

FACT SHEET N° 4

REGIONAL INTEGRATION AND THE EPAs

SYNOPSIS

This Analytical Note is part of a series of Fact Sheets designed to overview and assess the development implications of the Economic Partnership Agreements (EPAs), which the EU is currently negotiating with 76 countries in Africa, the Caribbean and Pacific (ACP). The purpose of these Fact Sheets is to examine the existing material on EPAs and to provide an analysis of their potential impact on ACP countries. The Fact Sheets seek to increase the understanding of the substantive issues at stake in the negotiations, thereby enabling policy-makers, lobbyists and campaigners to make informed decisions about how to engage with EPAs.

This Fact Sheet analyzes the impact of EPA negotiations on efforts to strengthen regional integration between ACP countries.

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BACKGROUND

1. A central developmental objective of developing countries in all ACP regions has been to strengthen their markets through regional integration. This priority is supported by the Cotonou Agreement, which states that EPA negotiations shall take into account ACP regional integration processes, and build on current initiatives¹. In this context, the EC has argued that an EPA will enhance and rationalise regional integration by providing greater credibility to the process and by locking in policy reforms. However, there is concern that EPA negotiations are actually undermining - instead of supporting - regional integration, largely due to the pace at which negotiations have proceeded, the manner in which countries have constituted themselves to negotiate EPAs, and the extent of the liberalisation involved. For ACP countries, there are several important questions that arise:

- (a) What is regional integration and what are the developmental benefits that the ACP may derive from it?
- (b) What are the regional integration processes in which ACP countries are involved and how fast are they making progress?
- (c) Are EPAs putting existing regional integration initiatives under strain?
- (d) Will an EPA eventually strengthen regionalism amongst ACP countries?

2. This note explore those questions.

I. WHAT IS REGIONAL INTEGRATION?

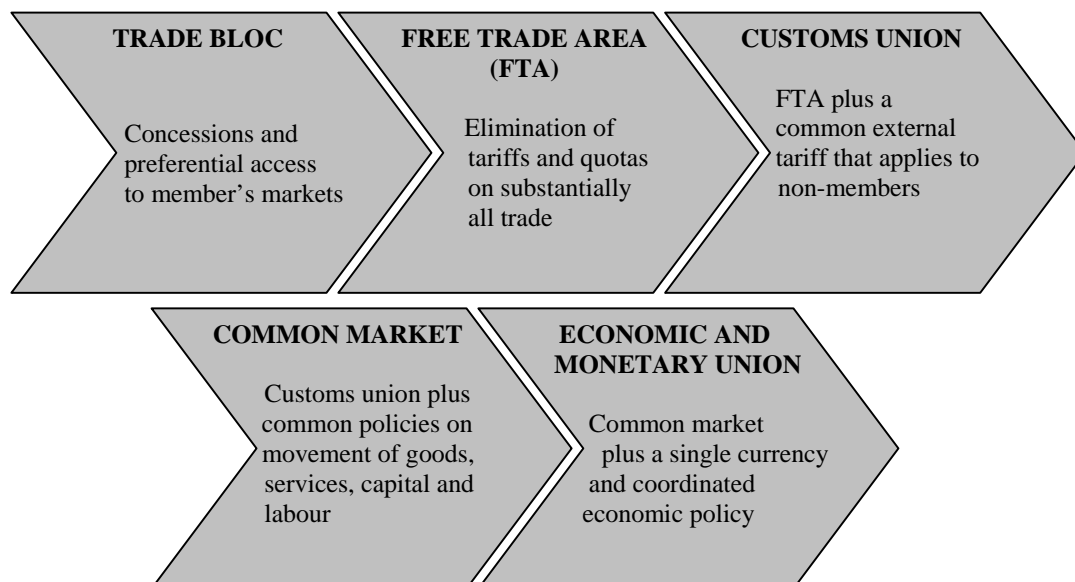
3. Put simply, regional integration entails the increase in economic, institutional and political linkages between countries that share geographic proximity. It is the move towards greater interdependence between countries through the removal of barriers and constraints to ease cooperation, including through reduced trade barriers. In constructing and maintaining regional integration, countries are faced with four main policy choices:

- (a) Which countries are to be included as members of the regional group;
- (b) What will the regional group's external policy be vis-à-vis non-members;
- (c) How deep will the integration process be in terms of the level of interdependence; and
- (d) How wide will the integration process be in terms of what areas of economic, political and institutional cooperation it will include.

¹ Article 37.5 of the Cotonou Agreement

4. In regard to economic regional integration, there are various stages of interdependence that range from relatively weak integration arrangements to relatively strong and robust arrangements. Broadly speaking there are five stages of economic integration: a Trade bloc, a Free-Trade-Area (FTA), a Customs Union, a Common Market and an Economic and Monetary Union, which is the highest form of economic interdependence. Diagram 4.1 describes these stages of economic integration process as regions move to progressively dismantle the barriers to economic cooperation between them.

