Estratégia

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Africa's Challenges in International Trade and Regional Integration: What Role for Europe?

Introduction

Africa's challenges in trade and regional integration are legion, and well documented. This paper attempts to summarise them against the backdrop of Africa's broader development priorities. It then explores the 'demand-' and 'supply-side' of Africa's problems in trade, noting where and how the European Union may improve its efforts to assist. This is a wide-ranging discussion covering WTO negotiating dynamics, official development assistance, trade facilitation, standards, infrastructure, and so on. This necessarily limits the amount of detail we can offer on each area, but provides an important mapping of the problems.

The paper closes by assessing the role of regional integration and Economic Partnership Agreements (EPAs) in achieving improvements in Africa's trade and broader economic performance. Regional integration in Africa is beset with massive challenges; EPAs offer help in some areas, but threaten nascent progress in many others.

Africa's development priorities

Economists commonly argue that poor countries suffer from a development 'vicious circle': the predominance of subsistence production inhibits accumulation of savings; low savings mean low investment; low consumption further inhibits investment; and because investment is low, economic growth is stagnant.[1] Many African economies fit this description.

According to this view, the problem is exacerbated by market access barriers in developed country markets, which further inhibit the incentive to invest, particularly for export. Instead, African exports are commodity-dependent, which has until recently caused a long-term decline in Africa's terms of trade.[2] And supply-side deficiencies, principally poor physical and financial infrastructure and low levels of human resource

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[1] UNCTAD, *The Least Developed Countries Report, Overview*. Geneva, May 2004. See especially pp. 2-3. Paul Collier's celebrated book, *The Bottom Billion: Why the poorest countries are failing and what can be done about it*, New York: Oxford University Press, 2007, is the most accomplished elaboration of the 'trap' argument.

[2] The recent China-driven commodities price boom has begun to reverse this process, but only for commodity-rich African countries. To the extent that resource-poor African economies import these commodities, they suffer from higher import prices, along with all other resource-poor countries. This is especially true of basic foodstuffs, whose prices have risen considerably in the past 18 months.

development, further inhibit investment prospects. Problems are compounded by chronic balance of payments difficulties.[3] This inhibits the ability of afflicted countries to import goods critical to domestic production and consumption, further entrenching the circle.

External financing alleviates balance of payments constraints by supporting the current account. It also boosts domestic savings and investment, which places the economy on a higher growth plane. In the African context, however, the dominant source of external financing has historically been official development assistance (ODA). The Millennium Project, the UK's Africa Commission and the G8 have all prioritised boosting ODA flows to developing countries, especially Africa.

But, as Bauer argues, aid inflows, at present the dominant source of external financing for many African countries, are not without problems.[4] Bauer identifies four. One, the assumption that poor countries cannot develop in the absence of Western largesse is condescending and undermines domestic initiative. Two, aid creates a vicious circle of dependence (on Western largesse), thereby defeating its own objectives. Three, large inflows of aid can generate a 'Dutch disease' effect of exchange rate appreciation, thereby undermining domestic (and, probably, nascent) industrial development. And four, channelling aid through governments accords rulers extended powers of patronage. Central to this critique is his concern that in many poor countries governance is part of the development problem; therefore aid might only exacerbate it. Furthermore, there is no shortage of capital flowing into other parts of the developing world, especially Asia.

But sustained inflows of FDI into Africa remain elusive. The full range of disincentives to FDI in Africa need not detain us here. However, Africa's developmental challenges, to which those reasons for not investing are closely linked, provide the crucial backdrop for understanding Africa challenges in trade and regional integration, and Europe's roles therein.

Africa in global trade and foreign direct investment

Today's global economy is dynamic and increasingly interdependent. International trade and investment flows are of an order of magnitude never seen before, even if in relative terms the global economy is not as integrated as it was at the end of the nineteenth century. Integration affords those countries linked into mobile flows of trade and investment the opportunity to leverage external resources for domestic development. The issue is how to access external resources on a sustainable basis, in a manner that complements domestic development strategies. For as Stiglitz soberly reminded us in the aftermath of the 1997–1998 Asian financial crisis, opening up to these flows, especially on the financial front, is fraught with dangers and needs careful management.[5]

Crucially, successful integration requires strong States capable of supporting markets that are prone to failure, collecting and directing resources to areas where they are most needed. Unfortunately this is a prerequisite generally lacking in the African context,

[3] As with recent changes in terms of trade, many African countries' external accounts are currently performing better than they have done for many years. Again, however, this only applies to those able to benefit from higher commodity prices.

[4] Bauer P., *From Subsistence to Exchange and Other Essays*. Princeton: Princeton University Press, Ch. 5, 2000.

