CONVERGENCE OF COMESA-SADC-EAC REGIONAL FRAMEWORKS

Prepared by:

Dr. Lunogelo B. and Mbilinyi, Apronius V.

The Economic and Social Research Foundation (ESRF),

51 Uporoto Street, (off Ali Hassan Mwinyi Road), Ursino Estates,

P.O Box 31226, Dar es Salaam, Tanzania,

Phone: (255-22) 2760260, 2760751/2,

Mobile: (255-754) 780133 Fax: (255-22) 2760062

Email: esrf@esrf.or.tz Web: www.esrf.or.tz

A Paper Presented During the Annual Forum for Private, Public and Academia Partnership on Trade Policy and Negotiations and organized by the Ministry of Industry, Trade and Marketing (MITM) in 26th October, 2009.

November, 2009

TABLE OF CONTENTS

1.0 INTRODUCTION

Regional trade arrangements are an increasingly important element of the global trade environment. Indeed, it is estimated that between 50 and 60 per cent of global trade now benefits from regional preferences (WTO, 2000). Developing countries and most SSA in particular are active participants in the formation of RTAs and an increasing number of these are being formed on a North-South basis. The COMESA, SADC and EAC's plan to merge and form one regional block will be a new milestone for formation of the south-south cooperation towards establishing the long waited African Economic Commission (AEC).

1.2 Historical Background

In the past forty years Africa has witnessed a positive move by African countries, encouraged through the African Union forum, to join their efforts in various initiatives, most notable the formation of regional economic groupings, which was seen a more practical step towards the more ambition dream of statesmen like Kwame Nkrumah and Mwalimu J.K Nyerere to create a United States of Africa. The regional groupings have been modelled on the experience of other successful ventures elsewhere in the world, including the experience of the defunct East Africa Community which was pioneered by Kenya, Uganda and Tanzania. The most common regional groupings formed primarily for economic integration include ECOWAS for Western Africa, COMESA for countries South and East of the Sahara in, Eastern, Central and Southern Africa- SADC, which involves some country members of COMESA and the EAC, which also draws some members from COMESA and SADC. The Northern African countries are joined through the Western Africa Economic and Monetary Union (WAEMU), while those with Arabic connection belong to Arab Maghreb Union (AMU). Other organizational frameworks, dedicated to specialized needs of each region include IGAD covering the horn of Africa (Kenya, Uganda, Somalia, Djibouti, and Ethiopia) and SACU involving Republic of South Africa and its neighboring states(Botswana, Namibia, Lesotho and Swaziland). Some of countries are also members of OPEC (Oil producing countries) and the Organisation for Islamic Countries (OIC).

These African regional economic groupings tend to vary in similarity between other regional economic groups such as the Carribean Community (CARICOM), Central American Common Market (CACM) and Mercado Comun de Sur (MERCOSUR) in Central America and ASEAN. The structure of the regional groping in the 1970s, 80s, 90s and 2000's is shown in table 1 below.

Table 1: Structure of African Regional Groupings

West Africa	1960s	1980s	1990's and 2000s
Lagos Plan		ECOWAS 1975 Economic Community of West African States	1993 revised ECOWAS Treaty
	UDEAO 1966 Customs Union of West African States	CEAO 1973 Economic Community of West Africa UMOA West African Monetary Union	WAEMU 1994 West African Economic and Monetary Union
Central Africa			
Lagos Plan		ECCAS (CEEAC) 1983 Economic Community of Central African States	
	UDEAC 1964 Economic and Customs Union of Central Africa BEAC 1961 Bank of the Central African States		CEMAC 1994 Economic and Monetary Union of Central Africa
Southern and Eastern Africa			
Lagos Plan		PTA 1981 Preferential Trade Area	COMESA 1993 Common Market for Eastern and Southern Africa CBI 1993 Cross Border Initiative
	SACU (originally 1889, 1969) Southern African Customs Union CMA Common Monetary Area		
		SADCC 1980 Southern African Development Coordination Conference	SADC 1992 Southern African Development Community
	EAC 1967 East African Community I		EAC 1999 East African Community II
		IGADD 1986 Intergovernmental Authority on Drought and Development	IGAD 1996 Intergovernmental Authority on Development

Source: UNECA 2008

Despite the multiplicity of groupings, the SSA regional cooperations have not been very effective. Among the reasons for the failures include the following:

- Intra-regional trade in Africa as a share of total foreign trade has traditionally been low compared to other regions. Figures in the early 1990s suggest that the proportion was only 8.4 per cent in 1993 compared with Western Europe (69.9 per cent), Asia (49.7 per cent), North America (33 per cent) and Latin America (19.4 per cent) (WTO source, quoted in McCarthy, 1995, p. 21). However, recorded trade underestimates the volume of actual trade due to absence of data, if proper account was to taken to include the size of informal trade which is estimated to be three time the official trade, the African numbers would not look so out of line. Furthermore, there is evidence that the importance of intra-regional trade has been steadily increasing in recent years.

- Most African states have suffered from severe macroeconomic disequilibria, foreign debt service burdens, over-valued currencies, lack of trade finance, and a narrow tax base, with custom duties forming a substantial source of government revenue.
- The protective import substitution strategies adopted by most countries since independence resulted in a host of regulations restricting trade such as licensing, administrative foreign exchange allocation, special taxes for acquiring foreign exchange, advance import deposits etc. Thus the economic context has been unfavourable to the development of regional commitments.
- The design of African integration schemes around inward-looking industrialization meant that the economic costs of participation for member states are often immediate and concrete (in the form of lower tariff revenues and greater import competition), while the economic benefits are long-term and uncertain and are often unevenly distributed among member states

- The dominance of a few countries and the huge disparities in size among members of regional groupings led to concerns about the distribution of benefits. The Regions did find difficulties to address the equitable distribution of gains and losses from integrations. The compensation schemes to the less developed members of groupings have been either absent or ineffective.

- The dependence of many African countries on their former colonial powers tended to work against viable regional groupings. The importance of North-South linkages (Franco-African, Agro-African, Commonwealth links and various Lomé Conventions) may have distracted commitment from intra-African groupings.
- Regionalism has been driven from above by public sector organizations and has lacked the support and involvement of the private sector and the general public. Cooperation has been seen as involving and bloated by expensive bureaucracies, rather than opportunities for growth and development through trade.

On top of the above weaknesses, institutional weaknesses, including the existence of too many regional organizations, a tendency towards top-heavy structures with too many political appointments led to failures by many SSA governments to commit themselves for regional integrations schemes.