Diagram 1: The Stages of Regional Economic Integration



II. REGIONAL TRADE AGREEMENTS: UNDERSTANDING THE CONCEPT

5. In simple terms, Regional Trade Agreements (RTAs)² are intergovernmental agreements that manage and promote trade activities in specific regions of the world³. RTAs may solely seek trade integration⁴ or may be part of a wider Regional Integration Agreement (RIA)⁵ that seeks wider integration including on trade policy,

² The term "Regional Trade Agreements", in this text, refers to both economic integration agreements and to trade preferential agreements.

³ http://ucatlans.ucsc.edu/trade/subtheme_trade_blocs.php.

⁴ Article 102 (1) of The North America Free Trade Area (NAFTA) for example stipulates the objectives of the cooperation which focuses on trade cooperation including in investment and intellectual property issues.

⁵ Some examples of RIAs particularly in Africa include: COMESA, African Union, SADC, and EAC. Some other terms such as Economic Integration Agreements refer to economic integration

governance and political issues⁶. RTAs typically aim at reducing or eliminating tariff and non-tariff barriers to trade among participating countries. Increasingly, RTAs cover both trade in goods and services.

6. RTAs are recognized in the World Trade organization (WTO) as those that fulfill certain laid out criteria⁷. Some of the criteria include whether for trade in goods, they cover “substantially all trade” and for trade in services, “substantial sectoral coverage”. The WTO is the sole international body that oversees international trade agreements. However, the pace at which RTAs are increasing makes them formidable complements or even alternatives⁸ to the Multilateral Trading System (MTS). The WTO however, in setting requirements for compatibility, envisages complementarities, as opposed to substitution, to the extent that the laid out criteria mentioned are met. Fulfillment of these requirements are ensured through the requirement to notify under GATT, Article XXIV (7) (a) and of GATS Article V 7(a) which require that members of an RTA notify their agreements to the WTO. In addition, Members undertake an evaluation process in the RTA committee and examine whether they fulfill the requirements as stipulated in the aforementioned provisions.

7. It is estimated that over 250 RTAs have been notified to the WTO, and approximately an additional 70 are operational but not yet notified to the WTO⁹. This implies that there may be about 320 RTAs in the world and that every country in the world belongs to at least one RTA. Due to the ever- emerging nature of RTAs, it is estimated that more than half of world trade is currently taking place within actual or prospective RTAs¹⁰.

8. In the past, regional integration was mainly amongst countries of close geographic proximity. However, a recent trend shows that countries are moving beyond their neighbours. A case in point is the EPAs being negotiated between the EU and ACP countries. This new trend in the formation of North-South RTAs, i.e. between developing and developed countries, has not only demystified geographical proximity, but also covered a wider scope of negotiating areas,

which may extend to monetary issues. While preferential Trade Agreements, are the most basic level of integration encompassing more favorable treatment to contracting parties. This typically is a reduction as opposed to elimination of tariffs.

⁶ Article 5(2) of East African Treaty, for example seek to become a political federation.

⁷ These provisions are contained in Article XXIV of GATT and Article V of GATS.

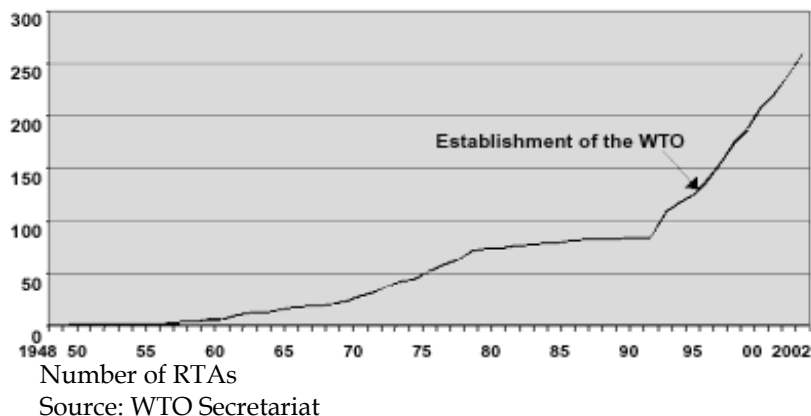
⁸ Gibb and Machalak have argued that the MTS is on the decline and regionalism is in ascendancy, Gibb, R. and W. Michalak (eds). (1994). Continental trading blocs: the growth of regionalism in the world economy. New York: John Wiley & Sons.