[5] Stiglitz J., *Globalization and its Discontents*. London: Penguin, 2002.

where governance problems and lack of capacity abound. Worse still, globalisation has largely passed Africa by. Far from having experienced too much of this complex process, the continent tends to hover on its margins. Nowhere is this more evident than in trade and FDI flows.

Africa (including North Africa) comprises a tiny percentage of global trade. Further, Africa has by and large been incorporated into the global economy as an exporter of commodities, primarily to the European Union (EU), and an importer of capital equipment, manufactures, and services. Of course this aggregate picture requires some nuancing. For example Kenya, political problems notwithstanding, is emerging as a regional manufacturing hub for East Africa, exporting increasingly substantial quantities of manufactures to its neighbours. South Africa also does not fit the description, but by and large the picture holds true for much of the continent.

Africa captures a very low share of global FDI flows, consistently in the region of 2-3% of the world total.[6] Furthermore, the top 10 recipient countries consistently account for more than three-quarters of FDI flows into the continent.[7] This concentration also applies to source countries – only three (France, the UK and the US) accounted for 70% of FDI inflows in the period 1980-2000. This pattern is very different to the one that has taken shape in East Asia, especially China, for which the bulk of developing country FDI flows are destined. That investment is both market seeking and efficiency seeking, and more broadly spread across sources.

FDI inflows into Africa, on the other hand, are predominantly resource seeking, reinforcing the commodity-dependent export profiles of the recipient countries.[8] UNCTAD's World Investment Report (2005) notes that this gives FDI into Africa a peculiarly enclave character, in terms of which predominantly greenfield and capital-intensive investment is not strongly linked to the domestic economy and profits are not reinvested. The authors argue that this holds a further danger: States become vulnerable to powerful multinational corporation interests that are geared towards resource extraction, possibly at the expense of domestic manufacturing interests, which in turn would undermine diversification strategies. There is also the risk that large-scale profit repatriation could worsen countries' balance of payments.[9]

And to these economic problems we must add a political dimension. Developmental conditions in Africa stand in stark contrast to those experienced elsewhere. Two features stand out: large geographic States with small, dispersed populations. Taken together, these inhibit the establishment of strong (developmental) States capable of controlling their borders and delivering development across their geographic expanses. They also ensure continued political instability in countries where populations are widely dispersed and ethnically diverse. Hence Africa stands in stark contrast to the developmental States of East Asia.

What then are Africa's options, and what role can the EU play? Africa cannot look inwards. African economies must be strongly outward-oriented, and must use exports to

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[6] China's new-found interest in Africa's resources may be changing this, but China's outward investment globally remains relatively insignificant, and in many African countries China remains a 'junior partner'.
[7] UNCTAD, *Economic Development in Africa: Rethinking the Role of Foreign Direct Investment*. Geneva, 2005, p. 7.
[8] *Ibid.,* p. 9.
[9] UNCTAD, *World Investment Report: Transnational Corporations and the Internationalisation of the R&D*. New York, United Nations, 2005.

grow. Yet few countries have managed to sustain a high degree of outward orientation and rapid export growth without themselves being open to foreign trade and investment.

But the prospects for most African countries to break into global manufacturing supply chains have been substantially reduced by East Asia's ongoing growth. Beginning with Japan in the 1950s and 60s, continued through the first and second tier 'tiger' economies in north- and south-east Asia, and now dominated by China, East Asia is a tightly integrated manufacturing hub truly global in scale.

Access to rich markets for Africa's current and potential exports is therefore critical. Integrating regional markets is also traditionally seen as important to improving Africa's supply-side capacity, mainly by generating greater economies of scale and scope, but also through more effective cooperation on regional infrastructure and other trade facilitation measures. However, few view regional integration in Africa as a means of substantially raising demand for Africa's exports, as Africa's economies are often tiny or slow growing.

Broadly speaking, therefore, Africa's mountainous demand- and supply-side challenges must be met. African economies must globalise far more quickly than they have managed to date, manage better the risks of doing so, and exploit more effectively the resulting opportunities.

A brief history of Africa's multilateral market access agenda

While the importance of aid and debt relief for the poorest countries on the continent is acknowledged, improved trade performance is increasingly regarded as the key to sustainable economic development and self-sufficiency. Various studies have intimated that the aid Africa receives annually is only a fraction of what the continent loses as a result of unfair trade practices in developed country markets.

For a number of reasons (dealt with below), African countries are generally dissatisfied with the way the WTO operates, hence the spirited calls mainly by influential non-governmental organizations for rebalancing the system. It is imperative to note that the need for addressing the real and perceived imbalances is acknowledged by the WTO itself particularly its incoming Director-General, Pascal Lamy.