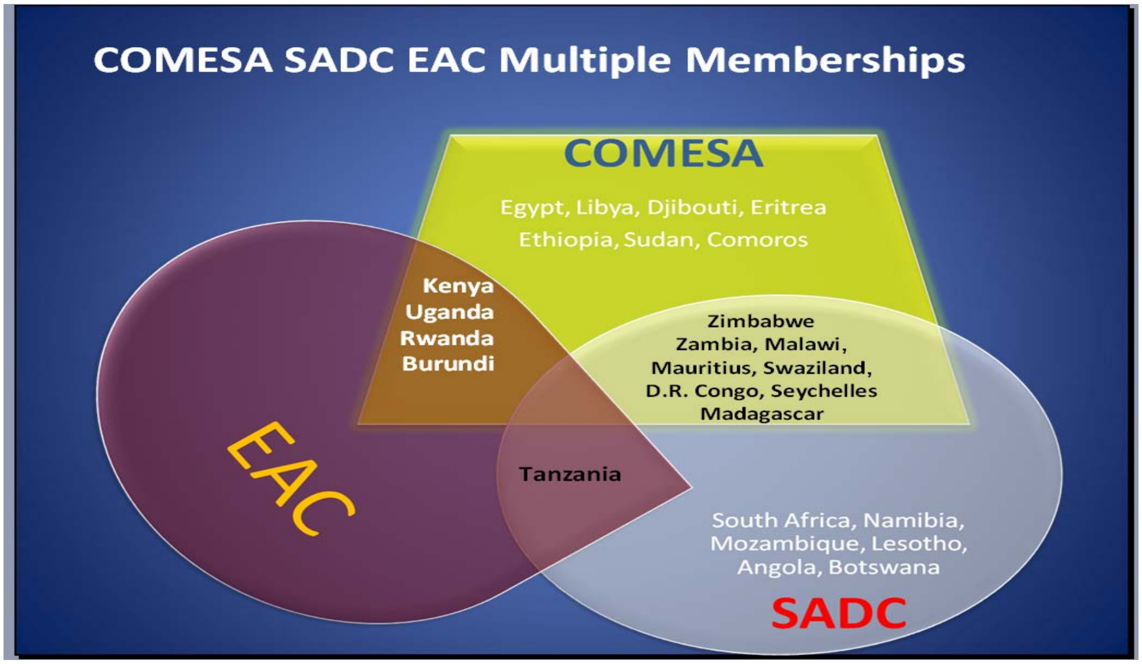
1.2 Decision of Heads of COMESA/EAC/SADC States to merge the three RECs

All the above three regional blocks consist of members states that belong to other regional organizations. This has resulted into the multiple membership problems. Multiple memberships to regional blocs impose undue administrative economic and financial cost on member States. Some of the related specific problems are: differences in the timing and speed of trade liberalization; tariff structures; customs documentation requirements and the rules of origin.

According to the WTO rules a country is supposed to belong to one Customs Union. All the three regional blocks are heading to the same end; the EAC is already a Customs Union, and has already established its common market. While, COMESA has launch its own Custom union in June 2009 and plans to form a common market by 2015. SADC plans to launch a Customs Union by 2010 and a common market by 2015. The time line for integration process in all the regions is shown in table 3 below. SADC has 15 members, COMESA 19 and EAC five. However, some member states from the three blocs also belong to two or all of the three regional economic communities.

From a legal as well as technical point of view a country cannot apply two different common external tariffs (CET) and therefore technically cannot be a member of more than one CU. Hence, the current pattern of overlapping membership becomes impossible to maintain once COMESA and SADC also become CUs in addition to SACU and the EAC. The possibilities which arise out of this scenario are; that the current and future CUs merge into one (for instance SACU with SADC and COMESA with EAC) thereby adopting a CET – and that all members withdraw from other overlapping grouping(s) and decide for membership in only one CU. From the point of view of individual countries, it is also possible to join one CU and maintain membership in a FTA of another REC. These and the other factors necessitated the 3 REC to initiate a move to form one REC. The Multiple membership problems for the three REC is shown in the figure below

Figure 1: Multiple memberships for the 3 REC



F. Zizhou, 2009

To resolve this problem, SADC and COMESA agreed to convene joint meetings on the harmonization of policies in 2002. The Process started by COMESA and SADC sharing information; the EAC came on board in 2005 during the ministers meeting in Egypt. The first tripartite minister meeting was held in Ruanda in 2006 during the COMESA summit, where the SADC and EAC leaders were invited.

The next tripartite Summit was held in Uganda in 2008. This was held exactly seven years after COMESA and SADC agreed to convene a joint meeting on the harmonization of policies. The meeting by the three blocs was set to eventually address overlapping membership conflicts as all the 3 regional organizations planed to establish a single Customs Union. One outcome of these meetings was a formation for the task force that is currently working to harmonise the process in the three regions and ultimately forming the custom union.

2.0 THEORETICAL FRAMEWORK ON THE ECONOMIC BENEFITS OF REGIONAL INTEGRATION

The traditional economic approach to regional trade integration assumes perfect competitive markets and the implications of forming a region for the allocation of resources in a static sense. This static analysis distinguishes between *trade creation* and *trade diversion* effects of regional trade integration which is based on *tariff reduction* in the regional trade arrangements (RTA).

2.1 How do tariff reductions lead to trade creation?

When a member of the REC eliminates tariffs on all imports the domestic price falls compared to the world price. Domestic production falls, domestic consumption increases and total imports increase. The reduction in tariffs leads to additional trade, or trade creation. The effect of the tariff reduction on economic welfare can be decomposed into three effects: the gain to consumers from lower domestic prices, the loss of profits to producers and the loss of tariff revenue to the government. Under the standard assumptions that resources remain fully employed and that prices reflect marginal costs and benefits, it is easily shown that the consumer gain exceeds the producer and government loss from reducing tariffs and that there is an overall gain in national welfare as a result of this policy change.

In some instance the barriers to trade create rent seeking behavior, this because tariffs and policies may raise the real cost of importing. A good example of such policies is complicated and slow customs procedures, or the imposition of spurious health, safety or technical standards. Resources which could be employed productively elsewhere in the economy are tied up (wasted) as a result of these barriers. The removal of such cost-increasing barriers magnifies the gain in national welfare from their elimination.

2.2 Discriminatory tariff reductions lead to trade creation and trade diversion

Consider the consequences when a country (the home country e.g. Tanzania) eliminates trade barriers with its regional partners but maintains them on trade with the third countries. This complicates the analysis because it may lead the home country (Tanzania) to switch its source of import supplies. If the partner country is already the low-cost supplier, then preferential trade liberalization leads to the same trade creation effect as earlier identified for unilateral trade liberalization. *Trade creation takes place when preferential liberalization enables a partner country to export more to the home country at the expense of inefficient enterprises in that country.* But preferential liberalization, by maintaining tariffs against the rest of the world, may cause enterprises in the home country to switch supplies from the rest of the world to higher-cost suppliers in the partner country. The partner country again increases its exports to the home country but this time at the expense of exports from third countries.

Trade diversion occurs when imports from a country which were previously subject to tariffs are displaced by higher cost imports which now enter tariff-free from partners. While trade creation contributes positively to welfare in the home country, trade diversion results in a welfare loss. The consumer gain on the volume of imports previously imported from third countries is less than the tariff revenue lost by the government (because, if the partner country is a less efficient supplier, the domestic price in the home country does not fall to the world price level).This hypothetical example focuses on the experience of a single partner in an RTA. It is possible that one or more partners in an RTA can gain from trade diversion in their favor. This is more likely if a country initially has lower tariffs or smaller imports from its partner. However, trade diversion is always a loss for the RTA overall.