⁹ Luis Abugattas Majluf, “Swimming in the Spaghetti Bowl: Challenges for developing countries under the “New regionalism”, 2004

¹⁰ Abugattas *Ibid*

including trade in services. Other examples of North-South RTAs include the EU-South Africa Trade, Development and Cooperation Agreement (TDCA), US-Chile Free Trade Agreement (FTA), the Central America Free Trade Agreement (between the US and Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Dominican Republic), Mexico-Japan Agreement on strengthening Economic Partnership, Chile-Canada Free Trade Agreement, and others.

Figure 1: Evolution of Regional Trade Agreements in the world, 1948-2002



9. The relationship between North-South countries which was traditionally based on unilateral non-reciprocal preferences offered to developing is now being transformed into reciprocal agreements encompassing a wide range of areas. Such is the case of the transformation of the preference-giving Lomé Convention into the reciprocity-based Cotonou Agreement between the EU and the 79 ACP countries. Other preferential arrangements include the US' African Growth and Opportunities Act (AGOA) and its Generalized System of Preferences (GSP), Japanese and Canadian GSP for developing countries. By agreeing to negotiate reciprocal RTAs, developing countries sign off their beneficiary rights to non-reciprocal arrangements. It is a policy shift that has significant implications on policy options, and national development strategies.

III. WHAT IS THE LINK BETWEEN REGIONAL INTEGRATION AND DEVELOPMENT?

10. Regional integration can support development among ACP countries by promoting the pooling of resources, the expansion of markets, increased trade and investment, and greater diversification and value addition, and in turn reducing dependency on a small number of developed country markets. Regionalism is also considered a stepping stone towards further integration into the world economy through the removal of barriers to trade. In economic terms, the benefits derived from regionalism are based on:

- (a) *Competition and Scale Effects*: A larger market allows the possibility for economies of scale, which results in businesses being able to expand and minimise their costs. It also provides greater exposure to other producers, which promotes competition, increased efficiency and the transfer of technology.
- (b) *Trade and Location Effects*: A larger integrated market also changes the relative price of goods and services in countries, whereby the reduction in tariffs can lead to imports becoming cheaper. This in turn gives people access to a greater basket of products.

11. In addition, the changes in relative prices from the dismantling of barriers to trade will tend to result in producers relocating to take advantage of scale economies and technological transfers, and to minimise their transport costs. Essentially, this means that the impact of regional integration will have distributive consequences, with some areas benefiting more than others.

IV. HOW WELL INTEGRATED ARE ACP COUNTRIES?

A. Slow progress towards effective integration

12. Although ACP countries have consistently claimed that regional integration is one of their key development objectives, progress towards harmonised and integrated sub-regional markets has been slow and difficult. Regional institutions and secretariats have lacked financial and technical resources to supervise and coordinate cooperation, and there has often been weak political will to implement regional decisions at the domestic level. Integration within Africa has been particularly problematic as countries have tended to retain membership to multiple regional groupings. This overlapping membership has resulted in:

- (a) the dilution of human and technical resources;
- (b) high administrative costs; and
- (c) individual countries adopting inconsistent integration agendas. For example, some countries in Africa have found themselves party to multiple Common External Tariff (CET) Agreements¹¹.

13. Intra-regional trade amongst ACP countries is also limited. The lack of intra-regional economic cooperation is largely due to constraints that exist between ACP countries, including onerous border controls, inefficient customs administrations

¹¹ Agreements that establish a Common External Tariff (CET) regulate the tariffs members of a regional group apply to imports from non-members outside the regional group. Hence, it is technically not possible for a country to be party to two different CETs.

and poor transport infrastructure. In Africa, intra-regional trade only amounts to approximately 10% of each African country's total trade, although these figures do not capture the significant amount of informal cross-border trade that occurs between ACP countries¹². On the whole, beyond the common historical record of having been colonies of European countries, there little economic integration amongst the ACP countries across sub-regions.

B. The State of Integration within each EPA Grouping

14. The six regions that are negotiating as EPA Groupings (West African, SADC, ESA, Central African, Caribbean and the Pacific) are not consistently aligned with pre-existing regional arrangements. As a result, ACP countries that are members of the same EPA Group are often members of different pre-EPA regional groups (see Table 4.1 and Table 4.2 below). This has made efforts towards greater harmonisation and integration within each of the EPA Groupings a difficult and protracted exercise. There is some variation in the extent to which EPA Groupings are currently integrated due to the fact that:

- (a) some ACP regions were more harmonised and rationalised than others before EPA negotiations were launched; and related to this,
- (b) some of the new EPA Groupings are more aligned with pre-existing regional arrangements than others.

