Regional Economic Integration in Africa

Building on Successes and Lessons Learned

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SUMMARY

Regional economic integration has always been important in Africa for ensuring economic and political gains. African leaders have committed to implementing the regional economic integration agenda, recognizing that without it most African countries, many of them land-locked, have small domestic markets that restrict economic growth and limit individual negotiating power. Access to regional and international markets on more favorable terms allows trade to be an engine of economic growth. Improved efficiency within a country's economy through reduced tariff and non-tariff barriers, fewer barriers to market entry and lower transaction costs including for transport – thereby improving the enabling environment regionally, stimulates investment. This will contribute to improved agricultural production and economic diversification, and ultimately lead to increased food security and improved welfare, including in the areas of health and education.

The need for effective implementation of the regional economic integration agenda—as a path to job creation and poverty reduction— is critical if African countries are to become internationally competitive. It is even more important in the face of the recent global economic crisis and resulting decline in international trade. The Abuja Treaty of 1991 anticipated the need for regional economic integration, creating the vision for an African Economic Community (AEC), an organization of the African Union (AU), built on eight recognized regional economic communities (RECs). Acknowledging the challenges to implementing regional integration, the Conference of African Ministers in Charge of Integration (COMAI) has met annually since 2006 to develop and monitor progress against action plans furthering regional and continental integration. The recent commitment by the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), and the East African Community (EAC) to create a single free trade area (FTA) represents a significant step toward regional economic integration.

Despite recent accomplishments, significant challenges to integration remain, including implementation issues that result from capacity and resource limitations and African countries' overlapping membership in regional groupings. Africa's recent experience in the Economic Partnership Agreement (EPA) negotiations—to replace the preferences enjoyed in European Union (EU) markets by African suppliers with reciprocal FTAs—have also resulted in fault lines in current regional groupings and have revealed the limits of negotiating as an individual country.

USAID has supported African regional economic integration primarily through its African Global Competitiveness Initiative (AGCI) and the predecessor Trade for African Development and Enterprise (TRADE) Initiative. Designed to help countries take advantage of the Africa Growth and Opportunity Act (AGOA) – a preferential trade agreement with liberal rules of origin, both initiatives were implemented through USAID's regional African Global Competitiveness Hubs. As the U.S. government considers future assistance for Africa, USAID has an opportunity to consolidate and elevate its support for regional economic integration. By consolidating and increasing its support, USAID can address issues that hinder implementation and can help to convert political agreement for economic integration to action as part of a broader strategic vision for Africa built on diplomacy, defense, and development. What should USAID consider as it

reflects on how to follow-up the legacy of its AGCI and TRADE initiatives? USAID should increase its support of regional economic integration in Africa, guided by a four-pronged approach:

1. Support regional economic integration at the continental (AU and tripartite), regional (RECs), and national levels, but not to the exclusion of bilateral capacity building.
2. Provide support that has political buy-in, builds on successes, and is positioned to deliver sustainable results over the long term.
3. Coordinate U.S. government regional economic integration activities internally so they are mutually reinforcing.
4. Coordinate USAID regional economic integration programming with other donor activities and integrate it with World Trade Organization Aid for Trade and Enhanced Integrated Framework (EIF) initiatives.

As growth in trade under AGOA has slowed and African leaders have focused on completing the EPA negotiations with the EU and securing large increases in Chinese and Indian investment, the economic and trade position of the United States in Africa has declined. A renewed focus by USAID on supporting regional economic integration, using instruments such as a revitalized AGOA and Aid for Trade to make African suppliers more competitive, will strengthen U.S. economic interests throughout Africa.

ISSUE

As part of its broader policy to help increase African countries' competitiveness, promote investment, create jobs and reduce poverty, and ensure the security of Africa, the U.S. government needs to effectively assist Africa with implementing its regional economic integration agenda. The Africa Growth and Opportunity Act (AGOA), the cornerstone of U.S. government Africa policy since 2000, needs to be revitalized because the early gains in African exports are declining. There are sound policy and practical reasons for USAID to lead on both fronts. In considering how to build upon the legacy of the African Global Competitiveness Initiative (AGCI) and the predecessor Trade for African Development and Enterprise (TRADE) initiative, USAID should be guided by successes and lessons learned.