The extent to which the multilateral trading system fails to cater for African interests reflects the hesitance of developing countries in general to participate more fully in negotiating rounds of the General Agreement on Tariffs and Trade (GATT), the WTO's predecessor. The GATT sought to establish consensus over the 'rules of the game' for governing international trade, and was focussed narrowly on market access. However developed country governments still maintained protection over and intervention in significant parts of their economies (such as agriculture and textiles).

In the early 1960s when many developing countries became independent from colonial rule and acceded to the GATT reciprocal MFN tariff liberalization's efficacy and fairness became questionable. Scholars like Raoul Prebisch pointed out the inequities of subjecting countries at different levels of development to the same rules and commitments. The result was the adoption of the principle of special and differential treatment (SDT) at the end of the Tokyo Round where poor countries were not expected or requested to fully reciprocate concessions from their rich counterparts. The matrix of carve-outs from GATT disciplines included exemptions for developing countries from

tariff liberalization or the right to suspend concessions in terms of both the infant industry protection and balance of payments provisions (GATT Article VIII).

Tariff reduction negotiations therefore covered industrial goods only and were dominated by developed countries who exchanged concessions among themselves. The result was the exclusion of agriculture (an area where African countries have a comparative advantage) from the negotiations till the Uruguay Round.

Apart from exclusions from some obligations another aspect of SDT was the granting of preferential market access to developing countries by developed countries as an allowable departure from the non-discrimination principle underpinning GATT. For this and other reasons relating to the overall power distribution in the system, developing countries and African countries were not seen as equal partners in the negotiations. In addition reliance on preferences locked many African economies into long-term dependency on low value added production for developed country markets.

The Uruguay Round, which resulted in the creation of the WTO in 1994/5, became a turning point for some developing countries, notably in East Asia and Latin America. It marked a departure from old-style SDT culture to that of active participation in the negotiations. The 'Tokyo approach' to SDT gave way to one of limiting policy flexibilities and exemptions from obligations, except for least developed countries (LDCs), whilst allowing for 'asymmetry' in developing country commitments. This found expression in longer time-periods for implementation of agreements, smaller tariff and subsidy reduction commitments, and more favourable treatment in trade remedy cases brought by developed countries.

Importantly, agriculture and clothing and textiles were brought into the ambit of WTO disciplines, albeit in a highly unsatisfactory manner. In return, developing countries took on a range of new commitments that were brought into the WTO by the developed countries and made subject to reinvigorated dispute settlement institutions. In this respect the Uruguay round became a transitional phase in fully integrating developing countries into a single rules-based trading system with negotiations guided by the 'single undertaking' principle. To pacify developing countries, a range of SDT provisions were built into the various WTO agreements. However, these were largely hortatory and non-binding, and not subject to dispute settlement.

Therefore, even though most African countries are members of the WTO (two of them were among the eleven developing country founding members of the GATT), their participation in the system (as a group) has untill fairly recently been highly ineffective. African countries' more recent forays into regional and bilateral preferential trade agreements have not yielded much more.

Africa and the EU: modern market access challenges

Africa's market access challenges involving the EU may be divided into three broad areas: the multilateral system; unilateral preference schemes affording African exports into rich markets a price advantage; and bilateral or regional relationships between Europe and Africa. All three spheres are interdependent; developments in one affect possibilities and priorities in others. In other words market access issues cut across all modes of engagement, and must thus be discussed (and addressed) in an integrated fashion.

Like many developing countries African countries were not happy with the results of the Uruguay Round. Together with their fellow G90 members they adopted a defensive, confrontational stance at the Seattle and Cancun WTO Ministerial Conferences. To further register their disillusionment African countries opposed launching the Doha round of negotiations, calling for past 'injustices' to be addressed first. It was only after a concerted diplomatic process, particularly the promise that the new round would address their development concerns that they finally relented.

Africa's modern market access agenda therefore begins with a 'fairer WTO'. The EU has a prominent role to play in these reform efforts, but success in some might make other problems worse.

In general, Africa has a strong actual and potential comparative advantage in *agriculture* and agro-processed products. However, high tariff and non tariff barriers, and subsidies that many developed country governments dole out to their producers and exporters, depress world farm commodity prices, undermining Africa's exports. Therefore, in principle significant agricultural trade liberalisation in the Doha round is critical for Africa's development. To its credit the EU has tabled meaningful offers in the Doha negotiations on domestic support, export subsidies, and tariff reform. The EU has also made good unilateral progress in reforming its farm support programmes in an attempt to make them less 'trade distorting'. But given the Doha round's lack of progress, these initiatives on their own clearly will not be enough to secure a deal beneficial to Africa.