A third effect comes into play in the traditional analysis if the RTA is large in world market terms, so that a change in its demand for imports influences the price at which those imports can be purchased. If, as a result of the formation of an RTA, the demand for imports in competitive markets is switched from third countries to a partner country, this leads to a decline in the price of third country imports and improves the union's terms of trade vis-à-vis the outside world. In imperfectly competitive markets, there may be collective gains if regional integration makes it possible to shift rents away from third countries. Rents exist if firms in the Rest of the World (ROW) can exercise market power and price above marginal cost. Forming an RTA increases the amount of competition in the market and this affects not only domestic firms but also ROW firms which will find their ability to extract these rents eroded: Consumers and the RTA as a whole gain from the movement in the terms of trade in their favor.

Not only market power but also bargaining power can be increased by forming an RTA. To the extent that a RTA increases the joint bargaining power of its members, it may be more successful in obtaining tariff reductions from its trading partners (or avoiding the imposition of trade sanctions) This assumes that the countries making up an RTA have a sufficient economic size relative to the third countries with which they must negotiate, and this requirement limits the relevance of this argument in the case of developing countries. A nice example (though based on regional cooperation rather than a regional trade arrangement) is noted by Schiff and Winters (2002). They point out how the Organization of Eastern Caribbean States (OECS) wanted to impose waste disposal charges on cruise ships to prevent ocean dumping of solid waste which was threatening the fragile ecosystems on which the tourist revenue of the islands depends. The cruise lines warned the OECS governments that any island that imposed waste disposal charges would lose cruise tourism because the lines would move their business to other islands. However, by acting together the islands were able to face down the cruise lines and a pollution charge was introduced.

2.3 The importance of Transfer Effects

Economic analysis has emphasized the overall welfare consequences of regional integration at the expense of the distributional or transfer implications which are often crucial in determining its political sustainability. Transfers occur between members of a trade bloc because the removal of tariffs between them means that exports obtain better prices in the partners' markets (known as a positive transfer), while the costs of imports net of tariffs increase (a negative transfer) (Hoekman and Schiff, 2002).

2.4 Positive welfare Outcomes

The fact that the welfare outcome of preferential trade liberalization is ambiguous, the net result of the trade creation and trade diversion effects, has attracted a huge literature on the circumstances needed to ensure a net overall gain. *As trade diversion is most likely when countries do little trade with each other prior to integration, one rule of thumb is that regional integration between countries which trade little with each other should not be encouraged(what about the 3 REC ie COMESA,EAC and SADC?? Statistics (see table 2 below) indicates low intra-trade volume; will there be trade creation or diversion??)*. Other circumstances favoring net trade creation include:

- Where tariffs and non-tariff barriers of member countries are high prior to integration, this maximizes the likelihood of trade creation.
- Where members are geographically close, since this reduces transactions costs such as transport and communications.
- Where tariffs and non-tariff barriers to extra-regional trade are low after the region is formed since this minimizes the likelihood of trade diversion.
- Where members have complementary economic structures (dissimilar patterns of production) since there will be scope for inter-industry specialization.

These criteria led to the traditional view that the ideal grouping for economic integration includes countries at comparable stages of development but with disparate, complementary resource bases. Such countries would have the maximum possibility to gain from integration but little to worry about in terms of the distribution of benefits in favor of rich countries at the expense of poor countries within the grouping(*does it mean that the 3 REC should not worry on distribution of benefits?).*

Trade diversion costs should be measured relative to sustainable equilibrium world price levels. In the case of agricultural products it is widely recognized that world prices are distorted by various policy interventions, in particular the high subsidy levels paid by EU or OECD countries. Any assessment of the trade diversion costs of an RTA with respect to agricultural trade should take into account the possible divergence between current world market prices and long-run social opportunity costs, particularly if the consequence of current depressed world prices as a result of trade-distorting policies results in irreversible loss of production capacity or changes in the local economy.

If the barriers restricting trade are cost-increasing rather than rent-creating barriers, the welfare analysis is quite different. Here, there is no tariff revenue accruing to the home country government before integration, and thus any reduction in domestic prices arising from sourcing supplies in a partner country can only have positive, trade-creating effects. With respect to African regional integration, Baldwin (1997) noted that:*"It would seem that trade within Africa has been hobbled by a very long list of cost-raising barriers. For instance the transportation system for intra-African trade is less developed than the one for extra-regional trade. The same is true of telecommunications and postal services. The implication is that removing cost-raising barriers on a regional - as opposed to multilateral - basis cannot lead to a worsening of welfare due to trade diversion".* However, the above argument should be taken with caution, since investing in regional infrastructure may not ease trade between partners. Such funds have an opportunity cost, and the returns from integrating with the rest of the world may still be higher.

The trade creation gains identified above arise even under perfect competition scenario because resources are re-allocated within the home country in line with its comparative advantage. In more recent analysis of welfare effects, the perfect competition assumption has been relaxed in models that allow for imperfect competition, economies of scale and product differentiation. These new analytical perspectives on market integration emphasize the pro-competitive effects of larger markets rather than comparative advantage. The additional sources of welfare gain under imperfect competition include:

- In many small countries the domestic market may not support a large number of firms and thus there is a tendency for firms to collude and raise prices at the expense of consumers. Reducing trade barriers may encourage firms to eliminate excess 'fat' (so-called X-inefficiency) as well as force them to price more in line with marginal cost (more competitors increases the elasticity of demand for a firm's products and makes it more difficult for them to charge margins in excess of marginal costs).
- Larger markets as a result of regional integration (EAC, COMESA and SADC)) may allow firms to exploit economies of scale, thus driving down costs and prices to local consumers. Larger markets may increase the range and variety of products which are available to consumers.

2.5 Additional gains from integration

Modern theory also highlights a number of other consequences of regional trade arrangement

- Accumulation or growth effects. If closer integration improves the efficiency with which factors are combined it is also likely to induce greater investment. While this additional investment is taking place, countries may experience a medium-term growth effect. If such investment is associated with faster technical progress or accumulation of human capital as identified in the new endogenous growth models, long-run growth rates may also be improved.
- Investment effects. More emphasis is now given to the impact of regional integration on production via the effect on foreign direct investment and investment creation and diversion.
- Transactions costs and regulatory barriers. The traditional theory of customs unions was developed in the context of tariff reductions but, as noticed above, the welfare effects of integration can be quite different if the barriers are removed

However, the experiences of developing countries with regional integration schemes designed on this basis were disappointing. An OECD study examined the performance of 12 regional trading arrangements[1] among developing countries

[1] The REC examined were: in Sub-Saharan Africa: Economic Community of West African States (ECOWAS), West African Economic Community (CEAO), the Mano River Union (MRU), Economic Community of the Great Lakes Countries (CEPGL), Central African Customs and Economic Union (UDEAC) and Eastern and Southern African Preferential Trade Area (PTA); in Latin America and the Caribbean, Caribbean Common Market (CARICOM), Central American Common Market (CACM), Latin American Integration Association (LAIA) and the Andean Group; in Asia, Association of Southeast Asian Nations (ASEAN) and the Bangkok Agreement.

which had been in existence for some time (York, 1993). Most resulted in only a very low level of economic integration, particularly in terms of trade relations. This failure was due to both political and economic reasons.