OVERVIEW OF REGIONAL ECONOMIC INTEGRATION IN AFRICA

African leaders have committed to deepening and consolidating regional economic integration as illustrated by the 1991 Abuja Treaty creating the African Economic Community (AEC), an organization of the African Union (AU). This commitment is further illustrated by the annual meeting since 2006 of the Conference of African Ministers in Charge of Integration (COMAI), and, recently, the Tripartite Task Force established in October 2008 by the Common Market for Eastern and Southern Africa (COMESA), East African Community (EAC), and the Southern African Development Community (SADC) with a view to setting up a free trade area (tripartite FTA) encompassing member countries. Declining economic performance in recent decades, reduced exports to developed markets, and declines in GDP per capita prompted the leaders' commitment to deepening regional economic integration. Larger regional markets have the power to attract more investment. Africa's leaders also want to increase their bargaining power, that is, to negotiate on the basis of a larger market. Negotiating as a group has the added benefit of increasing transparency and limiting opportunities for corruption.

Africa's regional economic communities have made significant progress toward achieving their goals, especially in areas such as trade facilitation, harmonized standards, and transport corridor development. But with the exception of AGOA-related apparel and auto exports, trade patterns have not changed appreciably. Too few regional supply chains have appeared, and regional trade has not expanded as anticipated.

The global trend toward regional integration has resulted in steady gains in intraregional trade in the European Union (EU), Association of Southeast Asian Nations (ASEAN), and the North American Free Trade Agreement (NAFTA), while sub-Saharan Africa's intraregional trade has increased much more slowly than expected. Furthermore, its contribution to global trade has declined since the 1960s, representing less than two percent today.

A range of technical, economic, institutional, and political issues have slowed or curtailed progress toward regional economic integration in Africa. One problem is countries' overlapping membership in regional economic communities. A significant problem for all the RECs is lack of implementation of commitments, attributable to, in various instances, lack of political will and lack of technical capacity. The largest market in each of the three major RECs—Kenya in

COMESA, Nigeria in the Economic Community for West African States (ECOWAS), and South Africa in SADC—has dominated formation of the REC's respective FTAs and has protected local industries. In addition, a plethora of non-tariff barriers remain, and a number of smaller countries have been unwilling to eliminate customs duties, arguing a need to service revenue requirements. Unfortunately, this trend has been reinforced by the global economic downturn.

The eight RECs recognized in the Abuja Treaty as the building blocks for stronger economic integration and an eventual AEC—Arab Maghreb Union (UMA), Community of Sahel-Saharan States (CEN-SAD), COMESA, EAC, ECOWAS, Economic Community of Central Africa States (ECCAS), Inter-Governmental Authority on Development (IGAD), and SADC—have strengths and weaknesses. For example, COMESA has built a reasonably strong Secretariat, EAC and ECOWAS have made headway on free movement of people, and SADC has made notable accomplishments in the area of transport corridors. But all face a common challenge in their need to increase capacity to implement integration mandates and programs, monitor integration, and measure resulting benefits. Also, the capacity to prepare for and conduct negotiations must be strengthened at the regional and member state level, as evidenced by the failure of the RECs and their members to present a prepared and unified position in the EPA talks. Issues must be defined and presented and best practices communicated. The capacity of national implementing institutions, as well as the AU, needs to be strengthened.

Regional economic integration can help tackle Africa's development challenges through reducing barriers to trade for imports and exports, agricultural and manufactured goods, as well as services. But implementing a regional economic agenda is challenging and takes time. COMESA and SADC, and other RECs, after years of working to deepen economic integration have made clear progress in many areas; yet, they have only achieved partial integration. Individual regional groups have fallen short, often unable to convince individual countries of a "win-win" in implementing reforms and lowering trading barriers. Serious challenges remain, causing many to question legitimately why countries will be more willing or able to implement a wider tripartite FTA than a regional one. Does the stake in the tripartite talks offer new opportunity? The answer may well be a cautious "yes." With the potential for new markets, the tripartite talks appear to offer countries a sufficient stake to respond to arguments for local protection. The talks also afford countries the opportunity to harmonize rules, policies, and plans around best practices—for example, liberalizing trade-limiting rules of origin under SADC. Moreover, they offer the potential for a solution that might drive tangible regional integration objectives essential for economic growth and diversification, food security and poverty alleviation.

