in areas including production and infrastructure. Under Lomé II, EU support to SADC, for example, focused on regional transport infrastructure, regional programmes for the control of animal diseases, and regional human-resource development programmes. Under Lomé III, support for these kinds of programme increased.<sup>130</sup> However, the EC's commitment to such programmes of functional co-operation has diminished, as EPA negotiations have begun. By the time of the signing of the Cotonou Agreement, financial support to SADC's regional programmes had declined markedly.

128 Commonwealth Secretariat (2006).

129 Data extrapolated from EC/SADC Annual Operational Review [www.delbwa.cec.eu.int/en/eu\\_and\\_sadc/aor.htm](http://www.delbwa.cec.eu.int/en/eu_and_sadc/aor.htm)

130 Seventy million euros were allocated to SADC regional programmes under Lomé II; 141 million euros under Lomé III.

**Table 2: EDF regional allocations to SADC**

	Initial / Provisional	Final
Lomé I	30 million ecu	
Lomé II	40 million ecu	70 million euro
Lomé III	110 million ecu	141 million euro
Lomé IV (1)	121 million ecu	129 million euro
Lomé IV (2)	121 million euro	
Cotonou Agreement	101 million euro	

Meanwhile, a recently announced EU–Africa partnership on infrastructure, accompanied by a statement acknowledging that *'improving infrastructure in Africa is a fundamental precondition for increasing economic growth, promoting regional trade and above all, for reducing poverty'*,<sup>131</sup> does not appear to represent anything like the additional resources required. The fund promises to mobilise €5.6 billion from the tenth EDF for 'national, regional and cross-sector ACP resources', to cover regional infrastructure development in transport, energy, water, and information technology and telecommunication networks. However, this is only a 12 per cent increase in real terms from the ninth EDF allocation, and actually represents a contraction in the proportion of EDF funding for infrastructure (taking into account that overall expansion from the ninth to the tenth EDF is 35 per cent).<sup>132</sup> Such a response is hardly commensurate with the challenges faced by ACP regions in building up their regional infrastructure. For instance, in 2005 the Commission for Africa estimated that \$20 billion would be needed annually to reduce Africa's enormously high transaction costs.<sup>133</sup>

The situation is worse in the case of rural development and agricultural production, which underpins most ACP economies and is generally believed to be the best platform from which to industrialise. Recent research shows a marked decline in EDF assistance to agriculture and rural development under national and regional indicative programmes as well as FLEX (previously STABEX), each of which previously provided relatively high levels of assistance to these sectors in ACP countries.<sup>134</sup> Under Lomé I, II,

131 EC Press Release, 'European Commission launches an EU-Africa partnership to develop trans-African connections', Brussels, 13 July 2006, IP/06/986, [www.europe-cares.org/Africa/docs/infrastructures\\_afrique\\_13jul\\_en.doc](http://www.europe-cares.org/Africa/docs/infrastructures_afrique_13jul_en.doc)

132 In assessing whether the newly announced funds for infrastructure represent an increase, we need to make a comparison with what was available under the ninth EDF (including not only national, regional, and cross-sector ACP resources, but also EIB resources earmarked for deployment in ACP countries). Under the ninth EDF, €4.99 billion was allocated to infrastructure (€2.56 billion under the national indicative programmes; €359.25 million under the regional indicative programmes; €500 million allocated to the EC Water Facility, €250 million allocated to the Energy Facility, €320 million allocated to the Infrastructure Facility, plus €995.1 million in EIB loans allocated to African countries since 2000.) The €5.6 billion announced by the EC for these four areas under the tenth EDF therefore represents a 12.2 per cent increase, compared with estimates of total funding deployed in these areas under the ninth EDF and EIB operations since 2000. However, the tenth EDF represents a 35 per cent expansion in overall funding, which means that the recently announced EU–Africa Partnership on Infrastructure represents a contraction in per centage terms. This is *before* taking into account the recent realisation that two EDFs are being stretched over a period that should have been covered by three EDFs, meaning that the 10<sup>th</sup> EDF actually represents a *drop*.