In political terms, the ineffective nature of these arrangements is linked to the lack of commitment in adhering to and/or implementing the programs for regional trade liberalization and the inability of member countries to put regional goals ahead of national ones. For many countries - including some that were at the time recently independent nations - surrendering of (some) sovereignty for economic development was a sacrifice they were not prepared to make. When liberalization programs were put into place, many governments resorted to using unilateral and restrictive trade measures when import surges created pressures for domestic adjustment. Adjustment problems also led to conflicts between partners over the distribution of the costs and benefits to regional integration.

In economic terms, the ineffective nature of these arrangements for developing countries has been linked to a host of factors, including most prominently: differences in initial conditions such as disparate levels of income and divergent rates of industrial development that made the gains from trade uneven; low levels of initial integration that characterized many groupings, similar structures of production and resource endowments; inward-oriented industrial policies, and macroeconomic imbalances that made domestic adjustments and adjustments to mutual integration(refer regional macroeconomic convergence criteria) even more onerous.

2.6 What are the Implications for SADC, COMESA and EAC Convergence Plan?

2.6.1 Fears over distribution of integration gains

The important massage we learn from the above conditions is that REC may not succeed because of fear among partner states on the discretional effects following an integration process. A crucial issue in the success of integration schemes is the equitable distribution of the gains from integration between member states. Locational effects may not be avoided in the three regional blocs and other many SSA regions. Fouroutan (1993) argues that a common reason for the failure of regional integration in Africa is the concern among the poorest African countries that the removal of trade barriers may cause the few industries which they possess to migrate to industrially more advanced countries(infant industry protection argument).

2.6.2 Specific redistribution mechanisms

Whether there is a tendency for countries within a region to converge is explored in the new growth theories which also emphasize the potential for catch-up (see Schiff &Winters, 2003). The simple theory outlined above suggests that whether convergence is observed or not will depend on the balance of opposing forces at a point in time. Jenkins (2001) provides evidence from the Southern African region that poorer members catch up with (converge on) richer ones through the process of trade. The more general lesson, however, is that relocation is inevitably part of the process of regional integration and, if it is politically unacceptable, integration schemes need to include mechanisms which minimize or offset these effects.

2.7 What is the Implications for other Developing countries

The past experience of developing countries with regional integration schemes is not encouraging one. The reasons for this can be demonstrated by the aid of the simple theory of customs unions. Preferential trade arrangements that give rise both to *trade creation and trade diversion effects*, as well as to transfers between the member countries. The design of REC among developing countries in the past tended to maximize the costs of trade diversion (because of high external tariffs) and also encouraged regressive transfers from poorer to better-off members of such arrangements. The recent more favorable assessment of regional integration arrangements involving developing countries is based on new regionalism paradigm that will lead to net trade creation as long as it is coupled with a significant degree of trade liberalization and where emphasis is put on reducing cost-creating trade barriers which simply waste resources. Regional economic integration may be a precondition for, rather than an obstacle to integrating developing countries into the world economy by minimizing the costs of market fragmentation (for instance SADC, COMESA, EAC etc). The volume of trade between the EAC, SADC and COMESA region is indicated in the table below. Based on the volume of trade between the regions, we make an assessment on whether the proposed new custom union to be formed from the 3 REC will bring trade creation or diversion.

Table 2: Inter-Regional Trade flow 2003- 2007 mill US$

						% Change		
Regional Trade	**2003**	**2004**	**2005**	**2006**	**2007**	**2005**	**2006**	**2007**
EXPORTS								
Intra EAC states Total exports	815	935	1,061.1	890.1	1,148.7	13.5	-16.1	29
COMESA	589.5	704.3	949.4	1,042.6	1,323.9	34.8	9.8	27
SADC	328.7	449	734.2	723.9	526.5	63.2	-1.4	-27.3
Rest of Africa	103.7	106.0	137.8	258.3	242.8	30.0	87.5	-6.0
EU	1,214.2	1,289.4	1,200.8	1,191.9	1,396.4	-6.9	-0.7	17.2
USA	61.0	254.4	262.7	328.1	367.8	3.2	24.9	12.1
Total EAC Export	**4,182.1**	**4,992.0**	**5,856.8**	**6,336.3**	**7,793.5**	**17.3**	**8.2**	**23.0**
%Intra EAC to Total Export	**19.5%**	**18.7%**	**18.1%**	**14.0%**	**18.1%**			
% COMESA	**14.1%**	**14.1%**	**16.2%**	**16.5%**	**20.9%**			
% SADC	**7.9%**	**9.0%**	**12.5%**	**11.4%**	**8.3%**			
% REST OF AFRICA	**2.5%**	**2.1%**	**2.4%**	**4.1%**	**3.8%**			
% EU	**29.0%**	**25.8%**	**20.5%**	**18.8%**	**22.0%**			
%USA	**1.5%**	**5.1%**	**4.5%**	**5.2%**	**5.8%**			
% Total Export ROW	**24.6%**	**25.6%**	**27.0%**	**30.9%**	**35.7%**			
IMPORTS								
Intra EAC states Total Imports	526.7	591.3	786.2	727.0	824.5	33.0	-75	13.4
COMESA	202.1	260.6	287.5	375.2	496.0	10.3	30.5	32.28
SADC	834.6	1,059.3	1,252.6	1,409.7	1,424.7	18.2	12.5	1.0
REST of AFRICA	14.3	23.0	14.3	122	17.8	-37.5	750.1	-85
EU	1,354.2	1,581.2	1,881.9	2,496.8	3,136.9	19	32.7	25.6
USA	348.9	364.6	741.7	556.8	950.3	103.4	-24.9	70.7
Total Import Rest of the world	4,033.9	4,847.1	5,788.1	8,390.1	11,166.0	19.4	45.0	33.1
%Intra EAC to Total Import	7	6.6	7.2	5.1	5.8			
% COMESA	2.7	2.9	2.6	2.6	36			
% SADC	11.2	11.8	11.4	9.8	9.9			
% EU	18.1	17.6	17.1	17.4	21.9			
%USA	4.7	4.1	6.8	3.9	6.6			
% Total Import ROW	54.0	54.1	52.7	58.6	77.9			
% Intra-EAC to Total Trade	**11.5**	**10.9**	**11.0**	**7.8**	**7.5**			
EAC Trade Balance	**-3,291**	**-3,968**	**-5,117.8**	**-7,990.3**	**-10,609.8**	**28.9%**	**56.1**	**32.0**

Source: EAC Trade Report, 2008

As seen from the table above intra-trade between EAC and the other REC is still very low. For instance the EAC exports to the SADC region in 2007 accounted to only 8.3 percent of the total exports and 20.9 percent for COMESA. The intra SADC trade accounted to only 20% of total SADC trade in 2007. The intra-EAC trade to total exports in 2007 was 18.1 percent, while for the rest of Africa it accounted to only 3.8 percent. The EAC region trades more with the EU; the statistics indicates that in

2007, it accounted to 22 percent of the total exports and by 2008, almost 30 %. Export trade with the USA account to 5.8%. Trade between the EAC regional and USA has been increasing from 1.5 percent in 2003 to 5.8% in 2007.This increase is probably reflecting the growth opportunities created by the AGOA arrangement: However, despite this growth, the region has not exploited the AGOA opportunity to its full extent. In terms of imports, the EAC region imported only 3.5 % and 9.9 % from the COMESA and SADC regions respectively. The EU still leads as the major source for the EAC imports accounting to 21.9% at the same time 6.6 percent of the EAC imports are from the USA. Trade between the EAC and the rest of African countries is low and accounts to about 0.2 percent of the total trade. This cast doubt whether the move to unite the continent will bring any substantial trade creation! The same picture is shown when trade flow is compared between the three regional blocks. The weak trade link between the Eastern and the Southern blocs may threaten the move to form one REC as proposed by their leaders. The weak link can be explained by the structure of the economies that most them produce and export similar raw primary products, lack of value addition, low level of industrialization (except for South Africa that is dominating trade in the southern region) and poor infrastructure systems in all the member states. Such constraints need to be addressed for the 3 REC to form an effective trade bloc that is trade driven.