Moreover, Sub-Saharan Africa is not homogenous and agricultural reform presents a number of complications. Benefits include some competitive agricultural producers, such as West African cotton suppliers, and South Africa, taking advantage of reductions in developed country farm support, particularly where this promotes price increases for their output. And in the longer term many more African countries could benefit, as removing distortions in global agricultural pricing mechanisms would provide the right incentive structures for investing in improved agricultural production.

Yet the negative short term consequences cannot be ignored. The reduction of EU price supports could reduce margins received for some African agricultural exports vis à vis more competitive producers. EU farm tariff reductions could aggravate this effect. Therefore it is by no means certain that, in the short to medium term, all or even most African countries will benefit from dismantling developed country protection regimes. Worse still, food security in several African States depends on EU-subsidized food imports. The EU's commitment to eliminate export subsidies by 2013 will therefore present severe problems to net-food importing countries.

Therefore, some African countries find themselves at the cusp of a Faustian bargain with the EU. Neither wants to radically reform the latter's common agricultural policy, unless it can be done in such a way that mitigates shocks to basic food prices and does not threaten Africa's preferences. So for some African trade negotiators maintenance of the status quo in agriculture is not necessarily a problem: while subsidy reductions may promote long-term comparative advantage in agricultural production, they could also induce substantial short-term pain. The recent global food price crisis, which has already led to riots in many African countries, shows precisely why African politicians would be wary of the short term consequences of global agricultural reform.

Another obstacle, perhaps one of the largest facing African exporters, is tariff escalation on *industrial goods* (whereby tariffs rise as value addition increases).[10] This effectively confines them to supplying raw materials. The non-agricultural market access (NAMA) negotiations in the Doha round, if it ever concludes, should see substantial reductions in tariff escalation in both developed and key developing countries. This is likely to affect most those sectors where tariff peaks remain high, such as clothing and textiles, processed foods, automobiles, leather goods, and so on. Once again, only a few African States may benefit from this in the short term – there are more competitive exporters Asia, Latin America, and Eastern Europe.

Moreover, the quid pro quo could be tariff reductions for some African countries, a demand hitherto resisted owing to a continued desire to protect infant industries.[11] The EU and the US are currently aggressively pursuing a NAMA deal that will realise 'new trade flows'. This necessarily means a package designed to cut currently applied tariffs, not just bound rates, and represents a significant and controversial departure from tradition. Historically GATT negotiations have focussed on reducing bound rates, relying on countries to unilaterally reduce their applied more rapidly.

Many developing countries, including in Africa, have done precisely that, largely at the behest of the World Bank and the International Monetary Fund (IMF). Over time large gaps between bound and applied tariff rates have developed. However, for some that gap is now small in certain sensitive sectors; an ambitious NAMA deal would result in applied tariff cuts and significant trade-induced disruption in weak industrial sectors.

Hence many developing countries are resisting EU-US proposals in NAMA. They supply a twofold argument. First, the current NAMA proposals will require developing countries to cut tariffs, bound or applied, by proportionally more than developed countries, which runs fundamentally counter to the concept of 'less than full reciprocity' enshrined in the Doha round mandate under special and differential treatment (S&DT). Second, the degree of ambition that the EU and US are promoting in NAMA is not found in the agriculture negotiations, where most of the EU's and the US's sensitivities lie. These two valid complaints are the reason why the defensive NAMA-11 coalition exists. It is led by South Africa, arguably the EU's most important strategic partner in Africa.

However, assuming deals in agriculture and NAMA are struck, Africa will face another difficult problem. Most proposed reforms to existing tariffs, coupled with proposed reductions in farm price supports inside the EU, will substantially erode existing preference margins that many African exporters currently enjoy.[12] Preference schemes reserve markets for African exports at the expense of wealthier competitors like Brazil, India and China. Some economies, such as Mauritius and Swaziland (sugar) and Botswana and Namibia (beef) have come to depend on these preferences for export earnings and employment.

There are, broadly speaking, two views on this problem. Some argue that preference dependence is unsustainable, and has in any event not promoted growth and

[10] This is also a serious problem in agriculture. The WTO Agreement on Agriculture covers HS chapters 1-24, which include most processed/manufactured food products (fish are the notable exclusion). These attract higher tariffs in rich markets than basic farm commodities do.

[11] LDCs will be exempt from most commitments in the Doha round, including tariff reductions.

[12] Note that with the recent advent of unilateral Chinese and Indian preference schemes for African LDCs, preference erosion is no longer just a problem in OECD markets. However, the overwhelming majority of Africa's exports still go to Europe, making this a less significant concern.

diversification in recipient countries. Stakeholders must therefore begin to look beyond preferences, to what can be done in the short term to mitigate the negative impacts of preference erosion, and in the long term to improve export competitiveness in a preference-free world (the so-called 'supply side' issues).

