Special report 2012/12

Successful African regional integration?

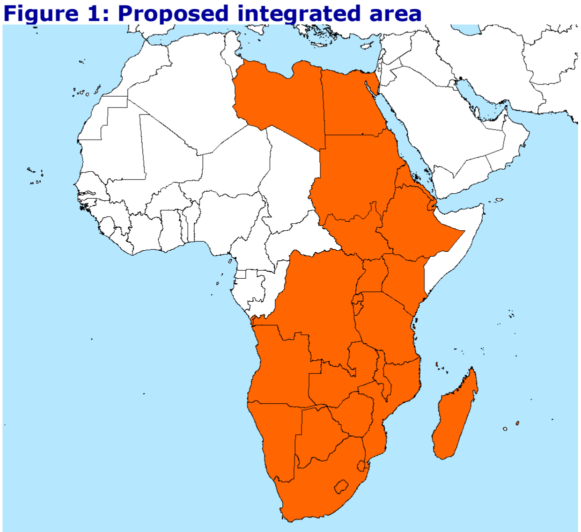
In 2008, the heads of three African trade organizations (EAC, SADC and COMESA[1]) proposed the integration of these three organizations into one free trade area (FTA) consisting of 27 countries. In this way, the countries want to increase regional trade. This article explores why African countries currently trade so little in the region. Subsequently, we will analyze what problems obstruct the development of the three organizations. We conclude with how the three organizations will perform together.

One continental free trade area

Although ideas of forming a continental free trade area have been under discussion for a long time, attempts to integrate in this way became more concrete in 2008. In that year, the heads of three African trade blocs (EAC, SADC and COMESA) proposed the integration of the three blocs into one continental free trade area consisting of 27 countries (figure 1). Although not explicitly mentioned, the integration of the three blocs also entails the expansion of the FTA to some members of the blocs that have not yet joined the corresponding FTA (see note under figure 3). In June 2011, the countries opened negotiations, allowing themselves three years to launch the FTA. The FTA is expected to comprise 27 countries with a total population of nearly 600 million and a GDP of USD 1 trillion. The proposed combination of trade communities aims to enable the duty-free and quota-free movement of goods by 2014 and the duty-free and quota-free movement of services and people by 2016. Furthermore, the three blocs formulated the long-term ambition to create an Africa-wide economic and monetary union by 2025.

[1] East African Community (EAC), South African Development Community (SADC) and Common Market for Eastern and Southern Africa (COMESA).

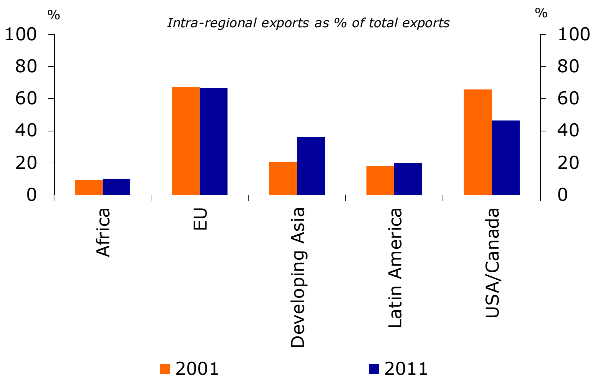
Figure 1: Proposed integrated area



Regional trade is currently relatively low

There is very little economic integration between African countries. IMF data show that intra-African trade constitutes a meager 10% of the region's trade, which compares unfavorably with trade within other regions (see figure 2). If informal trade would be included, this would raise the trade figures substantially, but not to the level of Latin American exports, as these would also be lifted by informal trade.

Figure 2: Intra-regional exports



Source: IMF

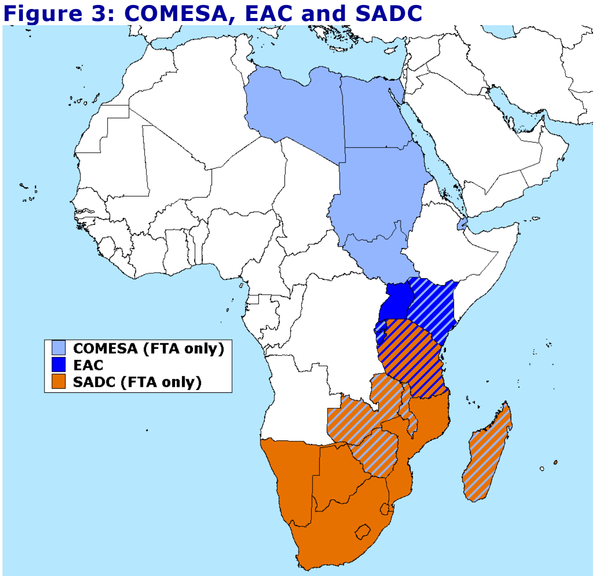
The most important reason why the amount of regional trade is relatively low is that hardly any synergy exists between the various African economies. The economies are largely underpinned by agriculture and minerals, while the amount of tradable products in manufacturing and services industries is low. One exception is South Africa, a more developed country with hardly any similarity to other countries in the region. As there is little industry to process minerals and crops, these commodities are exported outside the continent. In addition, most African countries still have links with their former colonial masters. Many African countries were developed as producers for their colonizer. As can be seen most clearly in former French colonies in West Africa, these links remained after independence. Furthermore, between African countries many tariff and non-tariff barriers still exist. Finally, Africa's underdeveloped physical infrastructure hampers trade. Infrastructure for exporting goods and commodities to other regions was built in colonial times and is still better than the intra-regional infrastructure. Thereby, inferior road, rail and air links, in particular within the continent, result in high freight costs, which deter regional trade.