3.0 REGIONAL INTEGRATION PLANS FOR COMESA, SADC& EAC REGIONS

The three regional economic blocs have made promising stages towards the long-conceived goal of an African Economic Community (AEC), approving the swift establishment of a Free Trade Area (FTA) encompassing 26 Member States in three sub-regions. The plan for integration for the REC is shown in the table below.

Table 3: CEMESA, SADC, EAC Time line for Integration process

ITEM	COMESA	SADC	EAC
PTA	1982	-	2005
FTA	2000	2000	2005
CU	2009	2010	2005
CM	2015	2015	2010
MU	2016	2016	2012
EU(PF)	2016	2018	2015

3.1 COMESA, SADC AND EAC's Future Plan for Integration

In the Meeting at a Tripartite Summit on 22 October 2008 in Kampala, Uganda, leaders of Member States of SADC, the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC) agreed on what many have been described as an important milestone towards continental integration as envisaged by the African Union (AU). According to the final communiqué, the historic Tripartite Summit "agreed on a programme of harmonization of trading arrangements amongst the three RECs (Regional Economic Communities) free movement of business persons, joint implementation of inter-regional infrastructure programmes as well as institutional arrangements on the basis of which the three RECs would foster cooperation."

The Summit resolved to immediately start working towards merging the three trading blocs into a single REC with the objective of fast-tracking the attainment of the African Economic Community. In that regard, the Summit directed the Tripartite Task Force composed of the Secretariats of the three RECs to "develop a roadmap for the implementation of this merger for consideration at its next meeting.

The creation of the grand FTA will open borders to literally half of the continent, spanning the entire southern and eastern regions of Africa, from Cape to Cairo. It will be, by any standard, a formidable economic bloc with a combined Gross Domestic Product (GDP) of around US$644 billion. With a combined population of 560 million, the grand FTA places Member States in a stronger position to respond effectively to intensifying global economic competition and will make the economic bloc more attractive to foreign direct investment. COMESA, EAC and SADC have all attained FTA status, and are at various stages of establishing separate Customs Unions and Common markets. Having already launched its Customs Union in 2005 and already in the process of starting the Common market protocol, this places the EAC in the highest level of regional integration of all the three blocks. However, COMESA has launched its CU in June 2009. The statics of these regional integrations is shown in the table below.

Table 4: EAC, COMESA, and SADC Comparison of economic characteristics

	EAC	COMESA	SADC	COMESA,SADC,EAC	AU
Membership	5	19	15	26	53
Population(mill)	126	398	256	560	971
GDP (US $Mill)	60	287	415	644	1,065
GDP per capital USD	600	1850	960	1632	

As stated above, the 3 regional economic communities (RECs) form a major part of the continents regional blocks, this REC account for:

- The regions make half of the Africans population
- COMESA has 19 countries,4 are EAC members and 8 are SADC members
- EAC has 5 member states, 4 are COMESA and 1 is a SADC member
- SADC has 15 member states, 8 are COMESA and 1 is a EAC member
- The 3 regions account for 59 % of the Africa's unions combined GDP
- They also account for 57% of the Africa's population

From the above table (also see figure 1 below), we notice that the 3 regional integrations face a multiple membership problems.

All the 3 REC consist of small developing economies with very low per capital incomes, small share of export trade to the rest of the world. The GDP per capital for the COMESA, SADC and the EAC is estimated at 1632 USD (2008 estimates). The economic structure of the region indicates that:

- Agriculture contributes to 23% of the 3 regions (2001 -2008): DRC, Comoro, and Ethiopia are the highly agriculture dependent countries (>45%), while Botswana, Seychelles, South Africa and Djibouti are less agriculture dependent countries (<4%)
- On average industries contributes to about 26% of COMESA,SADC and EAC's GDP(2000 -2007),
- The service sector accounts to 47% of the 3 REC's GDP and grows at an average of 4 percent (2000- 2007)

The trade polices of all the 3 trade block is compared in the table below:

Table 5: Comparison for Trade Policies in the CEMESA, SADC, EAC

COMESA	SADC	EAC
❖ CU requirements are in place, council of regulation and custom management **June 2009** ❖ Have CET bands as: a. 0% for raw materials b. 0% for capital c. 10% for intermediate goods d. 25% for finished goods	The SADC CU to start in 2010. The region is in the process of setting the required institutions **Plan to start CU by 2010**	❖ Uganda, Tanzania, Rwanda and Burundi had to eliminate tariffs on category A (0% tariff) and gradually phase out tariffs on goods on in category B(20-10% tariffs) **January 2005** ❖ CET bands as: i. 0% for raw materials ii. 0% for capital goods iii. 10% for intermediate goods iv. 25 % for finished goods
Have list of sensitive goods to be protected, including: sugar, milk, wheat flour, maize, rice	**Yet to start**	The list of sensitive goods to be protected include: sugar, milk, wheat flour, maize, rice, palm oil and worn clothing
Harmonization of trade procedures	**Harmonization process still on going**	Harmonization of trade policies procedures and world trade organizations

Both the COMESA and the EAC have adopted the same CET policy with the list of sensitive products to be protected, the process of harmonization of their trade policy, regulations, laws, and procedure is still going on.

4.0 POLICY INSTRUMENTS AND MACROECONOMIC CONVERGENCE CRITERIA

Before the Macroeconomic convergence criteria are considered, For the 3 regions to form one FTA a number of policy instruments and environment need to worked initially these include: Harmonization of trade policies, process and procedures whereby a common internal and external tariff is agreed, a common definition of rule of origin and agree on custom documents for exporters and importers, health and safety standards, import and export procedures, how to eliminate non tariff barriers etc.

Members need to agree how they will apply a **Common External Tariff** (CET) on imported goods. For instance each member may impose tariffs on goods entering from outside the 3 regions based on its national schedules. However, for goods originating within the region members may apply an initially agreed tariff rate of 0 to 5 percent, where given additional time to implement the reduced tariff rates). This is known as the Common Effective Preferential Tariff (CEPT) scheme. members may opt to exclude some products from the CET in three cases: 1.) Temporary exclusions; 2.) Sensitive agricultural products; 3.) General exceptions. Temporary exclusions refer to products for which tariffs will ultimately be lowered to 0-5%, but which are being protected temporarily by a delay in tariff reductions. Sensitive agricultural products may include commodities such as rice and sugar. General exceptions refer to products which members deems necessary for the protection of national security, public morals, protection of human, animal or plant life and health, and protection of articles of artistic, historic, or archaeological values.

