

# Chapter 1

## The Political Economy of Regional Integration in Africa

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### 1.1 What is meant by regional integration?

Regional integration is a multidimensional process by which neighbouring countries within a demarcated geographical space increase their level of interaction with regard to economic, security, political, or social and cultural issues. In Africa, the 55 African Union (AU) member states are divided into five regions – i.e. Central, East, North, Southern and West Africa (Box 1.1).<sup>1</sup> Regional integration involves the joining of individual states within these regions into a larger unit or bloc. The degree of integration depends upon the willingness and commitment of independent and autonomous states to cede or share their sovereignty.

Regional integration is not an end in itself, but a means to achieve particular outcomes. For example, defragmenting Africa's small markets is the key to attracting more foreign direct investment (FDI) and boosting intra-African trade, which can help countries achieve inclusive economic growth, eradicate extreme poverty, ensure food security and improve access to essential services such as health and education. This is the meaning of 'transformative regionalism' (Figure 1.1).

There are different ways and means to advance regional economic integration. These may range from agreements to improve co-operation and connectivity (e.g. sector management, one-stop borders or cross-border infrastructure), to regional trade agreements (RTAs) that liberalise trade in goods and services, promote investment, remove non-tariff barriers, and harmonise rules and regulations. The scope and coverage of RTAs may differ depending on the ambition of the parties and their levels of development, but each agreement must be consistent with World Trade Organization (WTO) rules (Box 1.2).

The literature on regional integration has been greatly shaped by the work of economist Jacob Viner. Viner (1950) showed that RTAs could result in either 'trade creation' or 'trade diversion'.

**Box 1.1 Regional groups involving AU member states****Central Africa**

Burundi	Chad	Equatorial Guinea
Cameroon	Congo	Gabon
Central African Republic	Democratic Republic of the Congo	São Tomé and Príncipe

**East Africa**

Comoros	Madagascar	South Sudan
Djibouti	Mauritius	Sudan
Eritrea	Rwanda	Uganda
Ethiopia	Seychelles	United Republic of Tanzania
Kenya	Somalia	

**North Africa**

Algeria	Mauritania	Tunisia
Egypt	Morocco	
Libya	Sahrawi Republic	

**Southern Africa**

Angola	Mozambique	Zambia
Botswana	Namibia	Zimbabwe
Lesotho	South Africa	
Malawi	Swaziland	

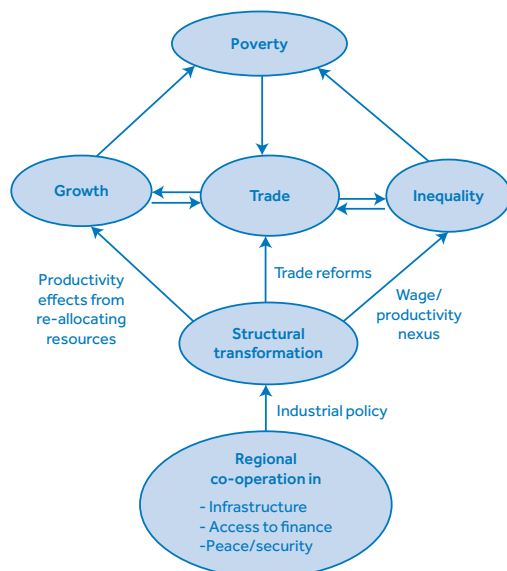
**West Africa**

Benin	Ghana	Niger
Burkina Faso	Guinea	Nigeria
Cape Verde	Guinea-Bissau	Senegal
Côte d'Ivoire	Liberia	Sierra Leone
Gambia	Mali	Togo

RTAs are beneficial when trade creation outweighs trade diversion and achieves dynamic gains over the long term (e.g. greater efficiency, productivity, FDI and technology transfer). In terms of static effects:

- *Trade creation* happens when the removal of trade barriers leads to an increase of trade in goods and services among the members of the trading bloc. Trade is said to be created if the RTA shifts production from higher-cost to lower-cost producers within the region. While this has welfare benefits for consumers, less competitive producers may be displaced.
- *Trade diversion*, in contrast, is seen as a cost to the region and to the world at large. It happens when trade

Figure 1.1 Framework for transformative regionalism



Source: Osakwe (2015)

liberalisation induces a shift from lower-cost products and services sourced outside the region to high-cost producers within the trading bloc, who can sell more cheaply since they no longer have to pay any import duty. Trade diversion results in an uncompetitive environment and greater inefficiency.

### Box 1.2 What are the WTO's rules for RTAs?

The WTO permits the establishment of RTAs under three specific sets of rules. These are:

- Article XXIV of the General Agreement on Tariffs and Trade (GATT);
- Article V of the General Agreement on Trade in Services (GATS);
- GATT/WTO's 'Enabling Clause'.<sup>2</sup>

GATT Article XXIV (paragraphs 4–10) deals with the formation of RTAs for trade in goods, while Article V of GATS specifies similar rules for RTAs for trade in services. Article XXIV primarily focuses on duties (i.e. tariffs) as the key benchmark for trade liberalisation. Although it refers to other trade barriers, these are not clearly spelt out. Article XXIV stipulates that FTAs must eliminate duties on 'substantially all the trade' within a 'reasonable length of time', yet these terms remain loosely defined in the WTO and their interpretation has been debatable. There are strong differences regarding their quantitative interpretations, particularly their optimal levels. Article V of GATS similarly allows members to enter into agreements for liberalising trade in services, if these agreements have 'substantial sectoral coverage'.

Figure 1.2 African economic integration – timeline and milestones

<b>1963:</b>	Organisation of African Unity (OAU)	<b>2000:</b>	ECOWAS Passport; International Conference on the Great Lakes Region
<b>1964:</b>	African Development Bank (AfDB)	<b>2001:</b>	New Partnership for Africa's Development (NEPAD)
<b>1969:</b>	Southern African Customs Union (SACU) renegotiated (established 1910)	<b>2002:</b>	African Union (AU); revised SACU Agreement
<b>1973:</b>	Mano River Union (MRU) (later subsumed into ECOWAS, revised in 2004)	<b>2003:</b>	African Peer Review Mechanism (APRM)
<b>1975:</b>	Economic Community of West African States (ECOWAS)	<b>2004:</b>	Pan-African Parliament (PAP); ECCAS free trade area (FTA) launched
<b>1980:</b>	Lagos Plan of Action for the Economic Development of Africa; Southern African Development Coordination Conference (SADCC)	<b>2005:</b>	EAC Customs Union
<b>1981:</b>	Preferential Trade Area for Eastern and Southern Africa	<b>2008:</b>	SADC FTA launched; COMESA-EAC-SADC Tripartite Initiative; Action Plan for the Implementation of the Accelerated Industrial Development of Africa (AIDA)
<b>1983:</b>	Economic Community of Central African States (ECCAS)	<b>2009:</b>	COMESA Customs Union; Chirundu One-Stop Border Post; Minimum Integration Programme
<b>1984:</b>	Indian Ocean Commission	<b>2010:</b>	EAC Common Market; Presidential Infrastructure Champion Initiative (PICI); NEPAD Planning and Coordinating Agency
<b>1986:</b>	Intergovernmental Authority on Drought and Development (IGADD)	<b>2011:</b>	Programme for Infrastructure Development in Africa (PIDA)
<b>1989:</b>	Arab Maghreb Union (UMA)	<b>2012:</b>	AU Action Plan for Boosting Intra-African Trade (BIAT)
<b>1991:</b>	Treaty to Establish the African Economic Community ('Abuja Treaty')	<b>2013:</b>	50th Anniversary of the OAU; AU's <i>Agenda 2063</i>
<b>1992:</b>	SADCC becomes Southern African Development Community (SADC)	<b>2015:</b>	ECOWAS Customs Union; COMESA-EAC-SADC Tripartite FTA; Continental FTA negotiations launched
<b>1993:</b>	Common Market for Eastern and Southern Africa	<b>2017:</b>	Morocco joins the AU, which now covers the entire continent
<b>1994:</b>	West African Economic and Monetary Union (WAEMU)	<b>Projected aims of the Abuja Treaty...</b>	
<b>1996:</b>	Intergovernmental Authority on Development (IGAD) replaces IGADD	<b>2017:</b>	Continental FTA; regional customs unions
<b>1998:</b>	Community of Sahel-Saharan States (CEN-SAD); Protocol on Relations between the African Economic Community (AEC) and the regional economic communities (RECs)	<b>2019:</b>	African Customs Union
<b>1999:</b>	East African Community (EAC); EAC Community Passport	<b>2023:</b>	African Common Market
		<b>2028:</b>	African Economic Monetary Union
		<b>2034:</b>	Latest date for AEC to be completed
		<b>2063:</b>	<i>Agenda 2063: The Africa We Want</i>

Source: Updated and adapted from Mo Ibrahim Foundation (2014)

Regional integration is not only about promoting regional markets through trade preferences. Today, it is considered a process whereby deeper and effective regional co-operation allows free movement of goods, services, investment and people

to enable competitive production of exports, and participation and upgrading in regional and global value chains. Strengthened regional co-operation dealing with behind-the-border measures (e.g. technical regulations), ensuring improved connectivity (e.g. transport infrastructure) and triggering structural transformation (e.g. regional value chains in goods and services) should be given the utmost consideration.

## 1.2 What are the main regional integration arrangements in Africa?

Africa has the most RTAs in the world. There are 14 regional economic communities (RECs) at various stages of progress and integration, and as many related associations dealing with sectoral issues such as standards or intellectual property. However, the AU recognises only eight RECs as the building blocks of the envisaged African Economic Community (see Chapter 2), namely:

- Arab Maghreb Union (UMA);
- Common Market for Eastern and Southern Africa (COMESA);
- Community of Sahel–Saharan States (CEN–SAD);
- East African Community (EAC);
- Economic Community of Central African States (ECCAS);
- Economic Community of West African States (ECOWAS);
- Intergovernmental Authority on Development (IGAD);
- Southern African Development Community (SADC).