Taking a very different view, Paul Collier has recently argued that the threat of preference erosion makes the development of *effective* unilateral preferential access to OECD markets, of which the EU is the largest, all the more important.[13] That is, if preference schemes can be made to work better, they are an essential development tool. Moreover, because multilateral liberalisation is proceeding (however slowly), time is running out to get them right.

The two major schemes targeted at Africa are the US's African Growth and Opportunity Act (AGOA) and the EU's Everything but Arms (EBA) initiative. A number of African countries do not meet AGOA's qualification criteria, which are determined by the US Congress, and only LDCs may access EBA. Furthermore, EBA is open to all LDCs, some of which (e.g. Bangladesh) are far more competitive exporters than most of Africa's LDCs. To date neither has been particularly effective in improving Africa's export performance or encouraging export diversification. This is due to a combination of poor design (such as the exclusion of certain key products from the preference schemes), preference margins inadequate to overcome Africa's lack of competitiveness, and Africa's own difficulties with accessing and utilising the preferences on offer.[14]

The clothing and textiles sector provides a good working example. Until 2005 global trade in these products was governed by a tightly controlled quota system. Competitive Asian exporters would receive small quotas for exporting into rich markets, largely to protect domestic producers in those markets, but also to provide 'space' for less competitive exporters, who would receive larger quotas. Preferential quota schemes work in precisely the same way as preferential tariff schemes.

African countries, generally speaking, do not have integrated clothing and textiles production chains and requisite economies of scale in production. Consequently, much industrial capacity in this sector is driven by foreign investment. This investment primarily results from 'quota-hopping' (especially Asian investors avoiding developed country quotas on home country exports). But since quotas on Asian exports have largely disappeared, their incentive to relocate production has substantially diminished. The recent closing of some textiles and clothing companies in Lesotho and Mauritius is evidence of this.

However, most agree that AGOA remains critical to Lesotho (and others). Lesotho still has Africa's largest apparel export business, purely because of AGOA. To be sure this industry has suffered because of global quota reforms, but, globally, tariffs in this industry remain high and preferential tariff treatment therefore valuable. Moreover, clothing exports are still by far Lesotho's largest, almost 100% go to the US, and the sector employs thousands of people who would struggle to find work elsewhere.

In clothing the difference in effectiveness between AGOA and EBA is attributed to differences in each scheme's rules of origin. This probably applies generally, although the specific rule in clothing is significant. AGOA's clothing rules are much more flexible than those in the EBA scheme, allowing Lesotho exporters to use a greater

[13] Collier, P., *op cit*.
[14] Many studies find this startling result – it is up to African governments and business organisations to make exporters more aware of the preferences on offer and more effective at utilising them.

degree of imported inputs into the final exported product. Similar developments cannot be associated with EBA – indeed, apparel exports to the EU have declined despite duty free treatment. In general, many have argued that AGOA has been more beneficial to Africa than EBA.[15] The challenge for the EU is rethink EBA, improve it through simplification, expansion, and greater flexibility, and market it more aggressively. This will require the Commission and member governments to face down powerful lobbies, but such is the political economy of international trade.

What if truly effective preference schemes – which the majority of African countries could access – could be devised? What market access challenges might then arise? The most obvious is Europe's standards and regulations, and related non-tariff barriers. Broadly speaking these includes food safety requirements, environmental standards, and animal and plant health and safety standards. Most African exporters find these difficult to meet.[16] And the European Commission's *Global Europe* document makes it clear that European governments will not offer much flexibility in this area. Indeed, *Global Europe* seeks to promote the EU as the global leader in standards development.

Moreover, whereas standard setting to date has been almost exclusively government-driven, so-called private standards, driven primarily by large retail chains (in turn responding to customer preferences) are now extremely important. For example, European consumers concerned over the so-called 'carbon footprint' of transporting an African export may now choose a domestic substitute, even if it is higher in price. No-one has yet thought through carefully the implications of this development for international trade, but the signs so far are not good for Africa. And added to this is the challenge presented by the rising cost of transport itself, further eroding Africa's competitiveness.

Considering this, the EU should take greater interest in improving the capacity of African exporters to meet European standards. One simple potential solution would be to move EU testing stations to the point of departure rather than the point of entry into the EU. More money and technical expertise could be dedicated to cooperating with African governments and agencies trying to assist African farmers and manufacturers to improve their production processes. This in turn requires African constituencies to pressurise their governments into working more effectively with northern partners; often African governments have their attention focussed anywhere but on how to 'get the basics right'. Finance for export insurance systems is also problematic. And more attention needs to be paid to improving transport and logistics infrastructure in Africa, something we discuss in more detail below.