Rules of Origin

Rules of origin are the criteria needed to determine the national source of a product. Their importance is derived from the fact that duties and restrictions in several cases depend upon the source of imports. The general rule is that local products contents need to be defined, for instance, for the commodity to be considered originating from the member states; the content must be at least 40% of the FOB value of the good. The local content can be cumulative, that is, the value of inputs from various members can be combined to meet the 40% requirement. The exporter must obtain a ***certification of origin*** form from the national government attesting that the goods have met the percentage requirements. The Form must presented to the customs authority of the importing government to qualify for the CET rate. Difficulties sometimes may arise regarding the evidentiary proof to support the claim, as well how national customs authorities can verify certificate of origin submitted.

Administration

The administration process of the FTA need to be defined and agreed, normally it is handled by the national customs and trade authorities in each member state. The Secretariat formed should have an authority to monitor and ensure compliance with FTA measures, however the secretariat need to have a legal authority to enforce compliance.

Dispute resolution mechanism

Although national customs and trade authorities may coordinate themselves, disputes may arise. The Secretariat to be formed in the 3 REC (or FTA) may be given legal mandate to resolve such disputes; there should be a room for disputes to be resolved bilaterally through informal means or through dispute resolution.

Trade facilitation: Efforts to close the development gap and expand trade among members of the 3 regions is also a key point of policy discussion. Trade facilitation need to be discussed and agreed, as such clear rules, procedures, documentations, regulations, institutions and infrastructure need to be in place.

When the above process has been completed, the region need to agree on the size of their macro economic variables (Maastricht treaty), then a stage by stage harmonization of monetary and fiscal policies need to be done to support the above process. The main intention is to create a necessary environment for integrating factor markets. However legal and institutional frameworks need to be formed for the REC to work effectively (WTO compatibility). All the three regions have their macroeconomic convergence criteria which are discussed below, in future these criteria need to be harmonized.

4.1 Macroeconomic Convergence Criteria for the RECs

This chapter presents macroeconomic convergence criteria agreed in each REC. Following the framework of the European Monetary Union (Maastricht treaty), the RECs have established targets for selected key macroeconomic variables that must be met by member states. A sizeable number of the RECs are doing their best to achieve these targets while some are struggling with it. Most of the RECs are yet to achieve their monetary and financial integration objectives.

4.1.1 Progress on Monetary Co-operation arrangements

In recent years, some RECs have produced blueprints for the establishment of monetary unions. For example ECOWAS is working hard to have a common market and common currency. It hopes to start with a common currency zone for Nigeria, Ghana, Gambia, Guinea and Sierra Leone, which would be merged with the

UEMOA franc zone at a later date to create an ECOWAS currency. The SADC, COMESA and EAC all have plans of establishing common market and a monetary union with common currencies in future. The primary and secondary convergence criteria established by the RECs include agreed targets for macroeconomic variables such as *budgetary balance, inflation and public debt. Although the principles are the same, there are some variations in the criteria from one REC to another.*

Assessing Regional Integration in Africa, The report from the ECA and the AU Commission; Towards Monetary and Financial Integration (UNECA-AU 2008), shows that, although there are some successes, African countries are experiencing enormous difficulties in achieving the desired macroeconomic convergence criteria set by the regional economic communities to which they belong. Whereas some members states, particularly those that belong to monetary unions (WAEMU and WAMU) have done well in maintaining relatively low, *single-digit inflation, most countries are posting double-digit inflation and consequently struggling to achieve their targets. Most of the countries have failed to achieve the fiscal targets. Some of the reasons for the weak performance include, among others, negative ability to absorb external shocks, large budget deficits, lack of reliable statistics and poor growth performance.*

4.2 Macroeconomic Convergence Criteria for COMESA Region

There are limited studies that have attempted to investigate macroeconomic convergence criteria among COMESA members over the recent past. Mandevu *et al*. (1991) examined the extent of macroeconomic disharmonies among COMESA members, using the means, standard deviations and partial correlation coefficients of the exchange rate during the period 1971-1990. They concluded that improvements in the partial correlation coefficients in the 1980s augur well for monetary integration. Harvey *et al*. (2001) examined COMESA macroeconomic convergence during 1980-1998. They concluded that COMESA does not meet the criteria for an optimal currency area. Further examining alternative macroeconomic convergence along the lines suggested in the *Maastricht Treaty* for the European Union, it was argued that progress had been made towards policy convergence, as well as monetary harmonization program. *However, there is a pessimistic picture for COMESA integration, on the premise that South Africa, under the Southern African Development Community (SADC), is a major detracting factor for those countries belonging to both SADC and COMESA. As an alternative, they recommend that COMESA members forge macroeconomic linkages with the Euro zone (something to worry for the proposed new CU plan?).*

From most accounts, the rationale for choosing macroeconomic convergence criteria is to ensure countries participating into the integration process develop sound and common macroeconomic policy. In other words, the convergence criteria should be designed in terms of prudent values of key variables summarizing the overall macroeconomic policy stance. Like a number of regional economic groupings, including SADC, COMESA and EAC convergence criteria are centered at price stability, sustainability of fiscal and current accounts, limiting of deficit financing by the central bank and maintaining sufficient foreign reserves. In addition, achieving and sustaining high economic growth, supported by high domestic investment.

For COMESA, the specific targets classified into primary and secondary criteria, achievable during the first stage (2005-2010), the focus of this undertaking is as follows.

Table 6: Macroeconomic Convergence criteria for COMESA region for 2005 to 2010

Period 2005-2010	Primary Criteria	Secondary Criteria
	• Overall budget deficit/gross domestic product (GDP) ratio (excluding grants) of not more than 5%; • Annual inflation rate not exceeding 5%; • Minimize central bank financing of budget deficit towards 0% target; and • External reserves of equal to or more than 4 months of imports of goods and non-factor services.	• Achieve and maintain stable real exchange rates; • Achieve and maintain market based positive real interest rates; • Achieve sustainable growth rates of real GDP of not less than 7%; • Sustained pursuit of debt reduction initiative on domestic and foreign debt (i.e. reduction of debt as a ratio of GDP to a sustainable level); • Total domestic revenue to GDP ratio of not less than 20% ; • Reduction of current account deficit (excluding grants) as a ratio of GDP to a sustainable level; and • Achieve and maintain domestic investment rate of at least 20%.

4.3 Macroeconomic convergence criteria for SADC Region

The Southern African Development Community (SADC) has a variety of policies in place to promote regional economic integration amongst member states. The outline of these policies is laid out in the Regional Indicative Strategic Development Plan (RISDP), approved in 2003, while specific commitments are laid out in various protocols. For instance, the SADC Trade Protocol sets out legally binding commitments on member states to a Free Trade Area by 2008. The RISDP lays out a program of regional economic integration targets, as follows:

Target 1: **A** Free Trade Area by 2008;

Target 2: Completion of negotiations of the SADC Customs Union by 2010;

Target 3: Completion of negotiations of the SADC Common Market - 2015;

Target 4: Diversification of industrial structure and exports with more emphasis on value addition across all economic sectors by 2015, taking into account indicators relating to diversification, intra-regional trade and an increase in manufacturing as a percentage of GDP to 25% by 2015.

Target 5: Macroeconomic convergence targets for inflation, fiscal balance and the percentage of public debt to GDP.