Compared with the above AU RECs, some of the other RTAs go deeper and further in promoting economic integration. The Southern African Customs Union (SACU), formed in 1910, is the world's oldest functioning customs union. Despite many achievements, SACU however still faces challenges implementing its updated 2002 agreement, including establishing common policies and institutions.

All African countries are members of at least one REC, and most are members of two or even three. Algeria, Cape Verde and Mozambique are the only African countries that are members

of only one REC. In comparison, seven countries belong to both SADC and COMESA (Figure 1.3). Multiple memberships of different RECs create a ‘spaghetti bowl’ effect of overlapping trade rules and regulations at the border (e.g. tariffs and rules of origin) and behind the border (e.g. investment, services and technical regulations) (see Figure 1.4). This may be confusing and costly, especially for business that must comply with different rules of origin to benefit from a tariff preference. Some of the integration priorities and ambitions of the different regional blocs may also diverge or conflict. Rationalising the number of RECs is therefore a long-standing priority in Africa.

The relationship between the AU and the RECs is mandated by the 1991 Abuja Treaty (Chapter 2) and the AU Constitutive Act,<sup>3</sup> and guided by the 2008 Protocol on Relations between the RECs and the AU. Each REC has its own priority programme and is responsible for delivery and implementation. The Minimum Integration Programme (MIP) was adopted in 2009 to promote harmonisation and co-ordination of programmes and projects at the sector and subsector levels. It is envisaged that this will speed up the integration process and convergence among RECs. The MIP is to be implemented by the RECs, the 55 AU member states and the African Union Commission (AUC), working in concert with Africa’s development partners.

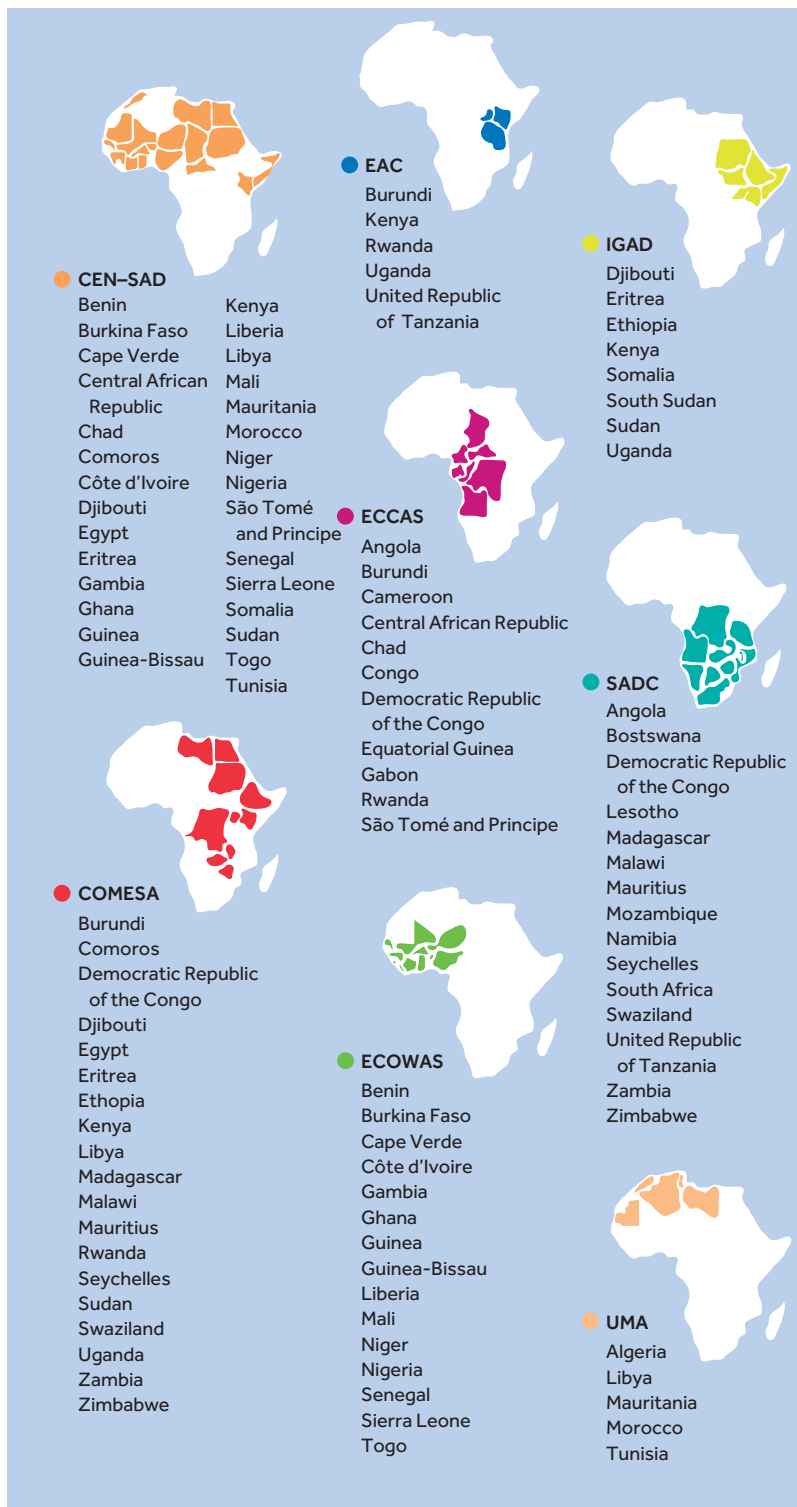
### 1.3 What are the main models of regional integration?

Within the policy discourse on African economic integration, there are two broad approaches.

#### Linear integration models

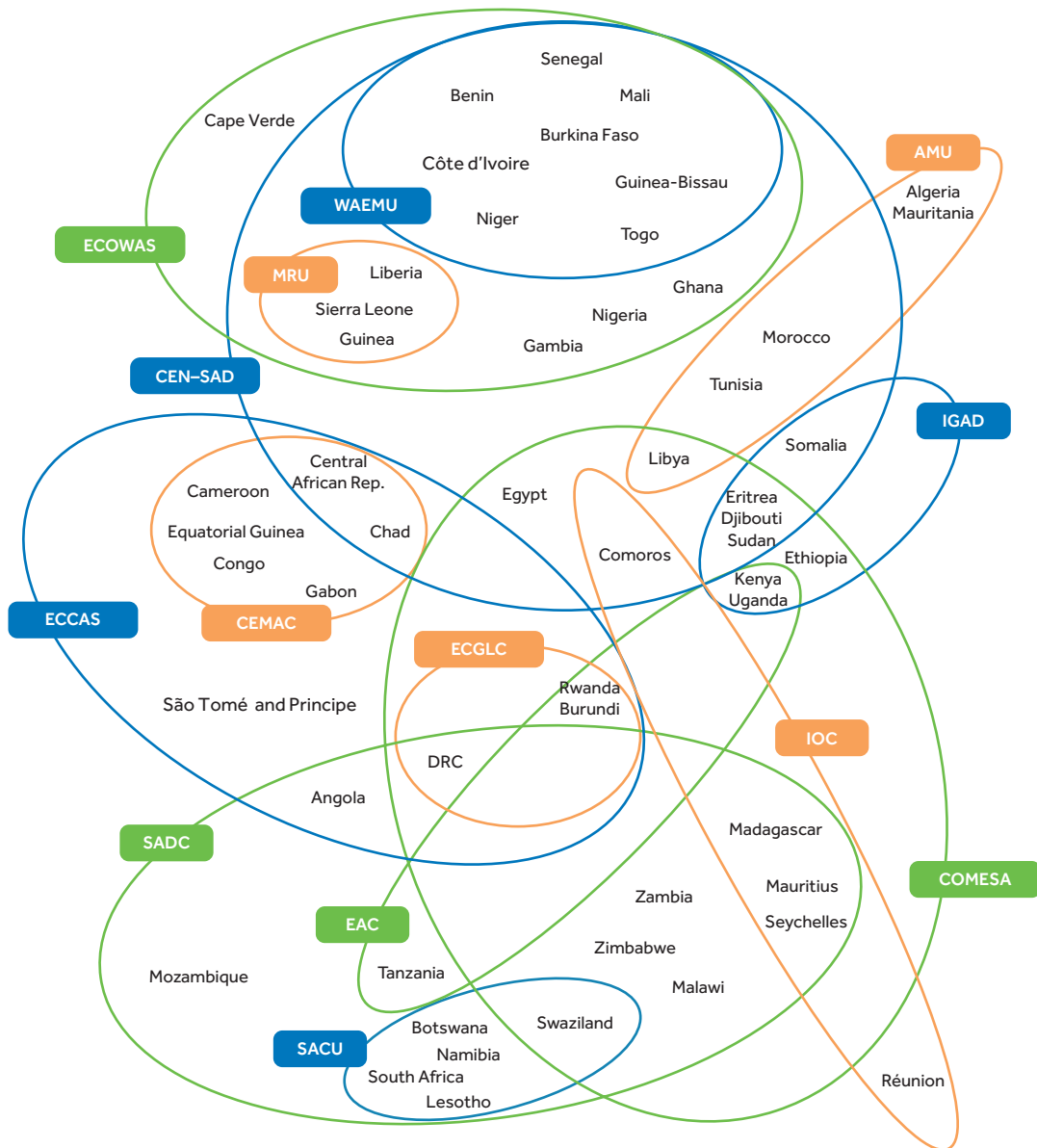
The main framework guiding regionalism in Africa has been the linear model of integration. Linear integration can be seen as the textbook model of economic integration and is attributed to the work of economists Viner (1950) and Balassa (1965). It is best viewed as a stepladder approach with five progressive stages of economic integration: from a free trade area (FTA) to a customs union, common market, monetary union and political union (Box 1.3). The European integration experience has been the leading example of this linear approach, with the European Union (EU) widely regarded as the world’s most successful example of regional

Figure 1.3 Official RECs of the African Union



Source: UNECA *et al.* (2016a)

Figure 1.4 The 'spaghetti bowl' effect of multiple REC memberships in Africa



Source: ACBF (2016)

integration, at least prior to 'Brexit'.<sup>4</sup> This approach is also reflected in African blueprints for integration, such as the Abuja Treaty (see Chapter 2), as well as existing RECs such as COMESA, EAC, ECOWAS and SADC.