Table 1: Main ACP Regional Groups pre-EPAs

Africa		
SADC		Southern African Development Community
COMESA		Common Market for Eastern and Southern Africa
SACU		Southern African Customs Union
EAC		East African Community
ECCAS		Economic Community of Central African States
CEPLG		Economic Community of the Great Lakes Region
CEMAC		Central African Economic and Monetary Community
ECOWAS		Economic Community of West African States
WAEMU		West African Economic and Monetary Union
IGAD		Inter-governmental Authority on Development
CENSAD		Community of Sahelo-Saharan States

¹² Informal cross-border trade tends to bypass official customs controls and hence is not easily detected in data on trade flows.

	Niger								x	x		x
	Nigeria								x			x
	Sierra Leone								x			x
	Senegal								x	x		x
	Togo								x	x		x
Central African Grouping	Cameroon					x		x				
	CAR					x		x				x
	Chad					x		x				x
	Congo					x		x				
	DR of Congo	x	x			x	x					
	Equatorial Guinea					x		x				
	Gabon					x		x				
	Sao Tome and Principe					x						

Caribbean		CARICOM	CARICOM-DR FTA	OECS
CARIFORM Grouping	Antigua and Barbuda	x		x
	Bahamas	x		
	Barbados	x		
	Belize	x		
	Dominica	x		x
	Dominican Republic		x	
	Grenada	x		x
	Guyana	x		
	Haiti	x		
	Jamaica	x		
	St. Kitts and Nevis	x		x
	St. Lucia	x		x
	St. Vincent and the Grenadines	x		x
	Suriname	x		
Trinidad and Tobago	x			

Pacific		PICTA	MSG
Pacific Grouping	Cook Islands	x	
	Fiji	x	x
	Kiribati	x	
	Marshall Islands	x	
	Micronesia	x	
	Nauru	x	
	Niue	x	
	Palau	x	
	Papua New Guinea	x	x
	Samoa	x	
	Solomon Islands	x	x
	Tonga	x	
	Tuvalu	x	
Vanuatu	x	x	

15. The following sections provide a brief analysis of (a) the level of economic integration amongst the members of each of the ACP EPA Groupings before EPA negotiations were launched in 2002; and (b) the changes that have occurred at a regional level in response to the EPA negotiations.

1. West African Grouping

16. The West African Economic and Monetary Union (WAEMU) and the Economic Community of West African States (ECOWAS) are the two main regional bodies:

- (a) WAEMU benefits from a single common currency. A common external tariff (CET) has also been in operation since 2000.

(b) ECOWAS aims to create an economic union, eliminate customs tariffs and non-tariff measures, and create a CET and single monetary zone. ECOWAS was established in 1975 but economic integration has been slow and it remains more a political union rather than an economic one. Within ECOWAS, the WAEMU block is particularly strong, with its own regional secretariat, and so efforts to harmonise within ECOWAS often take WAEMU policies as a starting point.

17. Spurred on by the launch of EPA negotiations, there have been efforts to transform ECOWAS into a customs union, through the adoption by all ECOWAS members of the WAEMU CET by 2008. This has met with resistance and weak political commitment to adopt and implement the WAEMU CET. The CET would entail substantial changes to tariffs, particularly for Nigeria. In addition, regional institutions lack financial and technical resources to supervise and coordinate decisions.

18. In September 2006, Cape Verde signalled that it intends to leave the West African Grouping to negotiate a separate bilateral EPA with the EU¹³.

19. Intra-regional trade (not including informal cross-border trade) accounts for 10.2% of total exports from ECOWAS¹⁴.

2. Caribbean Grouping

20. The Caribbean Community and Common Market (CARICOM) has been the central pillar of regional integration in the Caribbean since 1973. There has been substantial integration through CARICOM, but progress towards a fully-functioning customs union has been slow. The Common Single Market and Economy (CSME) was established in 1992 to enhance economic development of CARICOM members. A Common External Tariff is fully implemented, except in Antigua & Barbuda, St. Kitts & Nevis and Suriname¹⁵.

21. A free trade agreement was signed between CARICOM and the Dominican Republic, which entered into force in 2001.

¹³ 5 September 2006, 'Cape Verde wants to negotiate economic partnership with the EU outside of ECOWAS' available at http://www.bilaterals.org/article.php3?id_article=5761

¹⁴ Sustainability Impact Assessments of the EU-ACP Economic Partnership Agreements (2004) Phase I 'Regional SIA: West African ACP Countries', January 2004. p. 48

¹⁵ Sustainability Impact Assessments of the EU-ACP Economic Partnership Agreements (2004) Phase I, 'Report on the Caribbean', January 2004 p. 18

22. Caricom intra-regional exports account for 20% of the region's exports while intra-regional imports correspond to 12% of total imports¹⁶.