Improving Africa's export performance: the supply side agenda

Despite the challenges noted above, market access is probably Africa's lesser concern. There is a strong case for re-examining Africa's supply side constraints.

'Supply-side constraints' can and does become a catch-all phrase for everything that might be wrong with an economy. Examples include political instability, over-valued and volatile real exchange rates, a lack of capital depth, institutional weakness, poor

[15] See for example Brenton P. and M. Hoppe, "The African Growth and Opportunity Act, Exports, and Development in Sub-Saharan Africa," *World Bank Policy Research Working Paper 3996,* August 2006.
[16] Standards are therefore in and of themselves another reason why more advanced developing countries, who can meet Europe's standards, would capture the majority of the short term gains from multilateral reforms.

bureaucratic capacity, poor quality market intelligence, and so on. In thinking about Africa's trade and regional integration challenges it is therefore useful to limit the supply-side problem to those aspects that the EU could realistically assist in alleviating. These are energy, transport, logistics, finance, technology and skills transfers, and bureaucratic efficiency – all falling under a broad 'trade facilitation' agenda.

Principal among these is Africa's woeful physical infrastructure, including energy, transport and communications.[17] These basic business necessities are critical determinants of export performance. Driving down these costs would deliver significant short- and long-term benefits to all economic actors. Indirect payoffs include a lower real exchange rate (if nominal rates can be kept stable), further assisting export performance and diversification.

Europe already plays a strong role in developing Africa's infrastructure, primarily through official development assistance in the form of finance and technical capabilities. But, as noted earlier, little of this aid has been effective beyond the initial construction phases. Many projects undertaken in the 1960s and 1970s have fallen into a state of disrepair, and since the 1990s donor focus has shifted to budget support and soft infrastructure, such as schools and hospitals. China has recently become very active in physical infrastructure projects, but these are overwhelmingly project-finance based, potentially saddling recipient countries with large external debts just as the Paris Club of donors has begun to write down Africa's existing stock.

It would therefore be prudent for European donors and the European Commission to reassess its ODA strategy. Ways must be found for donor funding to support physical infrastructure development in Africa – in a sustainable fashion. This in turn means that projects must be better prioritised and designed, and that there is as much so-called 'local ownership' as possible. Assistance with long-term maintenance must be contractually guaranteed. In sum, the well identified problems with ODA of poor coordination, inefficiency, and inadequate long-term planning must be addressed.

Donor activity in Africa takes on many forms and has many sources. Perhaps newest and most important to Africa's export performance is the WTO's 'aid for trade' (A4T) agenda, which rose to prominence following the United Kingdom's Commission for Africa report, the Gleneagles G8 summit, and the World Bank and IMF's 2005 spring meetings. The *idea* is of course not new – the Integrated Framework process was established in 1997 to assist LDCs in trade capacity building, and involves the World Bank Group, the IMF, two United Nations agencies, the International Trade Centre, and the WTO. Yet the mere existence of an A4T agenda in the WTO suggests that the Integrated Framework to date has delivered little. Europe and Africa should seek to cooperate in shaping the development of thinking around A4T as it presents a good opportunity to start from something close to a new beginning.

However, A4T cannot be de-linked from negotiations over a trade facilitation agreement in the WTO, which have been a source of considerable friction between African countries and the EU (and other OECD countries). This is unfortunate, since a well-considered trade facilitation agreement could yield significant dividends for developing countries. Africa's resistance to negotiations over trade facilitation, a so-called

[17] Africa's transport costs (including storage and handling) are on average the highest amongst developing countries. See Broadman, H., *Africa's Silk Road: China and India's New Economic Frontier*. Washington D. C., the World Bank. See also Naude, W. and M. Mathee, "The Significance of Transport Costs in Africa" *UNU Policy Brief* 5, 2007. Helsinki, United Nations University.

'Singapore issue', is due to their ongoing struggle to implement their Uruguay Round obligations, particularly in areas like standards and intellectual property protection.

African countries opposed negotiations on all four Singapore issues; the other three being transparency in government procurement, competition policy, and investment. Only trade facilitation remains part of the Doha negotiations, and even then its conclusion in the July 2004 Framework Agreement, which is the real foundation of the round, was a result of serious compromises by all parties in a bid to rescue the talks. The EU supported the inclusion of all four issues, along with the US and other OECD countries.

It is not clear yet what a trade facilitation agreement might involve. In principle it could form the perfect framework for a legally binding set of commitments aimed at assisting African and other developing countries with some of their most pressing trade facilitation issues. But this will only be possible once political differences are set aside, and only if an agreement focuses on efficient implementation, skills transfer, and technical capacity improvements. Moreover, it will have to dovetail with the myriad donor coordination processes that have begun since the OECD's 2005 Paris Declaration on Aid Effectiveness. This will, in turn, require an unparalleled degree of cooperation between international organizations, particularly the World Bank, World Customs Organisation, International Monetary Fund, various UN organisations, and the WTO. One must add to this private sectors and donor and recipient governments. Is this likely? The troubles encountered by the Integrated Framework should not be ignored.