This model, with its mechanical sequencing of integration stages, has been critiqued as inappropriate for Africa. It metaphorically puts the 'cart before the horse' by prescribing unrealistic targets

**Box 1.3 Hierarchy of RTAs**

- Preferential trade arrangement (not to be confused with trade preferences offered by rich countries to poorer ones), the simplest form of economic integration. It requires only that participating countries grant each other preferential, but not necessarily free, access to each other's markets.
- Free trade area, in which both tariffs and quantitative restrictions are abolished among member countries. However, individual members still retain their own external tariffs (on imports from outside the FTA) and so do not have harmonised trade policies. Differences in external tariff rates generally make it necessary to impose rules of origin on intra-group trade.
- Customs union, in which members establish a common customs area. At a minimum this generally requires a common external tariff (CET) on imports from non-members and no import tariffs on trade between members. This has additional implications for the use of anti-dumping and other contingent protection measures, for rules of origin (depending on the revenue collection and distribution arrangements chosen, these may not be needed), and also for the rules governing the operation of export-processing zones and the granting of other fiscal privileges for goods shipped outside the customs area. Moreover, a country cannot belong to more than one customs union.
- Common market, which is a customs union that allows the free movement of capital and labour among members and a harmonisation of trading standards and practices, together with a common trade policy towards third parties which goes beyond simply a CET.
- Economic union, in which the members of a common market also harmonise their economic policies, including some co-ordination of monetary and fiscal policies, and also transportation and competition policies.
- Political union, the ultimate stage of integration, in which members become one nation. National governments cede sovereignty over economic and social policies to a supranational authority, establishing common institutions and judicial and legislative processes – including a common parliament.

and deadlines for integration, which often pay little heed to existing political, economic and institutional realities on the ground. The primary focus of most African integration efforts has been trade and factor market liberalisation, diverting attention and resources away from addressing the underlying constraints to greater intra-regional trade, including the lack of critical country and regional productive capacity and poor infrastructure networks (Osakwe 2015). Sub-Saharan African countries participating in RECs differ vastly in terms of their income levels, economic and social development, productive and

supply capabilities, and export competitiveness. This approach also entails the progressive surrender of sovereignty at each stage of integration, which is strongly resisted by many African states. Africa thus lacks supranational institutions, like the EU, with the capacity to enforce decisions and align strategies with the national strategies of member states. For example, the AU relies on the RECs as pillars of integration and there are often very weak links between these regional organisations and national governments (Osakwe 2015).

In summary, the experience with linear integration models differs among the RECs. COMESA, EAC and ECOWAS have all launched customs unions, to be implemented in a phased process. SADC, in contrast, has not been able to achieve its customs union target (2010) or progress to a common market (2015) owing to various political, economic and institutional challenges.

### Developmental regionalism

Developmental regionalism is an alternative to the textbook model of integration. In Africa, the main focus of regional trade initiatives has been on liberalising trade in goods and promoting investment. Not enough attention and resources have been directed to addressing the underlying productive and supply capabilities of countries to compete regionally and globally. This partly explains the low levels of intra-regional trade.

#### Box 1.4 Southern African Power Pool

Under developmental regionalism, the focus is on economic development and sectoral co-ordination, the provision of regional infrastructure, and regional industrial development. An example of this in Africa is the Southern Africa Power Pool (SAPP), established in 1995 under the auspices of SADC. The members of SAPP have created a common power grid between the countries and a common market for electricity within the SADC region. The following principles guide the vision behind the SAPP:

- facilitate the development of a competitive electricity market in the Southern African region;
- give the end user a choice of electricity supply;
- ensure that the Southern African region is the region of choice for investments by energy-intensive users; and
- ensure sustainable energy developments through sound economic, environmental and social practices.

Source: Tutwa (2016)

Developmental regionalism now recognises that the barriers to intra-regional trade in Africa are less to do with tariffs and regulatory constraints, and more to do with poor infrastructure and undiversified production structures. It holds that effective market integration through tariff liberalisation requires and should be preceded by co-operation and co-ordination programmes to address real economic constraints, as well as initiatives to promote entrepreneurship, private sector development and export competitiveness. The use of industrial policy (at national and regional levels), development corridors (for example the Maputo Development Corridor in SADC and the North-South Corridor), special economic zones<sup>5</sup> and regional value chains, among others, are important tools and vehicles for promoting intra-African trade within the context of developmental regionalism (UNCTAD 2013).

Developmental regionalism rests on three pillars:

- market integration;
- cross-border infrastructure development; and
- structural transformation, especially triggering regional value chains in goods and services.

This approach has been adopted notably in the Tripartite Initiative between COMESA, EAC and SADC (see Chapter 3). While the practicality of developmental regionalism is now widely acknowledged, and many RECs have strengthened efforts to promote the development of supply capacities and structural transformation, poor and inadequate implementation of action plans has made it difficult to achieve economic transformation in these regions (Osakwe 2015).

#### 1.4 Why is regional integration important for African countries?

Regional integration has been a major objective of African governments ever since African countries gained their political independence in the 1960s. Regionalism in Africa has historically been pursued for two reasons. The first is to enhance political co-operation and unity at the pan-African level, including through the Organisation of African Unity (OAU) between 1963 and 2002 (Box 1.5), and its successor, the AU.<sup>6</sup> The second objective is to foster economic growth, development and poverty reduction.

In the first two decades of the post-independence era, the focus of regional integration in Africa was on political co-operation

**Box 1.5 What was the OAU?**

The OAU was established on 25 May 1963 in Addis Ababa, Ethiopia, with 32 members. The objectives of the OAU were:

1. to promote the unity and solidarity of the African states;
2. to co-ordinate and intensify their co-operation and efforts to achieve a better life for the peoples of Africa;
3. to defend their sovereignty, their territorial integrity and independence;
4. to eradicate all forms of colonialism from Africa;
5. to promote international co-operation, having due regard to the Charter of the United Nations and the Universal Declaration of Human Rights.

The chief objective of the OAU was to advance the development of African states through promoting co-operation and collaboration among members. The OAU was also committed to the resolution of disputes to create stability. In addition, it achieved considerable success in areas such as developing a sense of identity among African states, in particular between the Arab North and Sub-Saharan Africa (SSA). It also made a significant contribution to the struggle against apartheid and progress against other human rights abuses.

However, the OAU failed to be the initiator of regional political, economic and social co-operation in Africa and was unsuccessful in bringing stability to the continent. This was largely because of its lack of mandatory powers, its adherence to the principle of national sovereignty, and the inability to enforce recommendations made by Heads of State. The African Union (AU) succeeded the OAU in 2002, with 53 members. In 2011, South Sudan became the 54<sup>th</sup> AU member state. Morocco became the 55<sup>th</sup> AU member state in 2017.

**Source:** Tutwa (2016)

rather than economic integration, as African leaders sought to rid the continent of the remnants of colonialism. Since the 1980s, efforts have been made to shift the focus of regional integration from political co-operation to economic integration, as evidenced by the emphasis on economic issues in the Lagos Plan of Action (1980) and the Abuja Treaty (1991).

Since 2000, there have been vast improvements in Africa's growth and development prospects. African leaders adopted the New Partnership for Africa's Development (NEPAD) and subsequent AU plans, policies and strategies to boost intra-African trade, promote industrial development and fast-track the establishment of the Continental FTA. The AU's *Agenda 2063: The Africa We Want*, adopted in January 2015, sets

out the priority areas for Africa's development over the next 50 years.

### 1.5 What are the economic benefits of regional integration in Africa?

**A larger regional market allows domestic industries to achieve economies of scale, improve production efficiencies and enhance competitiveness – and thus compete regionally and globally**

Africa, China and India all have population sizes of more than one billion people. However, whereas China and India are single markets, the African continent is a patchwork of 55 sovereign states with 'thick' national borders acting as barriers to intra-regional trade (World Bank 2009). Fragmentation of the continent also means many Sub-Saharan African countries have small domestic markets that undermine the potential for achieving economies of scale and building export competitiveness. Based on World Bank data, in 2015, 21 out of 55 African countries had a population of less than 10 million, with 18 of those 21 countries having a population of less than 5 million. For the same year, the nominal gross domestic product (GDP) of 23 countries was less than US\$10 billion, with 14 countries having a GDP of less than US\$5 billion. Fifteen Sub-Saharan African countries are landlocked, raising their trade costs, while national borders arbitrarily drawn during the colonial era pay little heed to the distribution of resources and natural endowments. Regional integration to overcome these market constraints and reduce costs will allow producers, traders, investors and consumers to tap into their continent's vast economic potential.

A larger and more integrated regional market is the key to attracting more FDI inflows and triggering a trade–investment nexus that supports Africa's structural transformation objectives. There also appears to be considerable potential to grow intra-regional FDI, especially if this is linked to regional value chains (Table 1.1). Intra-African FDI in the manufacturing sector has focused mainly on agro-processing, building materials, electronic and electric equipment, and textiles. In the services sector, banking and financial services, telecommunications and retail trade have been the leading sectors (ICTSD 2016).