3. Pacific Grouping

23. The Pacific Islands Trade Agreement (PICTA) entered into force in April 2003. It aims to establish a FTA among the Pacific ACP countries by 2010 (2012 for Small Islands States and LDCs). It will remove tariff barriers for all but a 'negative list of imports' (submitted by each country) that will be fully liberalized in 2016.

24. Intra-regional trade has been hindered by the lack of complementarities among the Pacific economies, their small size, lack of diversification and the significant distances between them which lead to high transportation costs¹⁷. While current levels of intra-regional trade are very low (around 2% of total trade), they show a rising trend (they were 1% in 1995)¹⁸.

4. SADC Grouping

25. SADC (the Southern African Development Community) has planned to establish a Free Trade Area in 2008, a Customs Union in 2010 and a Common Market in 2015. Its composition is different from the SADC EPA Grouping since the Democratic Republic of Congo (DRC), Malawi, Mauritius, Rwanda, Zambia and Zimbabwe, who are not Members of SADC, have joined the SADC EPA Group.

26. The EU has indicated that, in preparation for the conclusion of an EPA, it is desirable for a Customs Union to be established among the EPA SADC Group of countries. However, inter-regional integration has been extremely problematic because of the difficulties of overlapping membership to other RTAs (see Diagram 4.2 below). This problem is acute because all members of the SADC Grouping are also in the process of forming separate customs unions:

- (a) Angola and Swaziland are members of COMESA, which is working towards a Customs Union by 2008.
- (b) Botswana, Namibia, Lesotho and Swaziland (BNLS) belong to the Southern African Custom Union (SACU), which also includes South Africa.

¹⁶ Caribbean Trade and Investment Report, 2005: Corporate integration and cross-border development. Available at: http://www.caricom.org/jsp/community/regional_issues/ctir2005_index.jsp

¹⁷ *Ibid*

¹⁸ Pacific ACP - European Community, Regional Strategy paper and Regional indicative Programme for the period 2002-2007 (http://europa.eu.int/comm/development/body/csp_rsp/print/r6_rsp_en.pdf).

- (c) Tanzania is a member of the East African Community (EAC), which has already implemented a CET.
- (d) Mozambique is the only SADC Group country not part of another regional trade agreement, but is currently considering joining SACU.

27. These overlapping RTAs have created immense difficulties for inter-regional integration within the SADC EPA Grouping because it is technically impossible for a country to be a member of more than one customs union¹⁹. There are also costs from multiple membership fees, and conflicting objectives and administrative costs related to often complex rules of origin.

5. Eastern and Southern Africa (ESA) Group

28. The countries involved in the ESA Group are all members of COMESA. A free trade area already exists among Burundi, Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Rwanda, Sudan, Zambia and Zimbabwe. In May 2006, Libya and the Comoros also joined COMESA.

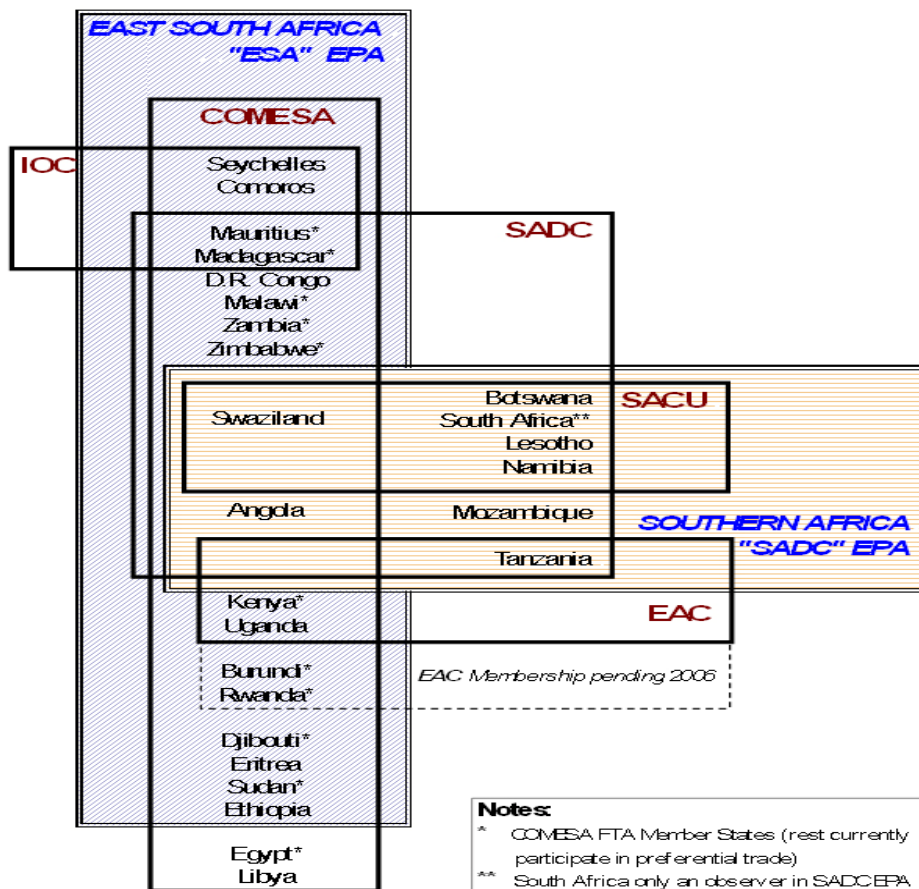
29. COMESA has eliminated tariffs on goods originating from member states and is working toward the eventual elimination of quantitative restrictions and other non-tariff barriers, and the creation of a Customs Union by 2008. In COMESA a CET of zero percent has been established for both raw materials and capital goods. Negotiations are still underway with respect to CETs for both intermediate and final goods. COMESA is also at the stage of a framework agreement for the liberalisation of trade in services amongst member countries.