Target 6: Other Financial indicators, including external reserves/import cover; central bank credit to government; savings; investment; payments systems interconnection; currency convertibility; dual and cross listing on regional stock exchanges; liberalization of exchange controls between member states; and increasing the share of credit accessed by women and SMEs.

Target 7: Establishment of SADC Monetary Union and SADC Central Bank by 2016 and a Common Currency by 2018.

The Finance and Investment Protocol (FIP) has set out targets for macroeconomic variables such as: inflation, fiscal balance, public debt, and the current account of the balance of payments. The specific targets to be achieved in terms of these four variables are progressively stricter over the period from 2008 to 2018, and are as set out and shown in the table below.

Table 7: SADC Macroeconomic Convergence Targets to be achieved by 2018

Indicator	2008	2012	2018
Inflation rate	<9.5%	<5%	<3%

Fiscal deficit/DGP	<5%	<3%	<1%
Public Debt/GDP	<60%	<60%	<60%
CA/GDP	<9%	<9%	<3%
Economic growth	7%	7%	7%
External Reserve(Import cover, months)	3	6	6
Central bank credit to Government /Revenue	10%	5%	5%
Domestic saving	25%	30%	35%
Domestic investment(%GDP)	30%	30%	30%

As regards Prospects for meeting the SADC macroeconomic convergence targets stated above by the member states, taking the 2008 targets, we find that:

- Only 8 out of 15 member states meet the inflation target
- 12 out of 15 partners states meet the fiscal targets
- 7 out of 15 members meet the public debt target
- 12 out of 15 member states meet the current account t target
- The RISDP for growth target was reached by only 2 member states that exceeded more that 7% growth rates

4.2 Macroeconomic Convergence Criteria in the EAC Region

The literature on convergence has identified three notions of convergence: real convergence (which implies equalization of levels of economic welfare or economic and social cohesion), nominal convergence (which refers to the tendency of nominal variables, those indicative of macroeconomic stability, to attain greater uniformity) and institutional convergence (which implies harmonization of institutional legislations. There are few empirical work on the extent of macroeconomic convergence in the East African Community (EAC) yet the region is implementing an ambitious regional integration programmes. The identified studies that have attempted to use specific EAC benchmarks for assessing the extent of macroeconomic convergence in the EAC are scant. Mkenda (2001) examined the extent of real exchange rate convergence using a generalized purchasing power parity framework of Enders and Hurn (1994), while IMF (2004) and Opolot (2008) examine fiscal convergence and vulnerabilities and extent of real and nominal convergence in the EAC, respectively. Other studies, such as Carmignani (2005) and Mutoti and Kihangire (2007) examine macroeconomic convergence in COMESA. The EAC convergence criteria are shown in the table below

Table7: Macroeconomic Convergence Criteria for EAC 2007 - 2015

Stage 1 (Year 2007-2010)	Primary Criteria	Secondary Criteria
	• Overall Budget Deficit to GDP Ratio (excluding grants) of not more than 6.0%, • Overall Budget Deficit to GDP Ratio (including grants) of not more than 3.0%; • Annual Average Inflation Rate not exceeding 5%; • External Reserves of more than 4 months of imports of goods and non-factor Services.	• Achievement and maintenance of Stable Real Exchange Rates; • Achievement and maintenance of Market Based Interest Rates; • Achievement of sustainable Real GDP Growth Rate of not less than 7.0%; • Sustained pursuit of debt reduction initiative on domestic and foreign debt i.e. • reduction of total debt as a ration of GDP to s sustainable level; • National Savings to GDP Ratio of not less than 20%; • Reduction of Current Account Deficit (Excluding grants) as a % of GDP to sustainable level consistent with debt sustainability; • Implementation of the 25 Core Principles of Bank Supervision and Regulation based on agreed Action Plan for Harmonization of Bank Supervision; and
Stage II (2011-2014)	• Overall Budget Deficit to GDP Ratio (excluding grants) not exceeding 5%; and • Overall Budget deficit to GDP Ratio (including grants) not exceeding 2%; • Annual Average Inflation Rate of not more than 5%; • External Reserves of more than 6 months of imports of goods and non-factor services.	• Maintenance of Market Based Interest Rates; • Maintenance of high and sustainable rate of real GDP growth of not less than 7.0%; • Sustained pursuit of debt sustainability; • Domestic Savings to GDP Ratio of at least 20%; and • Maintenance of sustainable level of Current Account Deficit (excluding grants) as % of GDP.
Stage III (2015)	*Introduction and circulation of a single East African Currency*	

Source: Mbilinyi, 2009

Looking at the 2008 data, we find that, there is a difficult for the EAC member states to attain the agreed convergence criteria shown in the table above. Most partners' states could easily meet the following targets: maintenance of market based interest rates, maintenances of stable exchange rate. However, Partner's states could not meet most of the agreed convergence targets such as: the annual inflation rate of not more than 5%. Currently the annual average inflation rate in the region is above 10 percent. They also could not meet the overall budget deficit target (not exceeding 5% of GDP), saving to GDP target, external reserve for more than 6 months of import goods, GDP growth rate and the reduction of external debt to sustainable level. The same scenario is depicted when all region blocs' statistics is observed; it is difficult for almost all partner states to meet the agreed macroeconomic convergence criteria. This probably indicates how difficult to attain effective REC in most LDCs.

Finally, with the above proposed changes there is a need for the EAC region and Tanzania in particular to study and analyze the effects of this move to form one regional bloc. Where do we stand to gain or lose? How are we prepared to exploit the opportunities and overcome the negative effects/threats (e.g. loss of tax revenue and investments reallocation to areas with best infrastructures etc) that will arise from the process? Sector by sector analyses can also be done.

5.0 PROGRESS TOWARDS CONVERGENCE

5.1 What are the objectives?

The three regional blocks are in a plan to form one regional block. The move aims to resolve some of the key problems that have been constraining effectiveness of each region. The following are the objectives of the move:

- To address the multiple membership problem that leads to partners states to violets the WTO rules
- Gain more negotiation power in international issues(e.g. EPA negotiations)
- Trade facilitation in the African continent
- The move will assist in harmonize trade procedures, economic integration, coordination and fast tracking the attainment of the African economic Community.
- Avoid duplication of resources due to involvement in may REC. Forming one region integration will lead to joint programs such as infrastructure development

5.2 What has been done so far?

The move started by forming a joint task force which comprised of the CEOs of the Secretariat of the three RECs in 2005. One outcome of this initial meeting was formation of the REC task force whose main task was to prepare a roadmap for the move and task force's objectives included:

- To harmonize trade procedure, economic integration, coordination and harmonization of common policies, program and implementing the agreed program jointly where possible. This process has started although in a slow pace.
- Address challenges of overlapping membership: EAC is already a CU since 2005; COMESA has launched its CU in June 2009, while SADC is already in the process of forming a Custom Union with SACU as a subset of SADC already has a CU; at the same time 7 SADC members are negotiating to become members of COMESA Custom Union. With the ongoing harmonization of trade procedure and policies, the REC aims to form one FTA with an ultimate goal of addressing the overlapping membership problems.
- Enhancing Economic Cooperation among REC by: Promoting inter – REC investments: There is suggestion to draft an effective financial and payment systems that will facilitate trade and investments in the 3 blocs, development of capital markets, development of commodity exchange, Enhance cooperation and negotiation capacity of EPA issues and WTO, bilateral and multilateral negotiations.