What role for regional integration and Economic Partnership Agreements?

Formal regional integration, where neighbouring States negotiate a path towards deeper economic and political ties, is commonly touted as an essential tool for raising growth and reducing poverty in Africa. European governments have long promoted this ideal, citing their own experience with the European Union as evidence to support their case. Yet there are significant problems, at the conceptual, political, policy, and implementation levels. And the EU's newest involvement in African regional integration processes – through the Economic Partnership Agreements (EPAs) – is making them worse. Europe and Africa urgently need to re-examine Africa's regional integration project.

Regional integration is supposed to increase trade between members, enlarge markets and expand production possibilities (economies of scale and scope), and allow for the development of common laws and regulations that improve the region's institutional strength. This is precisely what has happened in the European Union, the most advanced formal integration arrangement in the world.

Empirically, however, there is no evidence to suggest that formal regional integration amongst *developing* countries improves their individual or collective economic performance. The world's most successful developing region in the 20th and 21st centuries, East Asia, explicitly eschewed formal regional integration processes. Trade integration was driven by unilateral trade and investment liberalisation, significant inflows of Japanese and Western capital, and Cold War foreign policy dynamics. This has resulted in 'Factory Asia', especially now that China has fully joined the process. It is only now, after all this has happened, that things like regional free trade agreements are being negotiated – to lock in the gains made. The 'model' employed, to the extent

there was one, was unequivocally open in character –there was no attempt to create regions open only to themselves but protected from the rest of the world.

This is because there are few obvious complementarities in trade between developing countries only. This is especially true in Africa, although in southern Africa South Africa might be considered diversified enough to play a 'northern' role in regional trade. However, and this is the second major reason why 'fortress-style' integration cannot work in Africa, no region contains a set of economies large enough to support and sustain high growth among their members. For example, the fourteen economies constituting the Southern African Development Community (SADC), which includes Africa's largest economy South Africa, collectively produce about as much as Turkey does annually. Turkey certainly does not consider itself capable of 'going alone'; why should SADC?

The third major conceptual critique of regional integration in Africa is that it tends to benefit the stronger members only. This argument, due to Anthony Venables, is now well established, and Paul Collier has recently summarised it elegantly.[18] In essence, when a regional integration arrangement contains economies performing well above the global average (such as Germany in the EU), the forces of convergence will prevail. The weaker members will 'catch up' as resources flow from countries like Germany to those like Portugal, Greece, and now the former eastern bloc nations. But when a group contains no globally strong economies, the forces of agglomeration will prevail – resources will flow from the weakest in the group to the strongest, where it is relatively cheaper and easier to do business, and where connections to global export markets are greater. The relatively stronger economies will grow at the expense of the weaker members of the regional integration arrangement.

At the political level economic integration requires willingness on behalf of the States involved to pool sovereignty. It is not clear whether members of any of Africa's regional economic communities (RECs) are willing to do this sufficiently. Furthermore, it is well-known that many African countries are unsure which REC offers them the greatest benefits: a number of Member States are 'hedging their bets' by being members of other regional bodies. This is the much-documented over-lapping membership problem, to which there is no obvious solution at present.

Problems at the political level create endless policy, capacity and implementation challenges. No African REC apart from perhaps the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC) is anywhere near establishing comprehensive free trade internally, even if some trade agreements look good on paper. The EAC and the Southern African Customs Union (SACU) have in place functioning customs unions (but not comprehensive internal free trade), but both are set to be subsumed by their greater regions, COMESA and SADC respectively. Of these only COMESA may realistically be expected to achieve its goals of a customs union and common market by the proposed deadlines.

Slow progress – these initiatives began soon after independence – is due to national-level politicians not prioritising economic integration, even if their regional and African Union level counterparts do; supranational regional secretariats facing severe financial and technocratic constraints, and lacking any real political authority; and many regions containing pockets of serious political, economic, and social instability (e.g. Zimbabwe in SADC). Similar dynamics play out across central and west Africa.

[18] Collier, P., *op cit.*

Seen against this backdrop, the EPA processes pose serious potential risks. EPAs have two stated aims. The first is to maintain Cotonou Partnership Agreement signatories' pre-2008 levels of market access into the EU, which is far better than that available under the Generalised System of Preferences or Europe's most favoured nation tariffs.[19] The second stated objective is to foster and accelerate regional economic integration amongst EPA contracting parties, and harmonise these regions' trade and investment relations with the EU. This means that the EU is negotiating with groupings of African, Caribbean and Pacific (ACP) countries.