30. However, difficulties have arisen due to the problem of overlapping regional integration initiatives. This has resulted in countries having inconsistent integration agendas:

- (a) Kenya, Uganda and Tanzania (which is a member of the SADC Grouping) are members of the East African Community (EAC), which has implemented its own CET.
- (b) Angola and Swaziland are members of COMESA, but are currently negotiating an EPA with the SADC Grouping.

Diagram 2: Overlapping Memberships of Regional Integration Initiatives in Southern and Eastern Africa

¹⁹ For a discussion of these problems within SADC see P. Khandelwal (2004)



Source: Sustainability Impact Assessments of the EU-ACP Economic Partnership Agreements (2006) Phase III, 'Rules of Origin in the Southern African Development Community Group (SADC Group)', September 2006.

6. Central African Group

31. The Central African Economic and Monetary Community (CEMAC) is the main regional body, established in 1999 to supersede the Customs and Economic Union of Central Africa.

32. Compared to other regional integration efforts in Africa, CEMAC is relatively well developed as a monetary and custom union with a CET. There is one central bank, the Banque des états d'Afrique Centrale (BEAC) and a single currency.

33. While trade inside the Community has been duty free since 1998, intra-regional trade accounts for less than 2% of the recorded foreign trade of the region²⁰. Intra-regional trade has been hindered by the weak institutional capacity of regional bodies and physical barriers (including poor transportation and communication networks).

34. Both the DRC and Sao Tome and Principe are in the Central African EPA Grouping, but are not part of CEMAC. The DRC is a member of COMESA, while Sao Tome and Principe has close economic ties with the CEMAC countries, and is not a member of any other regional organisation.

V. IS EPAS UNDERMINING EXISTING REGIONAL INTEGRATION?

A. Regional Integration or Disintegration? The Arguments

35. The EU has recognised in its EPA negotiating mandate that 'economic and trade integration shall build on regional integration initiatives of ACP states' and shall take into account the regional integration processes within the ACP'²¹. The EC has consistently justified EPAs on the basis that it will improve regional integration. There are three elements to the EC's claims:

- (a) That ACP regional integration requires greater rationalisation, and that an EPA could act as a catalyst to bring about further progress on the issue of overlapping membership. In this vein, the EC has pointed to greater cooperation between WAEMU and ECOWAS, and the move towards all members of ECOWAS adopting the WAEMU CET by 2008, as evidence that an EPA will result in the streamlining of existing regional integration initiatives;
- (b) That through an EPA, the introduction of trade facilitation, investment measures and technical assistance will help ACP countries overcome the barriers to intra-regional trade;

²⁰ Sustainability Impact Assessments of the EU-ACP Economic Partnership Agreements (2006) Phase III, 'Financial Services in Central Africa', September 2006, p. 5

²¹ Article 35.2 and Article 37.5 of the Cotonou Agreement.

- (c) That an EPA will serve to 'lock-in' regional integration process and policy reforms in the ACP. In this regard, it is suggested that the presence of the EU within each EPA grouping will enhance the credibility of integration initiatives, and that the incentives of financial aid and technical assistance will encourage political support for regional integration.

36. Conversely, ACP Ministers have expressed concerns that if an EPA is concluded, it is likely to undermine regional integration processes because regional markets will probably be opened up to the EU before they are consolidated internally. Moreover, it is also feared that EPA disciplines will superpose rather than build upon existing ACP regional normative efforts. As Dame Billie Miller, the Barbados Minister of Foreign Affairs and Foreign Trade, and Chair of the ACP Ministerial Trade Committee noted:

'The EC's insistence on trying to determine what is best for the ACP and how we should configure our economic space seems more than a little disingenuous. It is difficult to see how the [European] Commission can reconcile its current negotiating approach with the statements made by various Commission officials that it is up to ACP regions to determine the pace and priorities of their regional integration'. 20 June 2004.