**Table 1.1 Selected intra-REC foreign direct investment flows (2003–05 and 2009–2011)**

REC	Period	FDI inflows (US\$ billion)		Intra-regional share
		Total	Intra-regional	
COMESA	2003–05	17.9	0.2	1
	2009–2011	34.0	2.6	8
EAC	2003–05	2.3	0.0	2
	2009–2011	9.9	1.4	14
SADC	2003–05	23.0	1.0	4
	2009–2011	32.0	3.2	10

Source: ICTSD (2016)

### There is considerable potential to grow intra-African trade in goods and services

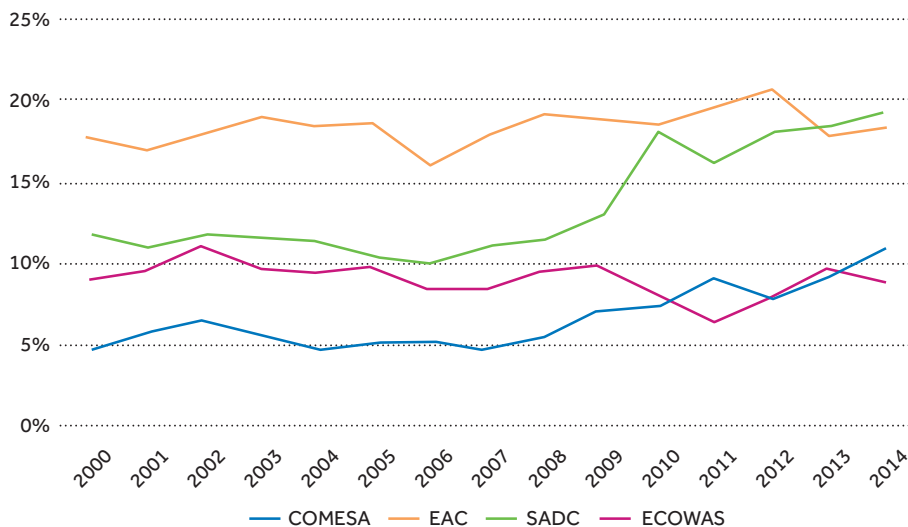
On average, formal intra-African trade is low compared with other regions of the world economy. Intra-African trade in goods accounts for about 16 per cent of total recorded African trade, compared with 17 per cent in South and Central America, 42 per cent in North America, 62 per cent in the EU and 64 per cent in Asia (Davis 2016). There is also considerable ‘under-trading’ among African countries, suggesting the potential for greater trade expansion (Commonwealth Secretariat 2015).

Despite the low aggregate levels of intra-African trade, four points are important. First, the overall figure for intra-regional trade could well be much higher if the substantial informal trade in goods and services that takes place in Africa was included in official statistics.

Second, levels of intra-regional trade vary among the RECs. SADC has the highest trade intensity, with South Africa generating about 60 per cent of intra-regional exports (ICTSD 2016), while ECCAS has the lowest. The EAC is the second highest performer in terms of intra-REC trade intensity, although its share of intra-regional exports has remained relatively flat since 2000 (Figure 1.5). Overall, however, the 2016 African Regional Integration Index ranked the EAC as the highest-performing REC on the trade integration indicator (UNECA *et al.* 2016a).

The third point is that Africa is an important export destination for a growing number of individual African economies, driving greater intra-regional trade:

Figure 1.5 Trade intensity for select African RECs (2000–2014)



Source: ICTSD (2016)

- intra-African trade as a share of world trade is about three times higher among non-fuel exporters than among fuel exporters, which tend to trade more with the rest of the world;
- over the period 2007 to 2011, nine countries<sup>7</sup> exported at least 40 per cent of their goods to Africa, compared with only five countries in the period from 1996 to 2000; while
- on the import side, 11 countries<sup>8</sup> imported at least 40 per cent of their goods from Africa in the period from 2007 to 2011, compared with 9 countries in the period from 1996 to 2000 (UNCTAD 2013).

Fourth, intra-African trade is more manufacturing oriented than Africa's unprocessed commodity and mineral exports to the rest of the world. Manufacturing represents 67 per cent of exports to other African countries compared with 32 per cent of exports to Europe, 18 per cent to the United States and 14 per cent to China (Lopes 2016a). It also has a higher intensity of services component. There are enormous untapped opportunities for growing intra-regional trade, especially in food products, basic manufactures and services (Brenton and Isik 2012). Africa's households are projected to spend US\$2.1 trillion by 2025, offering promising business opportunities in various consumer-facing industries from housing to healthcare to leisure (McKinsey Global Institute 2016).

There is also tremendous potential to grow cross-border trade in services.<sup>9</sup> However, data limitations hinder meaningful analysis of services in Africa and their contribution to the continent's growth and development (Dihel and Goswami 2016). In 2014, Africa imported US\$183 billion in services and exported US\$106 billion. As imports exceeded exports, it is argued Africa must have imported the excess from outside the continent (otherwise, these flows would have been included in recorded exports). Assuming they are competitive and efficient, this US\$77 billion imported-services deficit represents business that could possibly be captured by African firms if barriers to intra-African trade in services were lowered. Imports from outside the continent were particularly strong in transport services, at US\$41 billion (UNECA *et al.* 2016b).

### Free movement of people is one of the most tangible benefits of integration for citizens

From the Lagos Plan of Action to the AU's *Agenda 2063* (see Chapter 2), African states have consistently placed the movement of people at the core of the continental integration project.<sup>10</sup> The linear model of integration places the common market as the fourth and penultimate stage of integration, in which capital and labour move freely. Africa is projected to have the biggest working-age population in the world (1.1 billion) by 2034 – larger than in either China or India (McKinsey Global Institute 2016). The continent's vast productive capacity cannot be fully unlocked if labour – skilled, semi-skilled and unskilled – is trapped within 55 national borders, or otherwise hindered from efficiently being linked with demand and opportunity wherever on the continent it exists.

Free movement has suffered a similar fate as regional integration initiatives more broadly because of political, technocratic and security-related reasons. The poor mobility of Africans in their own continent is highlighted in the 2016 Africa Visa Openness Index. The index finds that, on average, Africans need visas to travel to 55 per cent of other African countries, can get visas on arrival in only 25 per cent of other countries and do not require a visa to travel to just under 20 per cent of other countries on the continent (Tutwa 2016).

African policy-makers increasingly recognise that mobility issues are core to GDP growth, due to their importance to

intra-African formal and informal trade and tourism. The AU's *Action Plan for Boosting Intra-Africa Trade* (BIAT) prioritises factor market integration, emphasising that progress on free movement of persons is required to grow intra-African trade (AUC and UNECA 2012). The AU's *Agenda 2063* proposes an 'African Passport' and abolishing visa requirements for all African citizens in all African countries by 2018. The AUC is also driving an action-oriented Joint Labour Migration Programme aimed at improving intra-regional labour mobility, in partnership with the International Labour Organization (ILO), International Organization for Migration (IOM) and United Nations Economic Commission for Africa (UNECA) (AUC and UNECA 2012).

### Regional integration can contribute to poverty reduction efforts and deliver development gains

The United Nations' *2030 Agenda for Sustainable Development*<sup>11</sup> and the AU's *Agenda 2063* highlight the role of trade as a vehicle for development. Trade can especially contribute to poverty reduction (World Bank and WTO 2015). Although Africa has had solid average annual GDP growth of more than 4 per cent over the last 15 years, and dramatically expanded its trade with the world, Sub-Saharan Africa still confronts the challenges of poverty, inequality and unemployment, especially among women and youth (with 60 per cent youth unemployment). Despite the achievements of the previous Millennium Development Goals (2000–2015), more people in Africa are poor today than in 1990. The proportion of Africans who are poor fell from 56 per cent in 1990 to 43 per cent in 2012. However, due to population growth, still many more people are poor: more than 330 million in 2012, up from about 280 million in 1990 (Beegle *et al.* 2016). The World Bank estimates that another half a billion people will be added to the continent by 2030, culminating in a total estimated population of 2 billion people by 2050.

Trade barriers impact disproportionately on the poor. To end extreme poverty, policies to increase the contribution of intra-regional trade to growth will need to be matched with a new effort to maximise the gains of trade for the poorest. This entails tackling constraints faced by the extremely poor, including those arising from rural poverty, gender inequality, fragility and conflict, and the nature of the informal economy (Brenton 2016). The following examples, among others, illustrate how

regional integration can help to maximise the benefits of trade opportunities for the extreme poor:

- linking rural communities to markets to improve access to new technologies (e.g. higher-yielding seeds) and to markets for the goods and services they produce and trade (e.g. basic foodstuffs);
- using trade and cross-border exchange to generate solidarity between communities in fragile states and enhance opportunities for sharing the benefits of growth and increasing prosperity;
- providing a route for small firms to grow and increase their capacity to leave the informal sector and prosper in the economy; and
- assisting women in dealing with poverty by providing opportunities for jobs and better returns from cross-border trading activities (Brenton and Isik 2012).

### **Regional co-operation can play an important role in promoting gender equality and sensitivity, especially in regional trade**

International and regional trade and trade agreements may affect women and men differently, and can have significant implications for household wellbeing and for gender equality. These differential gender impacts are influenced and determined by social norms and values, as well as factors such as access to resources, endowments, skills levels, rights and entitlements (sometimes enshrined in law) and regulatory processes. Differential gender impacts can also depend on the goods and services produced within tradeable sectors, whether production occurs in the formal or informal sector, and whether or not discriminatory practices are being applied within labour markets. In turn, all these factors have implications for how women and men are employed. Understanding gender divisions implies looking at both men and women, with a special emphasis on women's subordination and the pursuit of gender equality.

Understanding and measuring the impact of trade on women is important – not only because they are typically half of any population but also because the constraints women face in developing businesses or entering the labour market make them less able to benefit from the opportunities trade creates. This

differential impact may also have implications for women's social mobility and their participation in public life. An underlying factor in this process is the socioculturally derived differing roles and responsibilities of women and men within the household, coupled with differences in access to resources and entitlements. The differentiated impacts of both trade policy and trade agreements substantiate the need to recognise women not only as consumers, but also as producers and sociopolitical agents in efforts to achieve gender equality (Commonwealth Secretariat 2015).

The RECs and their member states have made commitments to promoting gender equality and ensuring the full development and advancement of women and girls. They have adopted policies, programmes and institutional frameworks (e.g. EAC Gender Equality and Development Bill, 2016), which provide guidelines for the implementation of gender equality principles and women's empowerment. While most RECs have made good progress on these fronts, there is need to focus more on effective implementation, and not mere rhetoric, of the different political commitments made on gender mainstreaming and women's empowerment. To achieve tangible results, the REC's gender departments have to play the critical role of not only sustaining the gender agenda at all levels of policy- and decision-making, but also systemically monitoring the progress on this agenda (Tutwa 2016). Practical steps should be taken to enhance women's participation in formal and informal intra-regional trade in Africa (Box 1.6).