In Africa, there has been no effort to match these negotiating groups with existing REC memberships. Just as some African countries have failed to pick one REC only, many involved in EPA negotiations have switched negotiating groups. The SADC group has been the biggest loser, with many SADC members joining the Eastern and Southern African (ESA) group on expectation of a better deal (which is why we now talk of a 'SADC minus' group – only the SACU countries, Mozambique and Angola remain).[20] This process accelerated once South Africa joined the SADC group, despite the EU's assurances that South Africa would be treated differently from the rest of the SADC group in market access negotiations. "This [membership] problem is not of the EU's creation, but it is questionable what role the EU is playing in rectifying the situation."[21]

Africa's historical problem of terminally weak integration processes, combined with the EU's heavy-handed approach to EPAs, has cast a dark shadow over the future of regional integration in Africa. The African Union, whose long-held dream it is to see an integrated African Economic Community emerge, has placed a moratorium on the establishment of new RECs, and has officially recognised only five in an attempt to rationalise the now very cluttered picture, and to accelerate integration processes. These are SADC (subsuming SACU), COMESA (subsuming the EAC), the Economic Community of West African States (ECOWAS), the Economic Community of Central African States (ECCAS), and the Arab-Maghreb Union (AMU). A Conference of African Ministers in charge of Integration has met three times now to pressurise national governments.

EPAs will force some sort of REC membership 'shake-out', just as the AU's own rationalisation process will (over time). This will improve some problem areas, but EPAs will move faster than the AU, and once they are in place Africa could be left with a very different regional configuration to that which exists now. EPAs will not contractually require each region to integrate internally (although this will happen to some degree) to the same degree as they will be required to integrate with Europe, but since Europe is each region's main trade partner it will make little sense to maintain the old REC groupings alongside the new EPA regions.

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[19] Cotonou unilaterally grants highly preferential market access to most of Europe's former colonies, which includes a number of non-LDCs. But it is WTO-illegal, since it discriminates against other developing countries (discrimination of this kind in favour of LDCs only is legal, hence EBA's existence). It has thus operated under a special waver in the WTO, which expired at the end of 2007. To preserve Cotonou's market access, it must turn into reciprocal trade agreements between the EU and various former colonies, where both sets of contracting parties make concessions – this would be WTO-legal. EPAs are these reciprocal agreements, and many have sounded the alarm at Africa's further liberalisation vis-à-vis the EU. This, however, is not our primary concern in this article.

[20] The ESA group itself split into an East African Community EPA, and another for the remaining ESA members. The EAC EPA comprises Kenya, Uganda, Tanzania (a SADC member), Burundi and Rwanda.

[21] Draper, P., "EU-Africa Trade Relations: The Political Economy of Economic Partnership Agreements". *Jan Tumlir Policy Essay* 02/2007. Brussels, the European Centre for International Political Economy, 2007.

Furthermore, EPAs hold potential benefits if they encourage more investment (preferably private) in Africa's backbone infrastructure sectors, such as transport and communications. The proposed chapters on services and investment, if they can be tailored to the needs of each region without compromising their efficacy as legal documents, should assist in this regard. Even if negotiations fail the experience may kick-start African governments' own attempts at forging regional compacts in these ever more important areas of economic policy. At the very least it will spark more interest in increasing competition in certain service sectors, which in Africa remain dominated either by the state or recently-privatised and poorly regulated monopolies.

But in Southern and West Africa, at least, it is clear that currently the political-economy aspects of the EPA process dominate. There is now an alarming degree of animosity between the European Commission on the hand, and South Africa and Nigeria (amongst others) on the other. This is testing not only the strength of Europe-Africa ties, but also the strength of the relations between these two regional powerhouses and their neighbours. EPAs are supposed to be about growing trade and deepening integration, but have morphed into unsightly political battles that could leave a challenging legacy.

Conclusion

Africa needs more economic globalisation. It needs to import and export more, and increase its share of the global FDI pie. And these processes need to run parallel to the myriad others required to address all of Africa's developmental challenges.

The market access agenda, and African economies' supply capabilities, are the two broad 'work programmes' every stakeholder must pay attention to. This breaks down into meaningful progress in the Doha round, improving preferential access, altering the structure of protection in the OECD to encourage a move away from raw material dependency, and an open discussion of standards. Meeting standards in turn takes us into the supply-side issues, of which there are many. For the purposes of improving Africa's trade performance, such supply-side constraints should be limited to things like physical infrastructure and trade financing. Together these should form the basis for constructive negotiations over trade facilitation and aid for trade, which brings us full circle back to the WTO. Europe and Africa must set aside ideological differences and get down to work.