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Reconsidering the African regional integration paradigm

Colin McCarthy

Since independence African governments have embraced regional integration and concluded a large number of regional integration arrangements (RIAs). Yet intra-regional trade remains comparatively low. Although the causes of the failure have been reviewed extensively, little attention has been given to whether the basic paradigm that underlies the African approach to integration is appropriate.

The model of market integration pursued by African governments is characterised by a sequence beginning with the establishment of a free trade area, followed by a customs union, a common market, and finally an economic union with a currency union as the highlight. However, it is questionable whether this approach addresses the need for economically marginalised countries, many falling in the UN's least developed country (LDC) category, to overcome the obstacles small and poor economies face in catching up economically with the developed world.

To begin, a serious challenge may exist in the very smallness of the African economies that integration is expected to counter. No fewer than 41 Sub-Saharan African (SSA) economies have a gross domestic product (GDP) of less than 30 billion US dollars, including 28 economies with a GDP of less than 10 billion US dollars. The expectation is that the integration of small economies will create room for economies of scale and competitive advantages. But integrating very small economies will still result in a relatively small integrated market. Nevertheless, integrating small markets will generate some benefits of scale.

The limitations of RIAs

An RIA in the form of a free trade agreement reduces the transaction costs of trade by removing a border barrier, namely the customs duty. The tariff is undeniably an important barrier at the border but it can be questioned whether it is the most important one. While very difficult to analyse systematically, there is abundant anecdotal evidence that the aggravation experienced at borders is perhaps more onerous. This might be because of management problems at border crossings or purely because documentation and procedures are not standardised. For landlocked African economies, the aggravation is exacerbated by the need to cross multiple borders.

In addition to border barriers, many behind-the-border constraints not addressed by formal RIAs exist that inhibit trade. Given the limited availability of cheap transport via navigable inland waterways, the logistical costs of trade in goods are high. This is exacerbated by poorly developed transport systems that were designed in colonial times to transport primary products to port, resulting in poorly developed cross-country connections and some of the highest transport costs in the world..[1]

Furthermore, business contracts, even those as simple as orders to purchase or decisions to sell, require information on comparative prices and depend on fast and low-cost access to reliable market information, including information on the credit worthiness of potential clients. Yet most SSA countries lack the skills and capital to establish and operate sophisticated modern communication systems and the market size that will allow viable business publications to serve as a source of market information.[2]

Although these barriers also obstruct trade with the rest of the world, their impact on trade in the region is particularly pernicious. Paradoxically, information on industrialised markets is more readily available than information on business opportunities in the region. The lack of readily available information, high regional transport and communications costs and poor transport links discourage businesses

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The implications for bananas of the recent trade agreements between the EU and Andean and Central American countries

Giovanni Anania

In the October 2009 issue of TNI, Giovanni Anania explored the implications of a potential agreement to end the banana dispute at the WTO on the preferential margins that African, Caribbean and Pacific (ACP) countries enjoy under their Economic Partnership Agreements with the European Union (EU). Two months later, the EU concluded with Latin American countries and the US the Geneva Agreements on Trade in Bananas, while adopting a €190 millions package aimed at supporting ACP producers. Earlier this year, as the EU concluded agreements with eight banana-exporting countries in Central and South America, it became clear that preferences enjoyed so far by ACP countries will be eroded further. This month, therefore, TNI once again gives the expert the floor.

Earlier this year, the EU concluded trade negotiations with Colombia and Peru and, later, with six Central American countries (Costa Rica, El Salvador, Honduras, Guatemala, Nicaragua and Panama). Within the resulting agreements – which still await ratification from legislatures on both sides of the Atlantic – the provisions on bananas are critical from the perspective of the American countries. EU concessions on bananas are the same for all eight countries: the EU has agreed to progressively reduce its import tariff on bananas originating in these countries to 75 €/t by 1 January 2020.

In the absence of any agreement, the import tariff to be applied to their exports in 2020 would have been 114 €/t, whereas now the preferential margin will increase progressively from 3 €/t in 2010 to 39 €/t from 2020 on (table 1).

However, between the entry into force of the agreement and 2020 a "safeguard" clause will prevent larger than anticipated increases in EU banana imports. If imports from a specific country in a given calendar year exceed that country-specific "trigger import volume" (TIV) for that year, then the EU may suspend for up to three months or until the end of the calendar year (whichever comes first) the preferential import regime and revert to the pre-agreement tariff (the so-called Most Favoured Nation, or MFN, tariff).

While the TIVs are obviously linked to each country's recent exports to the EU, their actual values suggest that the same rule has not been equally applied to all countries. For instance, relative to its recent export volumes, the TIVs for Colombia are much less generous than those for the other major exporters, while Peru enjoys a relatively liberal export allowance to the EU.

The 39 €/t preferential margin eventually granted by the agreements will significantly improve the competitiveness of the eight Andean and Central American countries on the EU market *vis a vis* other exporters. From 2020 onwards, the benefits for those countries already exporting bananas to the EU will be conspicuous, as both their exports and the price they are paid for their bananas will increase. This should be the case for countries such as Colombia, Costa Rica and Peru.