### **Regional co-operation facilitates the provision of regional public goods, which may lower trade costs**

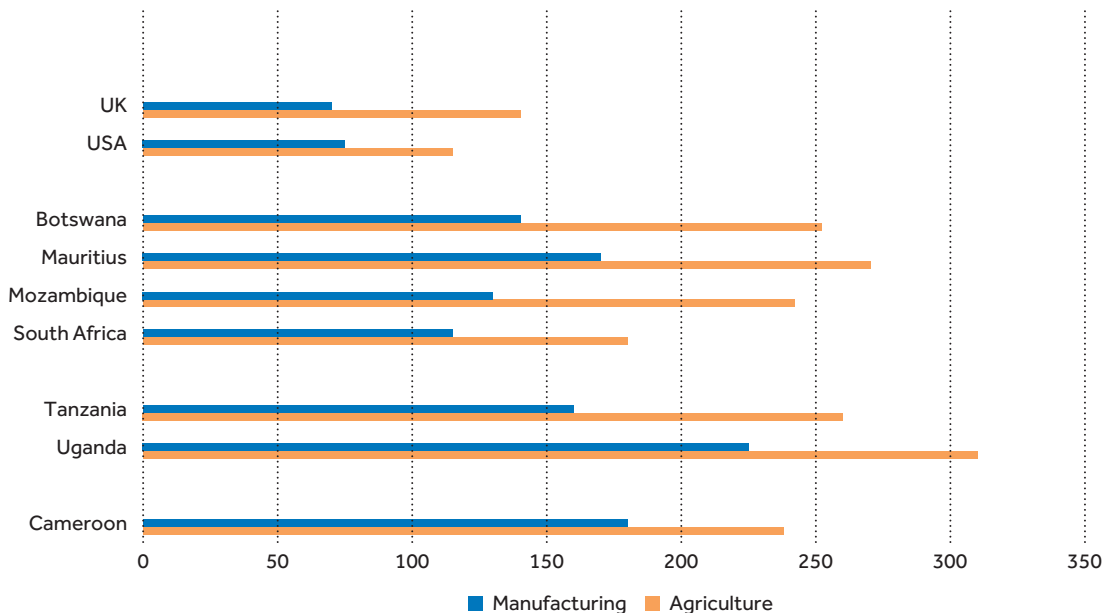
Trade costs in Africa are extremely high.<sup>12</sup> They may even vary significantly among members of the same REC (Figure 1.6). Average trade costs for landlocked Sub-Saharan African countries are estimated to be 100 percentage points higher than those of the developing country group (Razzaque 2016). It takes an average of 38 days to import and 32 days to export goods across borders in Sub-Saharan Africa – two of the longest wait times in the world (Munang and Mgendi 2015). This is almost twice as long as in other regions, such as Latin America, the Caribbean and South-East Asia. In fact, it costs more to move a container from Kenya to Burundi than from Belgium or the United Kingdom to Kenya (Lopes 2016b). Given the importance ascribed to regional and continental integration, it is startling

### Box 1.6 Five ways African policy-makers can facilitate women's participation in trade

1. Recognise the role that women play in trade and ensure that officials at all levels understand the importance of that role.
2. Ensure that rules and regulations governing trade are clear, predictable and widely available at the border, which is critical for women traders working with very limited margins in the informal sector.
3. Prioritise the simplification of trade documents and regulatory requirements, since this will benefit women in trade given the time and mobility constraints that arise from household responsibilities.
4. Design interventions to develop trade in ways that ensure that women benefit. For example, programmes that support improved access to information will miss women traders and entrepreneurs if the support is channelled through existing male-dominated trader networks.
5. Help women address the risks that they face in their trade-related activities, given that they are typically more risk averse than men and respond to risk in different ways.

Source: Brenton *et al.* (2013)

Figure 1.6 Selected Sub-Saharan Africa trade costs (2012) (% ad valorem equivalent)



Source: Adapted from Shepherd (2016)

that it is easier for Africa to trade with Asia, Europe and the Americas than with the rest of the continent.

Many competitiveness challenges are regional in nature. Africa's 15 landlocked countries depend on infrastructure being available and accessible in neighbouring transit countries for their trade. However, national development programmes will not normally consider activities with strong regional (or international) externalities, because the benefits cannot be fully appropriated nationally. Regions can better support the provision of public goods, including 'hard' infrastructure such as roads, energy and the physical networks required to support trade, and 'soft' infrastructure, including institutions to facilitate and govern trade.

A regional approach to infrastructure development can help leverage economies of scale in financing and investment, and create the foundations for greater integration efforts by reducing trade costs. To maximise impact, infrastructure investments should be accompanied by policy reforms that remove barriers and facilitate the movement of goods, investment, services and people. For example, it might be useful to combine investments in cross-border transport infrastructure with measures that lead

### Box 1.7 Reducing trade costs through one-stop borders

The Chirundu One-Stop Border Post (OSBP) operates between Zambia and Zimbabwe, which are divided by the Zambezi River. Before implementation of the project, truck drivers crossing the border experienced delays that were often long: 30 per cent of truck drivers spent up to three days at Chirundu. The delays were also unpredictable, which badly hampered the ability of Zambian businesses to participate in modern supply chains, with their emphasis on 'just-in-time' inventory management. Many of the challenges were institutional in nature. The construction of the new bridge and terminals did little to expedite cross-border trade, as massive queues of vehicles waiting to cross still accumulated on both sides. However, tackling 'soft' aspects of the project – such as building the capacity of customs officials – has progressively yielded results. There has been increased efficiency and capacity to handle larger volumes of traffic within a shorter period of time.

The Taveta-Holili OSBP operates between Kenya and Tanzania. Within three months of its opening, the new OSBP reduced crossing times for trucks by 24 per cent. In East Africa, OSBPs have also been completed at Mutukula, Kobero and Mirama Hills, leading to a reduction in border-crossing times and improvement in the efficiency for the movement of goods along the Northern and Central Corridors.

**Sources:** Silva (2015); APPG (2016)

to faster border procedures (such as trade facilitation measures and one-stop border posts – see Box 1.7), the removal of road blocks, fewer weighbridges and greater competition among transport providers (Brenton and Hoffman 2016).

### **Regional integration provides a platform to build regional production networks, thereby supporting Africa's structural transformation objectives**

The development of regional value chains (RVCs) in agriculture, manufacturing and services will help trigger structural transformation in Sub-Saharan Africa and improve the capacity of regional firms to participate in global value chains (GVCs). It is estimated that Southern Africa accounts for 40 per cent of Africa's total GVC participation, one-third of which is through backward integration – the share of foreign value added embedded in a country's exports (AfDB *et al.* 2014). Countries such as Ethiopia, Kenya, Seychelles, South Africa and Tanzania have made the largest strides into GVCs. Sectors such as manufacturing, agriculture and agro-business, and, to a lesser extent, textiles, tourism and transport, have benefited from integration (IMF 2016).

Southern and East Africa also have a closer production network within the region, providing a basis for further productive capacity co-operation under the Tripartite Initiative (see Chapter 3). South Africa is a key driver of RVCs, both as a supplier of inputs and as a destination market for exports. However, there are still challenges for establishing a 'Factory Southern Africa' that replicates the East Asian story (Box 1.8).

In GVCs, the fragmentation of production processes allows countries to specialise in specific tasks that contribute to the production of the finished article.<sup>13</sup> Services are increasingly also being disaggregated and traded as separate tasks to create service value chains. In RVCs, by comparison, a country within the region exports the end product, either globally or regionally. RVCs therefore offer opportunities to the countries in the region to climb up the value chains by using the region to boost their competitiveness and to produce and export higher-value products (Banga *et al.* 2015). Some upgrading processes may also be easier to achieve within RVCs, because these markets are less dominated by a few lead firms. For example, supplying processed and branded coffee or chocolate may be easier for firms oriented

### Box 1.8 Towards 'Factory Southern Africa'?

GVCs may represent a significant opportunity for SACU to improve the region's prospects for expanding non-commodity exports. A World Bank report proposes a 'Factory Southern Africa' for SACU that is built around a 'gateway model'. The gateway model suggests that, even if the immediate region is not always ideal for GVC-oriented production, the region may still integrate with GVCs as the host of 'command-control' and facilitating (services) functions of global supply networks. Key components of a gateway are, therefore, transport infrastructure and advanced producer services, such as banking and consultancy, which enable multinational corporations (MNCs) to co-ordinate their networks. In this sense, the practical vision for a 'Factory Southern Africa' hinges not around factories at all, but around services.

The report outlines a three-plank framework with specific policy actions for supporting 'Factory Southern Africa':

1. facilitating economic density in the region by reducing distance and division;
2. improving skills, services and infrastructure for competitiveness; and
3. promoting policy and institutional co-ordination at the regional level.

The report and its recommendations have been critiqued from a developmental integration perspective – e.g. Ismail (2016).

**Source:** World Bank (2015)

towards intra-regional markets than more tightly controlled global markets (Keane 2015). In addition, some studies find that regionally oriented value chains perform better on some of the UN's Sustainable Development Goals (SDGs) (for example ending poverty, gender equality/empowerment and decent work) than the more globally oriented chains (ICTSD 2016).

Productive capacity development is a pillar of the AU's BIAT, which also encourages 'Buy in Africa' and 'Made in Africa' products to promote RVCs (AUC and UNECA 2012). RVC development can boost productive and supply capacities and generate higher intra-regional trade and investment flows. The leather and leather products (LLP) industry provides a good illustration of the opportunity for Sub-Saharan Africa to form RVCs and, in the process, create higher value-addition in exports and more jobs. According to one estimate, removing tariffs on LLP could almost quadruple average annual intra-regional trade in these products from US\$245 million to US\$997 million, whereas removing all non-tariff barriers (NTBs) could boost this figure tenfold (Banga *et al.* 2015).