B. Splintering Groupings

37. In some cases EPA negotiations have splintered existing regional alignments and forced ACP countries to choose the body through which they will negotiate with the EU. For example, in Southern and Eastern Africa, countries that are party to the SADC Trade Protocol have split into three EPA groups: SADC, ESA and Central Africa. Sixteen of the member states of SADC and COMESA are negotiating with the EU under the banner of the Eastern and Southern Africa (ESA) Group; the Democratic Republic of Congo is negotiating in the Central African Group; while the remaining members of SADC (Southern African Customs Union members Botswana, Lesotho, Namibia, and Swaziland, together with Angola, Mozambique, and Tanzania) are negotiating a completely separate EPA in the SADC Group. In addition, the three East Africa Community (EAC) states (Uganda, Kenya, and Tanzania) are split between the SADC and ESA groupings.

C. Regionalism under Strain

38. The complex realignment of regional blocs is a difficult and arduous process, which requires time and technical and financial support to ease the costs of

adjustment. The multiplication and overlap of negotiations put national and regional resources under pressure, hinder negotiating progress, and highlights the lack of human, technical and financial resources the regions have to follow effectively all processes.

39. Similarly, the majority of the benefits of regional integration only come from internal coherence and strong well-coordinated institutions, which are cumulated over time. However, if ACP groupings are not sufficiently integrated amongst themselves before they sign an FTA, the conclusion of an EPA could potentially undermine regional harmonisation.

40. Fearing that regional integration and the consolidation of regional markets could be jeopardized, several ACP countries have requested that the implementation of the EPAs be subjected to the attainment of integration and development goals. In other words, there may be great value in adopting clear sequencing where internal integration of productive capacities and trade would come before the liberalisation towards the EU.

VI. THE POTENTIAL PROBLEMS ASSOCIATED WITH EPAS

A. Transshipment and the Difficulties of Harmonisation

41. The splintering of existing regional groups and the pace of the negotiations is causing difficulties in the harmonisation of liberalisation schedules and product exclusions lists. Because ACP countries have different priorities regarding the sectors they wish to protect from import competition and to preserve for the generation of tariff revenues, it is possible that each member of an EPA will select different products to liberalise. If regional groupings are not sufficiently harmonised before an FTA is launched, then EPAs will create new barriers to intra-regional trade.

42. For example, if Kenya chooses not to liberalise flour and maintains its tariff levels but Ethiopia removes all duties, traders may circumvent Kenya's restrictions by transporting cheap (and possibly dumped) goods imported from the EU across the border from Ethiopia²². These transshipment difficulties would be prevented if countries within each EPA Grouping agreed upon the same products to include in their exclusion lists. However, this is likely to be difficult due to the diverging tariff profile of different countries as well as to the different national policy priorities. Stevens and Kennan (2005b) find that in the four EPA groups in Africa there is very

²² C. Stevens (2006) 'The EU, African and Economic Partnership Agreements: unintended consequences of policy leverage', *Journal of Modern African Studies*, 44(3) pp. 441-458

little 'natural overlap' in the products countries are likely to exclude. Assuming that countries will exclude products for which there is an applied tariff of 20% or greater, they find that there is not a single product that would be in all of the exclusion lists of all members of any of the groups; and that in all cases over 40% of the products included in any one country's basket of exclusions would be absent from the exclusion lists of all its partners²³.

43. In the event that ACP countries are unable to agree upon common exclusion lists, rigorous border controls would have to be maintained to differentiate between goods originating regionally and goods originating from the EU. The imposition of these time-consuming customs procedures and costly rules-of-origin checks would reinforce barriers to intra-regional trade rather than reduce them. Under these circumstances, an EPA could result in the creation of greater barriers to integration.

B. LDC and non-LDC Differences: Hidden Problems for Integration

44. The presence of both LDC and non-LDC countries within EPA negotiating groups is also likely to produce difficulties for regional integration initiatives. Under the EBA arrangement, LDCs already have duty-free access to the European market for 'everything but arms', and therefore have little incentive to sign a further free trade agreement. Indeed, one may say that in this case, it would only be a pact in favour of the EU, who would then have equal access to LDC markets. In ECOWAS, for example, 13 of the 16 member countries are LDCs. However, if these countries choose to opt out of an EPA, but continue with the ECOWAS regional integration process, they will still feel the effects of EU imports entering their markets via their non-LDC regional neighbours.