Nevertheless, there are many benefits of increasing trade. Small economies in particular would benefit greatly from trade, especially in their region. These benefits stem from the economies of scale principle, which states that products are produced more efficiently in larger markets, while higher competition may also increase productivity and welfare. Furthermore, higher regional trade could make the countries less vulnerable to shocks in the global economy. Lastly, collaboration between countries on an institutional level could make it easier for countries to deal with issues relevant to more countries (e.g. infrastructure development, tariff liberalization and reduction of non-tariff barriers), which could also result in more intensive trade.

COMESA, EAC and SADC

The three separate trade organizations COMESA, EAC and SADC – see table 1 for key facts – currently have similar, as well as unique problems. Several countries are members of two groups (see figure 3). However, multiple memberships are neither credible nor practical.[2]

Figure 3: COMESA, EAC and SADC



Source: Rabobank

N.B. Eritrea, Uganda, DR Congo and Ethiopia are members of the COMESA, but have not yet joined its free trade area. Angola, DR Congo and Seychelles are members of the SADC, but have not yet joined its free trade area.

Table 1: Key facts trade blocs

	COMESA	EAC	SADC	Africa
GDP (current USD, 2011, bn)	448	83	655	1,829
Population (m)	261	142	280	1,037
Member states	15	5	15	

Source GDP/population data: World Bank

Furthermore, political, social and economic troubles in many countries slow down progress in the various organizations. This has become most clear in the COMESA, where Egypt, Libya, Sudan and South Sudan all have experienced

[2] For example, under a SADC agreement Zambia was obliged to dismantle all tariff barriers to SADC member South Africa, while under a COMESA agreement the country was obliged to implement a common external tariff against South Africa. As a consequence, trade and diplomatic relations with countries from both organizations were affected.

severe political, economic and social unrest in the last few years. Although the political, social and economic difficulties in the SADC and EAC are not as big as in the COMESA, also the countries of these blocs have to cope with such difficulties. This obstructs cooperation with other member countries. Other problems are associated with the political and social structures of many African countries, which do not generally allow for quick decision-making.

Of the three economic communities mentioned, the EAC is considered the most integrated community in Africa, as it has been implementing a common market since 2010. The EAC has a customs union, a common market, a legislative assembly, a bank and a court.

Recent studies regarding the EAC confirm that the organization can only be partially considered as an FTA, as important non-tariff trade barriers between its members still exist and a considerable amount of implementation has yet to be done in national legislation.

The SADC has an FTA of 12 member countries[3] and is evolving into a customs union, albeit very slowly. Progress in the SADC is slow, because the community is undergoing an institutional crisis, reflected by the suspension of its tribunal from 2011 until August 2012.[4] This happened after Zimbabwe refused to recognize a ruling of the tribunal in 2008 that 78 white farmers were wrongly dispossessed of their land. Also, tensions rose between SADC and member country Angola, after the latter deported civil society leaders that were to attend a SADC summit in the country in 2011. The lack of progress of SADC's customs union is further illustrated by the work that still has to be done on harmonizing policies, regulatory frameworks and standards, resulting in a postponement of the targeted introduction year from 2010 to about 2016.

Conclusion

Although negotiations for a continental free trade area have started and progress is on course given recent news reports, the plan is rather optimistic. As seen above, political, social and economic troubles within countries, as well as slow progress on less ambitious projects act as a heavy brake on the integration process. If projects like this are still difficult, this does not bode well for the project of a fully integrated free trade zone in Africa. Although the merger of the three organizations by 2014 cannot be excluded, we think it would take a miracle though. The FTA would lead to increased trade between the involved countries. The countries would stand to profit from Africa's growing middle class, as the increase in the economies of scale would allow Africa to compete on a more global scale.

August 2012

Reinier Meijer +31 (0)30 – 213 1568
R.Meijer@rn.rabobank.nl

www.rabobank.com/economics

[3] Madagascar is currently suspended following a coup d'état in 2009.

[4] The position of the tribunal as of August 2012 is still unclear.