## Regional integration helps build economic resilience, especially against external shocks

African economies are vulnerable to external shocks – from the boom and bust cycles of international commodity markets to systemic crises such as the 2008 global financial crisis. Previous global downturns have usually dealt a hard blow to Sub-Saharan African countries' growth and development. However, the region demonstrated greater resilience during the post-2008 global recession. Growth averaged about 5 per cent during this period, except for 2009 when it plummeted to 3 per cent. That said, Sub-Saharan Africa, especially middle-income countries with strong links to the advanced economies, was still affected by the crisis: demand for their exports contracted, commodity prices fell, remittance flows weakened and investor risk aversion led to lower FDI. For others, the crisis saw the proliferation of various trade-protectionist measures, many still in place, which impaired least-developed country (LDC) exports.<sup>14</sup>

A big lesson from the global crisis is the need to diversify export markets. Strong and growing regional trade can be an important buffer for mitigating the impact of external shocks. The EAC, the most integrated African REC, is a prime example: it was the least affected by the economic downturn following the global financial crisis (ICTSD 2016, 24). In the shifting global trade landscape, which includes the rise of so-called 'mega-regionals', advancing pan-African market integration is indispensable for the continent's growth and development prospects. The proposed mega-RTAs include the Trans-Atlantic Trade and Investment Partnership (TTIP), the Trans-Pacific Partnership (TPP)<sup>15</sup> and the Regional Comprehensive Economic Partnership (RCEP), in which no African countries participate. The impact of preference erosion (a major outcome for Africa should these agreements come into force) and higher trade standards could be mitigated if the Continental FTA (CFTA) between the AU's 55 member states is already in place (UNECA 2015).

## Regional co-operation increases Africa's common voice and influence on global trade and development issues

By adopting collective positions and negotiating as a bloc where possible, African countries may have a stronger voice and bargaining power in international trade negotiations. African

countries have historically adopted common positions for WTO negotiations through the meetings of the African Ministers of Trade, as well as the co-ordination of the Africa Group of Ambassadors in Geneva. Combining resources and knowledge helps smaller and more capacity-constrained countries take informed positions at the negotiating table. African countries have also adopted common positions in relation to some of their external trading partners; this includes engaging the United States on the renewal of the African Growth and Opportunity Act (AGOA-IV), which was successfully extended up to 2025. It is widely recommended that African countries should also develop a strategy in relation to their southern development partners, especially to further their long-term sustainable development goals.

### **Regional integration may enhance economic governance by serving as an external restraint on domestic policy-making**

Convergence or harmonisation of national laws and policies may be an important outcome of regional integration. However, many African countries have failed to fully 'domesticate' regional agreements, resolutions or policy decisions in national laws and policy-making. There is also lack of implementation of regional agreements. Except for the EAC, where most member states have a dedicated Ministry of EAC Affairs, there is no specialised agency within government in many African countries to monitor regional integration (ICTSD 2016, 6). Despite the strong political rhetoric regarding the importance of regionalism, many African countries do not see regional integration as an integral part of a national development strategy, while public support for integration varies by country and region (Box 1.9).

## **1.6 What is the role of the private sector in driving regional integration?**

Successful integration in Africa needs strong and broad-based private sector support (Box 1.10). The AU's BIAT recognises this and proposes the establishment of regular platforms to enhance the role of the organised private sector, informal private sector and women in trade policy formulation (AUC and UNECA 2012). Up to this point, African governments have been the main drivers of regional integration through RTAs and other

### Box 1.9 How do Africans think about regional integration in Africa?

During 2014–15, Afrobarometer undertook nearly 54,000 interviews in 36 African countries to determine the perceptions of Africans about regional integration. The findings show limited public support for integration, with wide variations by country and region.

On average across 36 countries, a majority of Africans favour free cross-border movement of people and goods, but this is not the majority view in 15 of those countries. Meanwhile, only one in four citizens say it is easy to cross international borders.

When asked to choose between respecting national sovereignty and a regional role for states in protecting free elections and human rights in neighbouring countries, most Africans emphasise national sovereignty. And, while a majority of Africans consider the AU and RECs at least 'a little bit' helpful to their countries, this is not the case in all countries; and about three in ten citizens do not know enough about these organisations to have an opinion.

**Source:** Afrobarometer (2016)

### Box 1.10 Enterprise structure in Africa

African enterprises display several distinctive features:

- African countries have large and growing informal economies, accounting for about 38 per cent of GDP;
- the average size of African manufacturing firms is relatively small, and they tend to produce mostly for the domestic rather than the export market;
- African firms exhibit weak inter-firm linkages between the formal and informal economies, between small and large firms, and between domestic and foreign firms;
- African manufacturing firms lack export competitiveness, due to higher production costs (e.g. for electricity, credit, skilled labour and other inputs) and lower labour productivity than firms in other parts of the developing world; and
- African firms have weak technological capabilities and are embedded in fragmented learning and innovation systems.

Today, there are also home-grown African MNCs investing in Africa and the world. Seven South African MNCs and one Nigerian MNE are ranked among the top 100 non-financial transnational corporations from developing and transition economies. In addition, there are more than 400 African companies with revenue over US\$1 billion per year, and these companies are growing faster and are more profitable in general than their global peers.

**Source:** McKinsey Global Institute (2016), UNCTAD (2013, 2016)

regional initiatives. The private sector has played a limited role, even though it is business that invests, produces and supplies intra-regional goods and services.

In general, African countries perform poorly on the World Bank's ease of doing business rankings. Advancing regional economic integration starts at home with domestic policies that promote entrepreneurship, private sector development and innovation and competitiveness. These should be linked to pan-continentals plans, like the AU's SME Strategy and Master Plan (2017–2021). The latter aims, among others, at improving the continental business environment, increasing business formation, supporting formalisation of growth-oriented informal enterprises and startups, increasing small and micro entrepreneurs' participation in regional and global value chains and promoting innovative financing. Without a dynamic and vibrant private sector, African countries cannot make use of existing or future trading opportunities such as the TFTA. At the regional level, several RECs are increasingly making efforts to incorporate the private sector into their structures and action plans – for example, through the establishment of business councils (e.g. East African Business Council, Association of SADC Chambers of Commerce and Industry and Federation of West African Chambers of Commerce and Industry). At the continental level, efforts are under way to bring together regional structures into the African Union Business Council. Regional business associations mirror those found at the national level, including chambers of commerce and industry, employer organisations and industry bodies (Tutwa 2016).

Although African business groups are relative newcomers to the regional integration stage, their impact on regional governance can be significant given their financial capital, business acumen and entrepreneurial know-how (Tutwa 2016). If African governments want to achieve their objective of boosting intra-African trade, investment and value chains, they have to create more space for the private sector to play an active role in the integration process. This includes establishing credible mechanisms for dialogue between the state and business. Checks and balances are also necessary to ensure that close collaboration with the private sector does not exacerbate rent-seeking behaviour or corruption. Transparency in dealings with the private sector, and the inclusion of civil society in dialogues between firms and governments, are possible ways to address these risks (Tutwa 2016).

## 1.7 Does informal cross-border trade contribute to regional integration?

Small informal traders, mainly women, are a familiar sight at many border posts in Africa. While most of their trading activities go unrecorded, each day these traders make a major economic contribution to the continent. While there are no systematic statistics on informal trade in goods – and growing levels of informal trade in services – these activities are substantial and thriving in Africa. For example:

- In the SADC, informal cross-border trade generates US\$17.6 billion per year, representing 30 to 40 per cent of total intra-SADC trade.
- In West Africa, informal cross-border trade could represent 20 per cent of GDP in Nigeria and 75 per cent of GDP in Benin.
- In East Africa, Ugandan informal exports to the Democratic Republic of the Congo (DRC), Kenya, Rwanda, Sudan and Tanzania represented US\$224 million (or 83 per cent) of its total recorded trade to these countries in 2006. In 2009 and 2010, Ugandan informal exports to its neighbours were worth US\$790 million and US\$520 million respectively (UNCTAD 2013).

This informal trade is hugely important, both in sustaining livelihoods and household incomes and in contributing to wider economic growth, regional integration and sustainable development. For example, most of the items traded are food products (including groceries, fresh fruits and vegetables, meat, fish and eggs) so this trade is contributing significantly to regional food security.<sup>16</sup>

Informal cross-border trade in Africa is characterised by the strong participation of women traders. In fact, women are responsible for more than 70 per cent of cross-border trade. Profits from informal trade often constitute the sole source of household income and economic empowerment (Brenton *et al.* 2013; Ghils 2013). However, women traders are especially vulnerable and subject to harassment and physical abuse, including sexual and gender-based violence. Corruption at the border and the extortion of bribes may significantly reduce their meagre profits. Many of these abuses are unreported. This lack of economic and physical security and safety impairs the livelihoods

of these traders and compounds their lack of access to finance, information and business knowledge (Brenton *et al.* 2013).

Informal trade also flourishes across a broad range of service sectors and activities: hairdressing (braiding), housekeeping and gardening, construction, clergy, tailoring, agricultural services, education and health, including traditional healing. These informal service suppliers also confront barriers to their trade. Typical constraints affecting the movement of service providers include corruption and harassment, the high cost of passports and visas, and cumbersome host-country requirements for residency permits, licensing requirements or work permits (Dihel and Goswami 2016).

To strengthen the rights of small traders and facilitate their cross-border transactions, the World Bank, in collaboration with the governments of Malawi and Zambia, has developed a *Charter for Cross-Border Traders*. The charter enshrines a basic set of rights and obligations for traders and officials and is being piloted at the Mwami–Mchinji border.

### 1.8 What are some of the best practices from the regional economic communities (RECs) to resolve non-tariff barriers (NTBs)?

As the RECs reduce tariff barriers at the border, non-tariff measures (NTMs) increasingly become an important determinant of market-access conditions and trade costs. The term ‘NTM’ refers to a large range of policy measures. There

**Table 1.2 International classification of import-related non-tariff measures**

Technical measures	Non-technical measures
A. Sanitary and phytosanitary measures	D. Contingent trade-protective measures
B. Technical barriers to trade	E. Non-automatic licensing, quotas, prohibitions and quantity-control measures
C. Pre-shipment inspections and other formalities	F. Price-control measures, including additional taxes and charges
	G. Finance measures
	H. Measures affecting competition
	I. Trade-related investment measures
	J. Distribution restrictions
	K. Restriction on post-sales services
	L. Subsidies (excluding export subsidies)
	M. Government procurement restrictions
	N. Intellectual property rights
	O. Rules of origin

are more than 170 distinct NTMs under 15 broad categories according to the international taxonomy for NTMs, which has been developed by a multi-agency support team group initiated and co-ordinated by UNCTAD (Table 1.2). Some NTMs may reflect legitimate public health concerns, others more strategic regional or national developmental objectives. The challenge is to ensure that these types of NTM are not unnecessarily trade restrictive and so do not become NTBs.