Countries that currently do not export bananas to the EU, or that are only marginal exporters, will benefit from the agreements only if the increase in their competitiveness on this market, as a result of the preferential margin granted,

Box 1: Possible effects of the agreements on Andean and Central American countries between 2010 and 2020

Four cases could be distinguished:

1. *In the absence of any agreement exports to the EU subject to the MFN tariff would be equal to, or larger than, the TIV.* In this case exports and equilibrium prices would remain unchanged under the agreements, the only effect being an income transfer from the EU budget to (most likely) banana traders, in the form of "rents" deriving from the lower tariff applied on the country's exports up to the TIV. Colombia appears as a possible "case 1" candidate. In fact, based on recent trends, Colombia's expected banana exports to the EU appear very close to the TIVs it will face; in addition, its overall exports have been increasing and under the new import regime it will become profitable to divert some of its exports from other destinations to the EU market. The reduction in EU tariff revenue which will become "rents", likely to be transferred to banana traders, will equal 4 million euro in 2010, but will reach 76 million euro in 2019.
2. *In the absence of any agreement exports to the EU subject to the MFN tariff would be above 0 and below the TIV.* In this case the agreements will lead to an increase in the country's production, exports and price received, while the opposite will occur for the EU domestic price and for the import price paid for bananas originating in ACP countries as well as in countries whose exports remain subject to the MFN tariff. In this case, too, depending on the equilibrium reached, part of the reduction in EU tariff revenue may well become "rents" to be accrued (again, most likely) by banana traders. Peru, Costa Rica and Panama seem likely to fall under this case. Costa Rica and Peru, on different scales, show upward trends both for their exports to the EU market and overall, but expected exports to the EU under the current import regime remain below the TIVs. Panama, on the contrary, shows a negative trend for its banana exports, both to the EU and overall; all things being equal, the agreement with the EU should help contain this trend.
3. *In the absence of any agreement no exports to the EU would occur at the MFN tariff, but they become profitable under the preferential tariff.* Because of their current ability to export bananas, though not to the EU, Guatemala, Honduras and Nicaragua seem to fall under this scenario.
4. *In the absence of any agreement no exports to the EU would occur at the MFN tariff, and the preferential margin granted by the agreements is not sufficient to make them profitable.* El Salvador could possibly be falling under this category (or, alternatively, under scenario 3).

The agreements will generate benefits for the Andean and Central American countries in the first three cases (assuming, somehow optimistically, that in case 1 "rents", no matter who will capture them, will induce indirect benefits in the exporting country), but production and trade will increase only in cases 2 and 3.

is sufficient to overcome the negative factors that currently make their exports unprofitable.

The assessment of the effects of the agreements in the short run (between 2010 and 2020) is more complicated, because of the safeguard provision. In principle, however, four cases are possible. Only one scenario would on the short term not generate benefits for the Andean and Central American countries for sure; moreover, it seems unlikely to materialize for the majority of the countries concerned (see box 1).

The effects of the agreements will be felt beyond the boundaries of the signatory countries. Other MFN exporters to the EU, as well as ACP and LDC countries, are all expected to see their relative competitiveness on this market fall with respect to the signatories; *ceteris paribus,* they will export less to the EU and receive a lower price for their exports. In markets different from the EU, imports will decline and prices increase, as a result of the trade diversion of some of the exports of the Andean and Central American countries; other countries are expected to expand their exports to these markets, but this will only partially compensate for the decline of their exports to the EU.

Production in the EU (the EU produces, mostly in Guadeloupe, Martinique and Canary Islands, roughly 1/6 of the bananas it consumes) will not be significantly affected by the agreements because of the specific provisions of the EU domestic policy regime for bananas. Nevertheless, EU producers will see their incomes decline because of the lower domestic price.

Since the beginning of this decade, banana exports by ACP countries, as a whole, to the EU have been growing significantly; moreover, recent developments show that they have been able to take advantage, probably more than many had anticipated, of the quota- and duty-free access to the EU market thanks to the implementation of the Economic Partnership Agreements.

The extent to which the recent trade agreements signed by the EU and the Andean and Central American countries will have a negative impact on ACP exports will depend on these countries' capacity to continue to improve the market competitiveness of their bananas, in terms of product qualities and efficient logistical infrastructures. In this respect, making an effective use of the financial resources made available by the EU in the framework of the December 2009 WTO deal will probably prove to be a crucial factor.

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A longer version of this article is available at: http://ictsd.org/i/publications/85064/

Table 1. EU import tariffs for bananas under regimes preferential margins under Association Agreements between the EU and Andean and Central American countries. (€/t)

	Import tariff (€/t)				Association Agreements preferential margin with respect to MFN (no DDA modalities)	Association Agreements preferential margin with respect to MFN (no DDA modalities by 31.12.2013)
	MFN (no DDA modalities)	MFN (DDA modalities by 31.12.2013)	ACP & LDC	Association Agreements with Central America and Andean countries*		
2010	148	148	0	145	3	3
2011	143	143	0	138	5	5
2012	136	136	0	131	5	5
2013	132	132	0	124	8	8
2014	132	127	0	117	15	10
2015	132	122	0	110	22	12
2016	127	117	0	103	24	14
2017	122	114	0	96	26	18
2018	117	114	0	89	28	25
2019	114	114	0	82	32	32
From 1.1.2020	114	114	0	75	39	39

**: until December 31.2019 the preferential tariff to a "stabilization clause" based on country specif trigger import volumes.*