USAID SUPPORT FOR REGIONAL ECONOMIC INTEGRATION

USAID's early regional assistance in the late 1990s and early 2000s included support of the Southern African Transport and Communications Commission (SATCC), support for regional economic integration negotiations, including the SADC Trade Protocol—raising awareness and strengthening capacity to understand the issues in member states and RECs—and support for the development of RECs such as COMESA through various projects, including placing advisers in the Secretariat.

Subsequently, USAID supported regional economic integration in Africa and assisted with building the capacity of RECs through the TRADE initiative and successor AGCI, implemented by four regional Global Competitiveness Hubs located in Accra, Dakar, Gaborone, and Nairobi. Both initiatives were designed around helping countries take advantage of AGOA—the original anchor of the Hubs—which focused on providing firm-level support for increased exports to the United States.

Over time, each Hub has, to a different degree, evolved to support regional economic integration activities. The Hubs have worked on issues of trade policy and trade liberalization, trade facilitation, including developing transport corridors and modernizing customs, energy issues, and promoting broader export competitiveness, including trade in services, as well as AGOA exports. In 2008, the East Africa Hub was re-bid and redesigned transferring AGOA support to a regional agriculture value chain project.

The Hubs have been unique in providing a resident regional and expatriate team of experts to work with RECs, corridor authorities, regional bodies, national government ministries, and agencies as well as the private sector on a range of regional economic integration issues. They have been most successful when staffed by recognized sector and regional experts who are respected by counterparts, and where funding and programming has been continual. As a brand, the Hubs are, or have the potential to be, centers of excellence in providing technical assistance. They are an established means for working on implementing regional economic integration. Additionally, they are an under-recognized and under-utilized vehicle for delivering Aid for Trade. The Hubs, and the work they support, are more relevant and necessary today than ever.

Despite the value Hubs offer, they have not been consistently funded year to year, and their future as a primary vehicle for delivering regional economic integration technical assistance has never been assured. Scarce funds are increasingly allocated to food security and agriculture programming to the exclusion of economic governance and trade programming. And yet support for regional economic integration, including harmonization of policies and regulations, reduction of non-tariff barriers, trade liberalization, development of transport corridors, and infrastructure development is a fundamental and necessary component of making African agriculture and light industry more competitive.

African leaders are showing a commitment to implementing the regional economic integration agenda. USAID's efforts to support regional economic integration activities have produced results. USAID should build on its efforts, aligning with African leaders, the African Union, regional economic communities, and national action plans. To support enhanced activities at the AU, tripartite, regional, and national levels, a dedicated budget for regional economic integration is necessary. Regional economic integration activities complement USAID's ongoing work in agriculture and health. As countries strive to grow and diversify their economies, it is necessary to have the right trade policies in place covering goods and services, including rules of origin, harmonized product standards and testing procedures, movement of workers and investment. There must be faster access to markets—including more efficient customs clearance, better roads, fewer roadblocks, and access to rail alternatives. Countries need a more reliable energy supply. All these elements are essential to improving competitiveness and building production value chains—whether for agriculture, light manufacturing, or service delivery.

U.S. POLICY RATIONALE FOR SUPPORT OF REGIONAL ECONOMIC INTEGRATION IN AFRICA

For nearly a decade, AGOA has been the U.S. government's premier trade program for Africa. This preference program with its liberal rules of origin has provided countries some space within which to make policy reforms and the necessary infrastructure improvements to increase their competitiveness to trade, create jobs and reduce poverty. The U.S. government has also promoted regional economic integration by entering into trade and investment agreements with a number of RECs. Despite AGOA's successes, its uptake has been limited to a handful of products, and it has not resulted in significant value addition or export diversification. There remains a question of how to build long lasting, sustainable investment and entrepreneurship. Furthermore, the benefits countries derive from AGOA preferences threaten to be eroded by the multilateral trade agenda. In the future the U.S. government will need to find creative ways to compensate for this preference erosion.