The tripartite RECs – namely COMESA, EAC and SADC – have established an online notification mechanism where the private sector can report NTBs impacting their regional trade in Southern and East Africa.<sup>17</sup>

The portal increases transparency with respect to NTBs and allows easy follow-up by interested stakeholders of reported and identified NTBs and NTMs. As of February 2017, there were 550 complaints registered, 492 complaints resolved and 58 complaints unresolved on the online NTB monitoring mechanism. The top five complaints are:

1. lengthy and costly customs clearance procedures;
2. issues related to rules of origin;
3. costly road user charges/fees;
4. issues related to transit; and
5. issues related to sanitary and phytosanitary measures,

The portal is, however, not an effective mechanism for eliminating NTBs. This requires action and co-operation among sovereign governments. A dispute-resolution process, with access to private parties, may also be important. It is the private sector that produces and trades in goods and services, and when they encounter NTBs – for example goods stuck at a border post – expeditious resolution of such problems is essential (Hartzenberg 2015).

### 1.9 How do African countries settle trade disputes with each other?

Trade can generate disputes, especially when a member government alleges that another member government is violating its obligations under a rules-based regional agreement or treaty. However, a major challenge for trade integration in Africa is poor implementation of binding obligations coupled

with the lack of robust dispute settlement and litigation over regional integration issues. Suing another government (even over a mere technicality) is seen as a sign of disrespect toward the other sovereign state. In contrast, African governments are prepared to litigate over international border disputes, which is a much more sensitive matter (Erasmus 2015).

A rules-based governance framework underpinned by effective dispute resolution provides certainty and predictability for traders and investors in the region, and removes compliance from the realm of political discretion. It disciplines the freedom of REC member states to take unilateral actions. Trade agreements do provide for exceptions under certain conditions, such as safeguards or trade remedies in order to manage emergencies. Trade remedies are in fact the primary source of WTO disputes. Technical standards, trade facilitation and customs issues all fall into the same category. Some of these have already given rise to disputes in the domestic courts. The administration of customs and NTMs are routine matters that apply universally in the implementation of trade agreements.

African governments accept that legal certainty should govern trade, and have agreed to dispute resolution as part of their WTO membership. This should be no different for trade in the RECs. Unco-ordinated national responses will lead to fragmentation, preventing the development of precedents and predictability as provided by community law (Erasmus 2015).

A number of dispute-settlement institutions related to economic integration in Africa have been established to decide cases arising from the REC's agreements or actions. Most of the recognised RECs in Africa have regional courts or tribunals set up to hear cases that range from alleged human rights violations to trade and investment disputes; they also play a key role in interpreting regional legal instruments and protocols (Tutwa 2016). These include:

- the ECOWAS Court of Justice;
- the Court of Justice of the West African Economic and Monetary Union;
- the Court of Justice of the Economic and Monetary Community of Central African States;
- the COMESA Court of Justice;

- the EAC Court of Justice; and
- the SADC Tribunal.

The COMESA Court of Justice hears private stakeholders' claims and offers a window of opportunity to challenge the non-implementation of agreements (Box 1.11). However, remedies such as those available under the COMESA regime are not available to private parties in all RECs. For example, the new Protocol on the SADC Tribunal does not provide

### **Box 1.11 Private company challenges government on tariff issue**

In February 2012 Polytol Paints, a private company established in Mauritius, filed an application with the COMESA Court of Justice against the Republic of Mauritius. It requested a court order instructing Mauritius to give effect to the obligations on tariff liberalisation in force in COMESA, of which Mauritius is a member. The main arguments concerned the fact that, under Article 46 of the COMESA Treaty, member states were required, by the year 2000, to eliminate customs duties and other charges of equivalent effect imposed on goods eligible for Common Market treatment.

Mauritius had complied with this obligation, but in 2001 re-introduced a 40 per cent customs duty on specific products imported from Egypt (another COMESA member), which included the products imported by Polytol Paints. Only Egyptian products were targeted. Polytol requested the Ministry of Finance of Mauritius to remove the duty, but received no response. In April 2008, it took the case to the local courts without success. The Supreme Court of Mauritius determined that it could take cognisance of the provisions of the COMESA Treaty only to the extent that they had been incorporated into the national law. This court observed that it could 'only consider the validity of the regulations against the backdrop of the Customs Tariff Act and our Constitution. In the absence of any such legislation to that effect, non-fulfilment by Mauritius of its obligations, if any, under the COMESA Treaty is not enforceable by the national courts'.

Polytol then took the case to the COMESA Court of Justice. The Government of Mauritius opposed the Polytol application, arguing, among other things, that Polytol Paints lacked the necessary standing in this dispute resolution forum, and therefore could not bring this claim. The COMESA Court of Justice rejected this claim, heard the case and found in favour of Polytol Paints. The Government of Mauritius lodged an appeal against this decision, but subsequently withdrew the appeal.

This case raises a number of important issues. African regional integration has not been characterised by robust dispute settlement. Member states do not usually litigate against each other over issues pertaining to their obligations under regional agreements, and do not act on behalf of their aggrieved nationals. The Polytol judgment sets an important example on how this failure can be corrected.

**Source:** Hartzenberg (2015)

standing to private parties to contest such policy reversals (Hartzenberg 2015). The ECOWAS Court of Justice goes further by examining member states' non-compliance with REC norms, while not requiring from private plaintiffs their prior exhaustion of domestic judicial remedies. There are already several pan-African institutions with jurisprudence, such as the African Court of Justice and Human Rights, the AU Commission on International Law and the African Institute of International Law. An efficient dispute settlement mechanism is a prerequisite for the TFTA and CFTA (see Chapter 3).

### 1.10 How can regional integration promote a balanced distribution of benefits?

The implementation of RTAs may result in different trade and welfare implications for the participating parties, depending on their specific characteristics and levels of development. One of the reasons is the 'agglomeration' effect of regional integration, whereby industrial activity (i.e. increasing returns industries) tends to concentrate in the 'core' parts of the REC, to the disadvantage of poorer 'peripheral' countries (Venables 2003). The distribution of these costs and benefits will to a large extent determine the effectiveness and sustainability of regional trading blocs. For example, the collapse of the initial East African Community in 1977 was largely attributed to Kenya, the regional industrial hub, gaining the major share of economic benefits.<sup>18</sup> This also remains an issue in RECs with dominant economies, such as ECOWAS (Nigeria) and SADC (South Africa).

The CFTA's trade and welfare benefits are also likely to accrue unevenly, with a larger portion captured by a few countries with stronger supply capacity and export competitiveness. Presently, seven African countries account for about 60 per cent of total intra-merchandise exports, while the majority account for the remaining 40 per cent. The CFTA must address the commercial and development interests of the economically weaker members in an inclusive and credible manner (UNCTAD 2015b).

Possible policy measures or mechanisms to promote a more balanced distribution of the benefits of regional integration include, among others:

- funds to compensate potential 'losers';
- variable geometry to reduce tariffs, flexibility and special and differential treatment;

- regional industrial strategies promoting inward investment and regional value chains;
- regional cross-border infrastructure development programmes;
- regional services co-operation agreements; and
- transit trade arrangements, especially to link landlocked countries to regional and global markets.

The 1991 Abuja Treaty provides an early example of this thinking. Article 4.2 of the treaty provides for the establishment of a Community Solidarity, Development and Compensation Fund, special treatment for LDC member states and the adoption of special measures in favour of landlocked, semi-landlocked and island countries.

An example of the application of variable geometry is the SADC Trade Protocol. The protocol, which established the SADC FTA in 2008, was implemented through asymmetrical tariff liberalisation by the parties. In 2000, South Africa and its SACU partners – Botswana, Lesotho (an LDC), Namibia and Swaziland – removed most industrial tariffs. The non-SACU FTA parties were granted longer transitional periods, up to 2015 for Mozambique. Zimbabwe was granted a derogation to suspend the tariff phasedown of category C products (i.e. ‘sensitive’ products) from 2010–12 to 2012–14.

### 1.11 Is there a role for the digital economy in promoting regional integration?

The technology-driven fourth industrial revolution – underpinned by digital technologies such as the cloud and digitisation, robotics, e-commerce, 3D printing, big data, holograms, Internet of Everything and virtual currencies – is disrupting traditional patterns of trade and investment, as well as production, consumption and supply chains. The rise of e-commerce as part of the broader digital trade revolution is transforming the marketplace from ‘bricks’ to ‘clicks’ via desktop, mobile, tablet or other online devices. Global business-to-business (B2B) e-commerce transactions exceeded US\$15 trillion in 2013, while global business-to-consumer (B2C) e-commerce was estimated to be US\$1.2 trillion in the same year. B2C was forecast to expand to over US\$2 trillion by 2016 (UNCTAD 2015c).

The 24/7/365 digital marketplace overcomes past prohibitive constraints of time, distance and scale. By increasing connectivity and reducing costs, it offers tremendous opportunities to facilitate and broaden participation of producers in domestic, regional and international trade. For example, small firms and women entrepreneurs in landlocked Lesotho can now be directly connected via e-commerce platforms to customers in neighbouring South Africa or distant Sierra Leone. One study shows a positive effect of e-commerce on intra-African trade, with more than one-third of Nigerians having purchased goods from other African countries. South Africa is the main destination, with 30 per cent of Nigerian cross-border shoppers buying from the country compared to Kenya with 2 per cent, Egypt with 1 per cent, and the rest of the continent with 3 per cent (Vickers and Peña-Méndez 2015).