133 Commission for Africa (2005).

134 Goodison (2006c p.3)

and III, agriculture and rural development represented an important proportion of EDF financing (absorbing between 28.8 per cent and 41.4 per cent of EDF resources between 1975 and 1990).<sup>135</sup> However, this decreased significantly with the structural adjustment era. By the time of the signing of the Cotonou Agreement – on the basis of a review of 61 agreed national indicative programmes (NIPs) – only some 7 per cent of total NIP funding was committed to rural development, and only 1.1 per cent to agricultural development.<sup>136</sup> Similarly in regional indicative programmes (RIPs) reviewed (for ACP regions under the Cotonou Agreement), there were no programmes in which agricultural and rural development was designated as a focal sector.

While infrastructure funding is not getting the injection that is needed, and support for agricultural production is markedly falling, the focus of EC funds for regional programmes has shifted towards an emphasis on trade liberalisation instead.

EC programming notes setting out the guidelines for regional funds from 2006 suggest that support can address *'institutional capacity building and support to trade and economic integration including the EPAs and WTO commitments'*; and that the *'hard core of the regional agenda should be regional economic integration and trade matters'*.<sup>137</sup> EC Development Commissioner Louis Michel has gone further, to state *'regional programming for EDF 10 will be radically different as compared to the past. While under EDF 9 a link was established between the EPA process, this time the EPA is at the centre of joint programming.'*<sup>138</sup> Moreover, the Cotonou Agreement's annex on *'implementation and management procedures'* stipulates that *'specific support'* will go to *'groups of ACP states who are committed to negotiation EPAs with the EU'*.<sup>139</sup>

This linking of EDF regional programming to EPAs would be less worrying if the EC's version of EPAs involved support for African priorities. But, as we have already seen, support for infrastructure and production is not what the EC has in mind when it talks of channelling resources to support regional integration. The EC's comments on ESA's draft EPA reveal the EC's understanding of regional integration: *'ESA should propose language on fostering of regional integration as a key instrument for integration into the world economy. For example: specify objective of ESA integration: customs union and free circulation of goods, services capital and people? Single common trade policy?'*<sup>140</sup> Unfortunately none of the aforementioned pre-requisites –

135 Ibid.

136 EC internal document, 'Sectoral Breakdown of 9th EDF Resources Programmed in Draft CSPs for ACP Countries', DEV/A/1, 14.05.2002.

137 European Commission, 'Standard Structure for Regional Strategy papers (RSPs)', 10 February 2006.

138 Louis Michel, Gabarone, Botswana, 25 February 2006, addressing a SADC regional programming meeting [www.delbwa.cec.eu.int/en/whatsnew/programming%20seminar.htm](http://www.delbwa.cec.eu.int/en/whatsnew/programming%20seminar.htm)

139 Annex IV, 'Implementation and Management Procedures', Chapter 2, Article 7, Cotonou Agreement.

140 EC comments on ESA draft, September 2006 – Part 1.

consistently identified by African stakeholders as necessary to support regional production and trade – is included on the EC's list. As a senior official from an African regional secretariat explained:

*'We also want the EU to support the "trade facilitation" aspect of regional integration. But the secretariat and the EU have quite different understandings of what trade facilitation encompasses. We want trade facilitation to include support to warehousing facilities, roads and other transport networks, i.e. support that will really facilitate intra-regional trade. But the EU tends to see trade facilitation as about paper work and trade liberalisation policies.'*<sup>141</sup>

### The conditionality element

While neither adequate nor additional aid seems to be available to support regional integration, the EC is not averse to using the aid that is available as a means to promote its own vision of how ACP regions should organise themselves.

In early 2006, the DG Development Commissioner Louis Michel caused consternation among officials within the SADC and ESA regions by suggesting that he would not be able to allocate funds destined for RIPs under the tenth EDF until the regions re-organised themselves according to EPA-compatible configurations. Officials complained that this was bypassing their own processes for rationalising their RECs and placing undue pressure on governments to define their own regional alliances purely in relation to EPAs.<sup>142</sup>

