

Regional Trade Arrangements in Africa



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Contents

Abbreviations	v
Preface	vii
Chapter 1. Introduction	1
Chapter 2. Regional Trade Arrangements in Africa	3
A. Global Background	3
B. Challenges of Regionalism for Africa	4
C. The Web of Africa's Trade Arrangements	7
Chapter 3. Effects of African Trade Arrangements	14
A. Have RTAs Helped Increase Intraregional Trade?	14
B. Have RTAs Helped Improve Regional Competitiveness?	19
C. Have RTAs Benefited Africa?	22
D. Have RTAs Achieved Their Noneconomic Objectives?	23
Chapter 4. Policy Implications	25
Chapter 5. Role of the IMF	33
A. Establishing Sound Macroeconomic Frameworks	33
B. Managing Revenue Losses from Trade Reform	34
C. Addressing the Impact of Preference Erosion	36
D. Strengthening Surveillance and Trade-Related Technical Assistance	36
E. Creating an Enabling Global Environment	38
Chapter 6. Conclusions	39
References	41
Boxes	
1. Regional Trade Integration With and Without RTAs: The EU and East Asia	27
2. Trade Liberalization and Revenue Losses	35
3. Preference Erosion from Multilateral Liberalization	37

Tables

1. Official Checkpoints on Selected Routes of Western African Highways, December 2000	10
2. Simple Average of Applied MFN Tariffs, 1997 and 2004	12
3. Intra-Arrangement Trade in Africa	16
4. Decomposition of African Non-Oil Export Growth, 1970–2000	20

Figures

1. The African Galaxy	9
2. Intra-African Trade in Total African Trade, 1970–2003	15
3. Intraregional Trade Intensity in Africa, 1970–2003	17
4. Africa's Share in World Trade, 1970–2003	18
5. Foreign Direct Investment: Net Inflows in Africa, 1970–2001	21

Abbreviations

ACP	Africa, Caribbean, and Pacific
AEC	African Economic Community
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
ASEAN	Association of Southeast Asian Nations
ATC	Agreement on Textiles and Clothing
CEAO	West Africa Economic Community
CEMAC	Central African Economic and Monetary Community (formerly UDEAC)
CET	Common external tariff
CMS	Constant market share
COMESA	Common Market for Eastern and Southern Africa
CU	Customs union
EAC	East African Community/Cooperation
EBA	Everything but Arms (EU)
ECA	Economic Commission for Africa (UN)
ECCAS	Economic Community for Central African States
ECOWAS	Economic Community of Western African States
EEC	European Economic Community
EFTA	European Free Trade Association
EPA	Economic Partnership Agreement (EU)
EU	European Union
FDI	Foreign direct investment
FTA	Free trade agreement/area
GATT	General Agreement on Tariffs and Trade
GSP	Generalized system of preferences
Mercosur	Common Market of the South
MFN	Most favored nation
NAFTA	North American Free Trade Agreement
NEPAD	New Partnership for Africa's Development
NTBs	Nontariff barriers
OAU	Organization of African Unity
PRGF	Poverty Reduction and Growth Facility
Quad	Canada, the EU, Japan, and the United States
ROO	Rule of origin
RTA	Regional trade arrangement
SACU	Southern African Customs Union
SADC	Southern African Development Community
TIM	Trade Integration Mechanism
UDEAC	Central African Customs and Economic Union

VAT	Value-added tax
WAEMU	West African Economic and Monetary Union
WTO	World Trade Organization

Preface

Trade policy is a critical component of an effective strategy for reducing poverty and boosting growth in Africa. In recent years, however, African policymakers have increasingly resorted to regional trade arrangements (RTAs) as a substitute for broad-based trade liberalization. This trend has long-term implications for the effectiveness of trade policy as a tool for poverty reduction and growth.

This Special Issues paper examines the record of African RTAs in promoting trade and investment and explores policy measures that may help improve the RTAs' performance. The paper concludes that African RTAs have been generally ineffective in promoting trade and foreign direct investment. Relatively high external trade barriers and low resource complementarity between member countries limit both intra- and extraregional trade. Small market size, poor transport facilities, and high trading costs make it difficult for African countries to reap the potential benefits of RTAs. To increase regional trade and investment, African countries need to undertake more broad-based liberalization and streamline existing RTAs, supported by improvements in infrastructure and trade facilitation. Early action to strengthen the domestic revenue base would help address concerns over revenue losses from trade liberalization.

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1

Introduction

Africa is home to some 30 regional trade arrangements (RTAs), many of which are part of deeper regional integration schemes.¹ On average, each African country belongs to four RTAs (World Bank, 2004). There has been a renewed push in recent years for broader and deeper preferential trade arrangements in Africa. Some of the previously defunct regional arrangements (e.g., the East African Community) have been revived, while continental institutions—namely, the African Economic Community (AEC), the African Union, and the New Partnership for Africa’s Development (NEPAD)—have been launched under the auspices of the Organization of African Unity (OAU). In addition, African countries are preparing to negotiate FTAs with the European Union (EU) under the Economic Partnership Agreements (EPAs). The Southern African Customs Union (SACU) is negotiating an FTA with the United States. South Africa, the largest African economy, has already signed an FTA with the EU.²

The push for RTAs in Africa has occurred against the backdrop of increasing regionalism worldwide and the ongoing Doha Round of multilateral trade negotiations. The EU is poised to expand further (e.g., with Bulgaria and Romania’s prospective accession) after admitting 10 new members from Central and Eastern Europe in May 2004, while countries in the Americas have been negotiating a hemisphere-wide FTA that would include all democracies in the

¹The RTAs discussed in this paper include both free trade agreements (FTAs) and customs unions (CUs). Many regional integration schemes in Africa have monetary and economic union dimensions (i.e., monetary union, common market, and economic union)—the so-called deep integration, which involves not only the removal of traditional trade barriers (e.g., tariffs) but also the elimination of other barriers to the free movement of goods, services, and factors and the harmonization of economic policies and regulatory regimes. This paper focuses exclusively on the trade aspects of African regional integration schemes. The term “regionalism” is used to refer to both multicountry and bilateral RTAs.

²The South Africa–EU FTA applies de facto to all members of SACU by modifying SACU’s common external tariff to establish preferential tariffs for imports from the EU. The modification enabled South Africa to sign the FTA with the EU while being a member of SACU.

region. In Asia, regionalism has finally gathered momentum, with the major countries in that region (e.g., Japan, China, India, and Korea) rigorously pursuing preferential trade arrangements, which may eventually lead to an Asia-wide trade bloc. On the multilateral front, the Doha Round has moved slowly. Despite the framework agreement reached in August 2004, it will be difficult to conclude the round by the end of 2005, as originally scheduled.

A key challenge facing Africa is to determine the priorities in its trade policy among competing demands on the unilateral, regional, and multilateral fronts. The preferred course of action will have to be based on both past experiences of RTAs in Africa and elsewhere and an examination of the pros and cons of the various options in moving forward. In this regard, this paper intends to accomplish three tasks. First, it discusses the global trend toward regionalism, the challenges it poses for African trade policy, and the salient features of African RTAs (Chapter 2). The paper then goes on to analyze the effectiveness of the arrangements in achieving their stated objectives (Chapter 3) and explore trade policy priorities and strategies for trade promotion (Chapter 4). This is followed by a discussion of the role of the IMF in helping African countries set these priorities and accelerate trade growth (Chapter 5). The paper offers conclusions in Chapter 6.