The AU's *Agenda 2063* recognises the importance of technology as a catalyst for the continent's socioeconomic transformation. More than half a billion people across Africa are now subscribed to mobile services. Mobile technology plays a crucial role in promoting financial inclusion in Africa, where less than 20 per cent of households have access to formal financial services. Kenyan M-PESA has led the mobile money phenomenon to the point of becoming a global reference. Real-time market prices and the sharing of best practices from farming to services could help improve productivity and competitiveness, both essential for regional and global trade success (Vickers and Peña-Méndez 2015). Digital technology already plays a crucial role in reducing trade costs and transit times; this ranges from electronic single windows for customs clearance (e.g. Kenya, Mauritius and Mozambique) to a regional e-cargo tracking system along the Northern Corridor.

The use of mobile technologies and services across Africa generated US\$153 billion in economic value in 2015, equivalent to 6.7 per cent of the region's GDP. This contribution is expected to increase to US\$214 billion by 2020 (7.6 per cent of expected GDP) as countries in Africa continue to benefit from the improvements in productivity and efficiency brought about by increased take-up of mobile services. Africa's mobile ecosystem also supported 3.8 million jobs in 2015 and made a US\$17 billion contribution to the public sector via general taxation. The number of jobs supported is forecast to rise to 4.5 million

by 2020, while the tax contribution is expected to increase to US\$20.5 billion (GSMA Intelligence 2016).

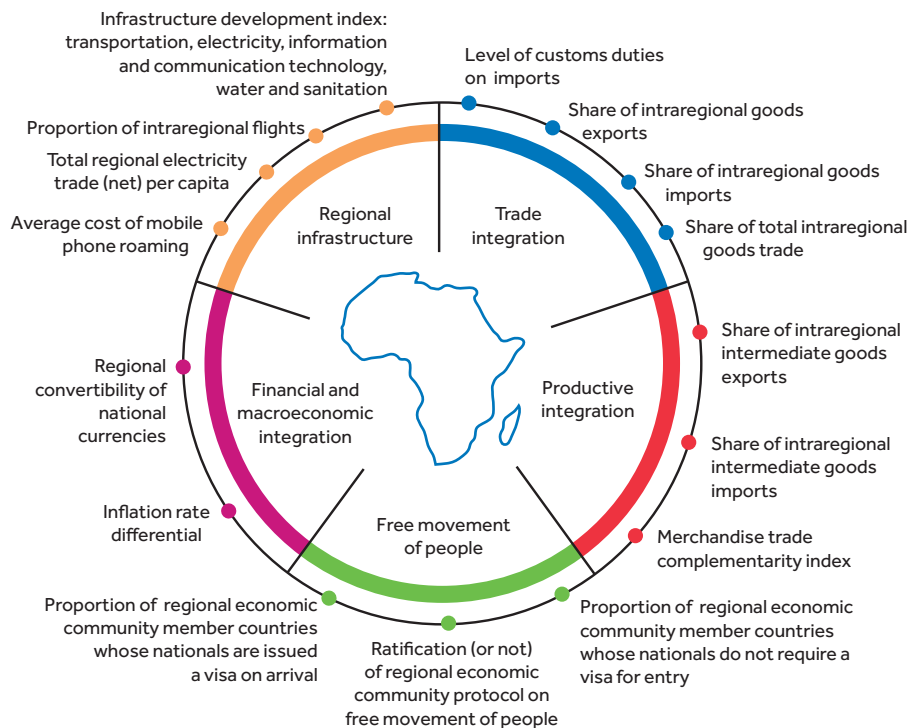
To unlock further opportunities, Sub-Saharan African countries need to effectively tackle the policy, regulatory, infrastructure, educational and cultural constraints that stifle their transition to both the digital era and the e-economy. Bilateral donors and multilateral agencies have a key role to play in helping to achieve the SDG target of providing universal and affordable access to the internet in LDCs by 2020 – and by extension, helping improve the e-commerce ecosystem. Extending such access could help place the African continent, home to the world's most LDCs, on a new development trajectory, including improved trade performance and competitiveness.

### 1.12 Is it possible to measure progress on regional integration in Africa?

The African Regional Integration Index is a multidimensional matrix that allows some quantification, comparison and ranking of performance on economic integration by Africa's RECs and the individual member states. The index is produced by the AU, the African Development Bank and the United Nations Economic Commission for Africa (UNECA). It measures five different dimensions: trade integration, productive integration, free movement of people, financial integration and macroeconomic integration. These dimensions build on an overview of the key socioeconomic factors that are fundamental to integration. Sixteen categories, cutting across the five dimensions, are used to calculate the index (Figure 1.7). The index showcases the high performers and highlights what is needed to accelerate progress.

The 2016 African Regional Integration Index finds that the EAC is the overall top-performing REC, followed by SADC and COMESA. EAC has higher-than-average scores across each dimension of regional integration, except for financial and macroeconomic integration. SADC and ECOWAS have higher-than-average REC scores on regional integration overall. SADC has higher-than-average REC scores across the dimensions of regional infrastructure, free movement of people, and financial and macroeconomic integration. ECOWAS has higher-than-average REC scores across the dimensions of free movement of people and financial and macroeconomic integration. The

Figure 1.7 Gauging progress: the African Regional Integration Index



Source: UNECA *et al.* (2016a)

findings reveal that each REC, and each member country, scores higher than average on at least one priority area of integration. This is a strong basis for each region to build on and for sharing lessons and insights to encourage greater policy reforms across the continent (UNECA *et al.* 2016a).

## Notes

- 1 The five groups were defined by the Organisation of African Unity (OAU) in 1976. In addition, the AU recognises a sixth region of the continent, namely the African diaspora. The diaspora are people of African descent who live outside the African continent, irrespective of their citizenship and nationality, and who are willing to contribute to the development of the continent and the building of the AU.
- 2 The Enabling Clause is more formally known as the 'Decision on Differential and More Favourable Treatment, Reciprocity, and Fuller Participation of Developing Countries', GATT Document L/4903, 28 November 1979, BISD 26S/203.
- 3 Prior to the establishment of the AU, OAU members signed a Protocol on Relations between the African Economic Community (AEC) and the RECs in February 1998. This protocol served as an instrument and framework for close co-operation, programme harmonisation and co-ordination, as well as

integration among the RECs on the one hand (horizontal integration) and between the AEC and the RECs on the other (vertical integration).

- 4 The United Kingdom (UK) intends to withdraw from the EU, a process commonly known as 'Brexit', as a result of a June 2016 referendum in which 52 per cent of UK eligible voters voted to leave the EU. Withdrawal from the EU is a right under Article 50 of the 2007 Lisbon Treaty – 'Any member state may decide to withdraw from the Union in accordance with its own constitutional requirements'.
- 5 Such zones can take different forms, depending on their intended purpose, including export-processing zones, free-trade zones, enterprise zones and free ports. Mauritius is an example of a successful export-processing zone.
- 6 The Assembly of Heads of State and Government of the OAU adopted the Constitutive Act of the AU in 2000 and established the Union the following year.
- 7 Benin, Djibouti, Kenya, Mali, Rwanda, Senegal, Togo, Uganda and Zimbabwe.
- 8 Botswana, Burkina Faso, the Democratic Republic of the Congo, Lesotho, Malawi, Mali, Rwanda, Sierra Leone, Swaziland, Zambia and Zimbabwe.
- 9 Services comprise a wide variety of economic and social activities, embracing communications, transport, finance, energy, distribution, construction and business services, as well as final-demand services such as tourism, recreation, education, health and environmental services.
- 10 Free movement of persons is typically articulated in policy instruments as comprising three main freedoms: right of entry and abolishment of visas, for short visits up to 90 days; right of residence, including to seek and carry out income-earning employment; and right of establishment, the ability of business owners and self-employed persons to render and sell services unimpeded, without discrimination based on nationality (Tutwa 2016).
- 11 Unlike the Millennium Development Goals (MDGs), the *2030 Agenda* provides an elaborate role – both direct as well as crosscutting – for international trade for achieving many of the specific Sustainable Development Goals (SDGs) and targets. Indeed, trade has been directly referenced 9 times in the 17 SDGs compared with just once in the MDGs. The 17 SDGs, linked to 169 targets, progress on which is to be measured against hundreds of indicators, provide a much more ambitious framework than that of the MDGs.
- 12 The UNESCAP-World Bank Trade Costs Database provides information on bilateral trade costs inferred from the observed pattern of production and trade using a theoretically grounded approach. Trade costs include all factors that drive a wedge between the producer price in an exporting country and the consumer price in an importing country. This includes factors such as international transport, tariff barriers, non-tariff measures and behind-the-border issues such as domestic distribution and the business environment.
- 13 Fostered by trade liberalisation, along with the revolution in information and communication technology (ICT) and services trade, GVC trade has fundamentally changed the traditional concept of one firm located in one country undertaking an entire production process. For example, the production process of a typical T-shirt could comprise cotton being grown in one country, yarn and fabric manufactured in another, and cut, make and trim undertaken in a third country, with required accessories procured further from different countries before the final products are shipped to retailers.
- 14 According to a study commissioned by the Government of Sweden (Evenett and Fritz 2015), about 500 such measures, including tariff increases, export subsidies and other fiscal incentives for domestic

- suppliers, were implemented by different countries, affecting the commercial interests of LDCs. G20 countries together are found to be responsible for two-thirds of these measures. The study finds that the total amount of forgone LDC exports caused by trade distortions implemented between 2009 and 2013 is US\$264 billion, which is equivalent to 31 per cent of the total value of LDCs' exports during the same period. The measures implemented by G20 nations were together responsible for 89 per cent of export losses. This shows that, despite all preferential trade packages securing sustained market access, there remains a critical challenge for LDCs – with important implications for trade and industrial growth.
- 15 The future of the TPP is uncertain following the decision of the United States to withdraw from this agreement. The UK's withdrawal from the EU, known as 'Brexit', also poses challenges for TTIP.
  - 16 The *2030 Agenda's* Sustainable Development Goal (SDG) 2 specifically aims to end hunger, achieve food security and improved nutrition, and promote sustainable agriculture.
  - 17 It is located at: [www.tradebarriers.org](http://www.tradebarriers.org)
  - 18 Although the Kampala Agreement had sought to establish an even distribution of industries across the region, as a means of ensuring balanced development and mutual benefits from the EAC, each partner country looked out for its own interests. (See *Daily Monitor* (2012)).

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