Similar complaints have been heard from the Caribbean region. The Caribbean region has been advocating a variable-geometry approach to reflect the differences in scope and implementation of the three regional integration processes that are running in the region; the Caribbean Single Market and Economy (CSME); the Organisation of Eastern Caribbean States (OECS); and the CARICOM–Dominican Republic Free Trade Agreement (FTA). However, the EC is strongly resisting this approach, preferring the greater convenience of a harmonised approach with single starting lines. The EC has gone beyond the simple expression of a preference, however, reportedly to have *'stress[ed] that optimal levels of EU development support could be realised only when CARIFORUM galvanizes its own regional processes into one seamless economic space'*.<sup>143</sup>

141 Senior official from a Regional Secretariat, interviewed by Traidcraft in April 2006.

142 Louis Michel speaking to a Southern African regional programming seminar, February 2006, reported by officials in private conversations with Traidcraft.

143 Dame Billie Miller (October 2006), speech made at South Centre Conference on ACP–EU Trade Relations in October 2006.

**Support for African-led regional programmes withdrawn: the case of the BNLS support programme**

Previous examples of the EU employing conditioning aid on adoption of its own vision of regional integration include the €6 million 'Economic Integration Support Programme for the BNLS countries'. This programme, established in February 2001, was designed to address the consequences for Botswana, Namibia, Lesotho and Swaziland of the implementation of the EU-South Africa TDCA. Unfortunately the programme never became operationalised, in part because of a rejection from within the BNLS countries of proposed economic conditionalities attached to the funding, which related to acceptance by BNLS of the terms of the EU-South Africa TDCA. In April 2001 deep concern was expressed by Namibian members of parliament over *'the linkage of funds under the economic integration support programme for the BNLS to formal BNLS concurrence with the EU-South Africa TDCA'*.<sup>144</sup> Such linkage was firmly rejected. Thus for nearly four years this programme remained moribund, and on 14 January 2005 it was converted into an institutional support programme for the SACU Secretariat. The initial concept of a multi-phased programme to comprehensively address the regional consequences of the implementation of the EU-South Africa TDCA and support fiscal economic adjustment was abandoned.<sup>145</sup>

Insufficient funds to support the structural pre-requisites for regional integration, combined with a linking of the funds available with the EUs – rather than Africa's – priorities and vision, do not seem to be conducive to an African-owned process of regional integration.

<sup>144</sup> See 'The Future of Namibia-EU Trade Relations', Workshop By The Parliamentary Standing Committee On Economics Of The Namibian Parliament, April 2001, section 2.6.

<sup>145</sup> Goodison (2006c).

This report has revealed fundamental differences between the African vision for its own regional integration and the EC's recipe for Africa. It has also highlighted the gulf between what the EC allowed for itself and what it prescribes for Africa.

In this context, the EC's regular insistence that EPAs will promote regional integration may be a persuasive rhetorical device, but rhetoric is not reality. On the contrary, this report has identified problems that expose fundamental flaws in the EC's design of EPAs, if measured against the core Cotonou objective of supporting regional integration. Whether viewed from the perspective of development co-operation, trade liberalisation, investment promotion, or regional configurations, EPAs seem destined to complicate and undermine regional integration at every turn.

Such fundamental problems will not be solved by tinkering around the edges, nor by rushing through badly designed deals under time pressure. If relations between the European Union and the ACP countries over trade and development co-operation are to promote the regional integration in Africa that all parties agree is needed, a fundamental change of approach is necessary.

We call on the EU member states to:

- Ensure that the EC fulfil's its obligation - laid out in the Cotonou Agreement - to examine all alternatives to the proposed EPAs that are no less favourable in terms of market access. These should not demand reciprocity on the part of the ACP and must genuinely promote regional integration.
- Instruct the EC to take the pressure off African regions to conclude EPAs that are not – in their current form - supportive of regional integration, by guaranteeing that the equivalent level of preferences will be extended until a suitable solution is found, so as not to disrupt current trade.
- Demand that the EC desists from pushing the pace of African customs unions - or insisting upon single starting lines - in cases where regions have made clear this approach is neither realistic nor helpful.
- In the area of investment, de-link support for regional frameworks and investment promotion from any obligation on the part of the ACP to enter into bi-regional investment agreements with the EU.
- Step up development support for genuinely African-led regional integration priorities, backed up with a clear statement that such support is in no way contingent upon signing up to an EPA.

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