45. The hidden dangers that free trade agreements with the EU pose for regionalism are illustrated by the case of the Southern African Customs Union (SACU). Although South Africa is a member of SACU, it has signed a free trade agreement with the EU – the Trade, Development and Co-operation Agreement (TDCA). While the agreement did not formally include the other members of SACU – Botswana, Lesotho, Namibia, and Swaziland – it has had a clear impact on them, effectively making them de facto members. Because of the SACU's common external tariff, the four countries will be forced to reduce their tariffs on imports from the EU at the rate agreed by South Africa, unless they are able to retain robust and costly border controls to filter out EU-originating goods coming into their country via South Africa, a task which requires great human and institutional resource - and

²³ C. Stevens and J. Kennan. (2005b) 'EU-ACP Economic Partnership Agreements : the effects of Reciprocity', briefing note. Brighton: IDS. p.3. Note that Stevens and Kennan acknowledge that their method for identifying product exclusion lists is rather mechanistic and tends to overstate the problem of harmonisation because it does not factor in the ability of ACP governments to compromise on what they will exclude from liberalisation.

glaringly lacking in many African countries. The situation is doubly worse for Lesotho, a SACU LDC.

46. Splitting regional groups between the non-LDC countries that enter an EPA with the EU and those LDCs that maintain their trade barriers will have serious consequences. In practical terms, LDCs that chose to remain outside an EPA would only be able to prevent the de facto liberalisation of their markets if they also erected barriers against their neighbours. Such barriers would ultimately negate the principle of greater regional integration. In any event, many of these LDCs are already bound, through regional integration processes, to have openness to members such as Uganda in the EAC.

C. EPAs and the 'hub and spoke' risk?

47. EPAs are clearly not responsible for many of the challenges facing regional integration efforts among ACP countries. Historically, intra-regional integration has tended to be weak, due to the outward orientation of their market infrastructure and institutions and their economic reliance on a limited basket of primary commodities for export outside the region. However, if these regional weaknesses are not sufficiently addressed within the context of EPA negotiations, the conclusion of a FTA with the EU risks further exacerbating the problem of 'hub and spoke' regional integration, whereby ACP countries become increasingly dependent on EU imports at the expense of regional integration. In the case of EPA, if the EU (the hub) signs an FTA with various smaller ACP countries (the spokes) and the latter do not sign an FTA among themselves, then the hub country benefits because it has free access to all markets whereas the spokes only have free access to the hub market. This "hub-and-spoke effect" increases the incentive for exporters to invest in the hub country, rather than in the spokes, in order to serve all of the markets.

48. To minimize the potential hub-and-spoke effect of EPAs, there are steps which can be taken by ACP countries to strengthen regional integration, including:

- (a) the creation of customs unions and regional FTAs within each of the EPA groupings;
- (b) the standardization and simplification of rules of origin to facilitate regional trade; and,
- (c) the full implementation of common external tariffs (CETs)²⁴.

²⁴ L. Hinkle and R. Newfarmer (2005) 'Risks and Rewards of Regional Trade Agreements in Africa: Economic Partnership Agreements (EPAs) between the EU and SSA', Development Economics Department, World Bank, Washington, D.C. p.16

CONCLUSION

Does Regional Integration provide ACP countries with benefits?

49. The strengthening of regional integration would provide benefits to ACP countries through the pooling of resources, the expansion of markets, increased trade and investment, and greater diversification and value addition.

50. Historically, progress towards harmonised and integrated sub-regional markets amongst ACP countries has been slow and difficult. Regional institutions and secretariats have lacked financial and technical resources to supervise and coordinate cooperation, and the political will to implement decisions.

Will EPAs undermine or strengthen regional integration?

51. EPAs have a legal obligation to support and strengthen regional integration. Moreover, given the historical experience and the financial and technical capacity of the EU, EPAs also offer great scope for cooperation in this regard. EPAs could provide the opportunity to create a more credible and rationalised system of regional integration, in line with, for instance, the African Union agenda for the rationalisation and coordination of African RECs. The sequencing in which policy reforms are introduced and integration objectives are achieved is fundamentally important in that respect. The danger is that if ACP countries are unable to harmonise their regional efforts before embarking on an EPAs, the shift towards reciprocal liberalisation could end up undermining regional integration.

52. It is important to note that the extent to which an EPA will enhance or undermine regional integration is also dependent on the actions of ACP countries at a regional level. These include their ability to harmonise their product exclusion lists, to simplify rules of origin within each EPA grouping, and to conclude and implement FTAs within each EPA grouping. ACP countries need also present the EU a positive agenda supporting their integration, for instance through assistance for the establishment of regional norms and standardisation bodies. This will require political coordination, but also unity to withstand pressure to hastily conclude EPAs.

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