Even with AGOA, the United States has been losing ground in the Africa market. The EPAs with the EU mean that U.S. companies will have to compete with preferential suppliers from Europe. In addition, inward Chinese and Indian investment is increasingly dominating in many countries. A renewed focus by USAID on supporting regional economic integration, using instruments such as a revitalized AGOA and Aid for Trade to make African suppliers more competitive, will serve to restore the U.S. position as a leader on the continent. Economic growth and jobs are vital for a stable and secure Africa. A fundamental part of the U.S. government's broader strategic vision for Africa is stability, security, and prosperity. Regional economic integration is necessary to build competitiveness and realize this vision—it should be a fundamental pillar of the government's diplomacy, defense, and development policy for Africa.

RECOMMENDATIONS

Support regional economic integration at the continental (AU and tripartite), regional (RECs), and national levels, but not to the exclusion of bilateral capacity building

National policy and implementing institutions, RECs, and the AU need to be strengthened. This requires a significant commitment. Support at the regional and AU levels cannot replace the need for bilateral assistance. This support must be complementary.

Provide technical and analytical support to the African Union and the tripartite talks through access to a pool of African and international experts. USAID has a window of opportunity to explore participation in building capacity at the AU and supporting the tripartite talks. To be effective, USAID support will have to be demand-driven. Participation could be in the form of a team of experts located at the AU, a dedicated unit similar to the Hubs but located in Addis Ababa or elsewhere, or capacity built into the existing regional Hubs to support the AU and tripartite talks. The appropriate form of support will depend on the needs and desires of the AU and tripartite leadership and an assessment of what is likely to be most effective. Such support could also ensure complementarity and coordination in technical areas such as rules of origin and harmonization of regulations between Hub support to RECs and national governments.

Since the Abuja Treaty the AU has had a role to play in regional economic integration but has not had the capacity to do so. Mr. Erastus J.O. Mwencha's arrival at the AU offers an opportunity to help build the organization's coordination, compliance, and technical support role. The former secretary general of COMESA, one of the stronger more liberal RECs in Africa, is a friend of the United States, and gives the AU a practiced leader in FTA negotiations and administration. The expected addition of the New Partnership for African Development (NEPAD) as the planning and policy organ of the AU has the potential to strengthen monitoring capabilities through its peer review process. But this new capacity has to be built upon and expanded to create a credible role for the AU to identify best practices and monitor implementation of regional economic integration.

Work with RECs to build technical expertise and capacity and provide targeted technical assistance. Despite the RECs' progress in recent years it is important to recognize their limited capacity to advance the regional economic integration agenda. Although ECOWAS has been more focused and successful at the political level particularly with respect to peacekeeping, with the possible exception of COMESA, there is a serious lack of institutional capacity among the RECs to address the technical issues that must be tackled. In SADC political agendas take precedence over implementation of the trade protocol. Several countries have stopped implementing the protocol, and known constraints to expanded regional trade, such as rules of origin and non- tariff barriers, have not been addressed. The vision of a tripartite FTA cannot be realized with the current capacity and institutional bottlenecks. If each REC has not had an institutional capacity audit, one should be recommended. USAID and other donor programming should be developed around the audit findings and recommendations, as well as around roadmaps such as the SADC Trade Protocol and the roadmap being developed for the tripartite FTA.

Although placing technical experts within RECs has merit, advisers can often better support capacity building, regional economic integration efforts, and Aid for Trade initiatives as regionally located experts, as in the case of the Hubs, who can maintain distance from the day-to-day institutional dynamics that exist within the RECs. Building on the foundation of the Hubs, USAID is well positioned to enhance its support of regional economic integration implementation activities.

Provide national level assistance for regional economic integration activities to presence and non-presence countries. High-level political commitments for regional economic integration are essential. But ultimately regional economic integration is implemented at the national level by agencies and ministries. Without the necessary political will to institute reforms, the technical capacity to implement what is agreed, and regional monitoring to gauge compliance, regional economic integration will remain only an aspiration. National policy and implementing institutions in Africa—ministries of trade, transport, customs, and others—continue to be understaffed and under-resourced, lacking the capacity to effectively address the range of issues that need attention. Support to the AU and RECs should include a component that ensures that bilateral missions understand the power of regional economic integration to complement their ongoing projects. Expanded and expedited access to regional markets and value chains is important to success.

USAID should support targeted bilateral technical assistance for regional economic integration—for presence and non-presence countries—through its bilateral programs or the regional Hubs. If another major negotiation occurs, USAID should determine the most effective manner in which to help ensure that national governments have the technical expertise and funds to identify and represent their interests effectively and consistently throughout the negotiations.

Provide support that has political buy-in, builds on successes, and is positioned to deliver sustainable results over the long term

USAID's experience in providing trade capacity building assistance and supporting regional economic integration in Africa has produced key lessons for successful programming.

USAID support must be demand driven. USAID programming on trade policy, business environment, trade facilitation, and regional economic integration issues more broadly has been most successful where there is buy-in for the program agenda from bilateral missions and embassies, national stakeholders, RECs, and other key partners. Over the years, experience has shown that activities have the greatest impact when programs and work plans are developed in consultation with stakeholders and respond to their needs and requests, similar to the process conducted in the development of Millennium Challenge Corporation (MCC) compacts. Scopes of work must be flexible to adjust to changing needs of stakeholders.

New activities under consideration, such as increased technical assistance to RECs or the AU and tripartite talks, should be developed in consultation with the leadership and staff of the recipient institution. Diagnostics, agreements, and roadmaps that have been thoroughly vetted and adopted by public and private sector stakeholders—for example, the Diagnostic Trade Integration Study (DTIS), trade protocols, and the tripartite roadmap that is being developed—should provide the framework and basis for all donor technical assistance activities, including USAID's activities, to ensure coordination of efforts and furtherance of local agendas.

Build on successful initiatives through continuity in programming. Implementing a regional economic integration agenda takes considerable time and effort. Diagnosing problems is easy, implementing solutions is difficult. Countries move at different speeds, and progress is often not easy to achieve or as quick as desired. Achieving tangible results—as in the case of adoption of the single administrative document (SAD 500) in Southern Africa—often takes several years, extending beyond the typical USAID three-, four-, or five-year project cycle. Where technical assistance support can be provided over a longer period, there is potential for long-term, sustainable results; for example, in trade corridor work, support to energy projects, technical assistance for harmonization of policies and regulations.

To date, USAID's modest support to regional economic integration activities has had an impact and produced tangible results. Building on this foundation in a robust and coordinated manner could help provide the support and assistance required to further Africa's regional economic integration implementation agenda.

Deliver technical assistance and capacity building activities using a combination of local, regional, and international experts. It takes the right team over time to build confidence and establish optimal working relationships, an important point to keep in mind when determining how best to support a complex, challenging, and high-profile agenda such as African regional economic integration. It is essential that programming be delivered by a team of experienced and respected local, regional, and international experts who combine international best practice and regional knowledge. Strong diplomatic and management experience to liaise with regional and Washington representatives and decision makers is also essential.

Having credibility—expertise and a commitment to the long-term—is essential to deliver effective assistance working with the AU, RECs, national governments, and other stakeholders and U.S. government counterparts. The Hubs have established this credibility—as demonstrated in the case of the South Africa Trade Hub's work with SADC, the EA Hub's work with COMESA, and the Hubs' work with corridor associations, to cite a few examples. Furthermore, this on-the-ground knowledge and credibility have allowed the Hubs to help make the assistance provided by other U.S. government agencies more productive by targeting assistance. USAID should build on this foundation going forward.

Coordinate U.S. government regional economic integration activities internally so they are mutually reinforcing

To leverage resources and increase the impact of U.S. government support for regional economic integration, better coordination of assistance and activities is essential. Agencies currently try to be aware of each other's programs, but closer cooperation to leverage funds and assist with different aspects of implementation projects could result in more progress sooner. Such cooperation might also assist the United States with packaging and showcasing its development assistance in the context of the WTO and Aid for Trade.

Develop a regional component to MCC compacts to support regional economic integration implementation programs. Development assistance through the MCC has been a significant source of funds for African countries in recent years, particularly for infrastructure projects. National "compacts" designed according to government priorities have resulted in significant development and reforms that are often related to activities important to economic growth. Unfortunately the MCC mandate does not extend to RECs and therefore does not provide for regional activities *per se*. The work supported by USAID is typically in the form of capacity building assistance, analytical and technical support, regulatory reforms and other "soft" assistance and expertise. Such assistance is extremely valuable and often linked to infrastructure development. But there is also substantial work on the regional economic integration agenda related directly to infrastructure, such as development of one-stop border posts and generation of cross-border electricity, that could be leveraged by additional U.S. government assistance, especially MCC funds.

At present all MCC programming is through national compacts. A way should be found to use MCC funds to support regional economic integration. USAID regional economic integration activities would be much strengthened if complemented by MCC support of investments that are by definition regional. This could be done through regional compacts to RECs, in partnership with USAID programming assistance, or by using a percentage of national compact funds to support regional integration activities.

Coordinate USAID assistance with activities of other U.S. government agencies, such as EXIM, OPIC, and USTDA, in developing a coherent initiative to support regional integration. Many U.S. government agencies are delivering development assistance in Africa, including technical assistance and capacity building, loans and financing, and feasibility studies. Support for African regional economic integration would have greater impact if the government developed a coordinated initiative—led by USAID—across agencies to guide its programming and activities. This would help ensure that resources and expertise are targeted and leveraged efficiently.

Coordinate USAID regional economic integration programming with other donor activities and integrate it with World Trade Organization (WTO) Aid for Trade and Enhanced Integrated Framework (EIF) initiatives

As a lead donor in Africa the United States must implement its support for regional economic integration in coordination with other donor activities and initiatives such as WTO Aid for Trade and the EIF. The U.S. government interagency dialogue is not as effective as it should be and as a result the United States – and in particular USAID and MCC - does not have the profile it should for the good work it has been doing.

Coordinate USAID support for regional integration with other regional programs and international donor activities. Without close coordination and agreement to effectively coordinate programming with other donors, funds and expertise will not be put to the best use possible and duplication is guaranteed to occur. Donors are slowly getting better at forming coordination committees to raise awareness of each other's activities and coordinating agendas with key stakeholders. But donor coordination is challenging, and it is not uncommon for every donor to tackle the same activity. As a principal donor in Africa, it is important that USAID lead in finding ways to effectively coordinate assistance with other donors.

Regional and multilateral banks, international agencies, and a plethora of international donors are all actively engaged in supporting regional integration activities in Africa. Regional development banks such as the African Development Bank (AfDB), the Development Bank of South Africa (DBSA), and the World Bank are heavily involved in developing infrastructure projects. DfID recently unveiled its multi-year, multimillion pound TradeMark project to support regional integration in East, Southern, and West Africa. The Canadian Development Agency (CIDA) recently announced a $20 million Programme for Capacity Building for Trade for Africa to enable ECOWAS, COMESA, and ECCAS member states to boost exports by exploiting the full potential of international trade, deepening trade integration, and contributing to regional integration. The Japanese development agency, JICA, is supporting the creation of one-stop border posts. These are just a few of the many activities related to regional economic integration and initiatives that are underway.

USAID activities to support implementation of the African regional economic integration agenda must be aligned with local blueprints and roadmaps and complement other donor efforts. USAID should support directly the initiatives of RECs and regional development banks, including providing assistance in coordinating donor assistance.

Link USAID support for implementing regional economic integration to WTO Aid for Trade and EIF initiatives. Despite the significant trade-related development assistance the U.S. government provides in Africa through USAID, MCC, and other agencies, it has not been very successful in establishing a profile, particularly in the context of delivering on its commitment to Aid for Trade at the WTO. And yet, MCC compacts and the work of the Hubs are first-class examples of successful Aid for Trade activities -- initiatives that in fact pre-date Aid for Trade. Much of the challenge is due to the division of responsibility within the U.S. government for trade and development, in contrast to other leading donor countries.

In developing a unified approach to support implementation of regional economic integration in Africa, the U.S. government has an opportunity to implement interagency buy-in on Aid for Trade and deliver on Aid for Trade commitments in Geneva. By making initiatives such as the Hubs and regional MCC compacts the core vehicles for delivering its support for regional economic integration, and giving them a profile in Geneva, the U.S. government would also raise its profile in Africa.

Similarly, the EIF is charged with working with countries at a national level to implement the matrix of their respective DTIS. Many of the items in these matrices involve implementing reforms and projects directly related to building blocks for regional economic integration. USAID support of regional economic integration at a national level should be aligned with these priority areas. Furthermore, there may be an opportunity through the regional economic integration initiative to directly help countries take advantage of the EIF by assisting with project design and unlocking and leveraging funding for implementation activities.