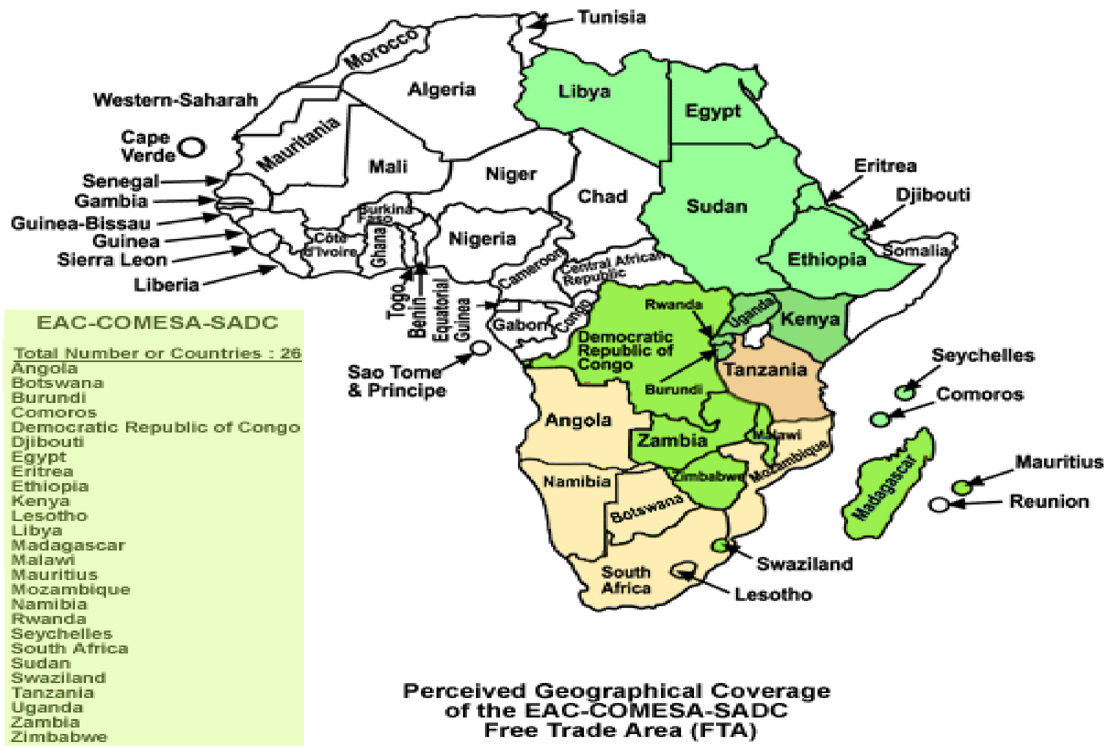
After a long silence, in 22 October 2008, another COMESA-EAC-SADC Tripartite Summit was held in Kampala, Uganda. This was attended by the Heads of States and Government of the Common Market for East and Southern Africa (COMESA), East African Community (EAC) and the Southern Africa Development Community (SADC); this meeting further laid a milestone for the integration process. This is shown by the final statement issued at the end of the Tripartite Summit, which was read by the Secretary General of the East African Community(EAC) Ambassador Juma Mwapachu as, '*the Heads of State noted that the Summit was held In pursuit of the broader objectives of the AU to accelerate economic integration of the continent, with the aim to achieve economic growth, reduce poverty and attain sustainable economic development*. Generally, the Tripartite Summit agreed on:

- A program of harmonization of trading arrangements amongst the three regional economic communities (RECs),
- Free movement of business persons,
- Joint implementation of inter-regional infrastructure program as well as institutional arrangements on the basis of how it will foster inter-regional cooperation.

The Tripartite Summit underscored the fact that the tripartite arrangement is a crucial building block towards achieving the Africans economic community outlined by the Abuja Treaty. During this meeting, agreements were centered along the following areas: ***Harmonization of Trade procedures, formation of joint infrastructure programs, and legal and institutional frameworks***. The Tripartite Summit also noted the progress on the implementation of joint programs in trade, customs and economic liberalization amongst the three RECs, hence, the summit:

- Approved the expeditious establishment of a Free Trade Area (FTA) encompassing the Member/Partner States of the 3 RECs with the ultimate goal of establishing a single Customs Union (a map of the area is illustrated in figure 2)
- Directed the three RECs to undertake a study incorporating, among other things, the development of the roadmap, within 6 months, for the establishment of the FTA which would take into account the principle of variable geometry; the legal and institutional framework to underpin the FTA; and measures to facilitate the movement of business persons across the RECS.
- As a major development in the process; the Tripartite Summit also resolved that the three RECs should immediately start working towards a merger into a single REC with the objective of fast tracking the attainment of the African economic community. The Tripartite Summit directed the Task Force to develop a road map for the implementation of this merger for consideration in the next meeting.

Figure 2: Geographical coverage of the 3 REC (EAC, COMESA and the SADC)



Source: ECA, 2009

On measures to facilitate the movement of business persons across the *RECs,* the Summit directed that the study report on the road map and legal framework, be presented to a specially convened Tripartite Council of Ministers for consideration within 12 months to, among other things, determine the time frame for the establishment of a single FTA encompassing the three regional blocks.

The Tripartite Summit directed the Chairpersons of the Councils of Ministers of the three RECs to ensure that the three RECs speed up the development of joint programs that enhance co-operation and deepening of co-ordination in industrial and competition policies, financial and payments systems, development of capital markets and Commodity Exchanges.

The Tripartite Summit directed the Chairpersons of the Councils of Ministers of the three RECs to ensure that the Secretariats participate, co-ordinate and harmonize positions on the EPA (Economic Partnership Agreement) negotiations and other multilateral negotiations, including the WTO Doha Development Round Negotiations.

5.3 Joint Infrastructure Programmes

In the area of infrastructure development, the Summit**:**

- Launched the Joint Competition Authority (JCA) on Air Transport Liberalization which will oversee the full implementation of the Yamoussoukro Decision (YD) on Air Transport in the three RECs commencing January 2009. The JCA comprises seven members, two members each from EAC, COMESA and SADC plus a chairperson on a rotational basis. The Summit directed the three RECs that the JCA be in place within 1 year: they also agreed on:
- A joint program for the implementation of a single seamless upper airspace;
- A joint program for the implementation of an accelerated, seamless inter-regional ICT Broadband Infrastructure network; and a joint program for implementation of a harmonized policy and regulatory framework that will govern ICT and infrastructural development in the three RECs.

The Summit directed the three RECs to effectively coordinate and harmonize, within one year: the Regional Transport Master Plans of the three RECs, the Regional Energy, Priority Investment Plans and the Energy Master Plans of the three RECS. The Summit directed the three RECs to develop joint financing and implementation mechanisms for infrastructure development within one year.

5.4 Legal and Institutional Framework

With regards to the Legal and Institutional framework, the Tripartite Summit**:**

- Directed the Council of Ministers of each of the three RECs to, within 6 months, consider and approve the Memorandum of Understanding on interregional cooperation and integration;
- The approved Memorandum of Understanding be signed by the chairpersons of the three RECs, within 1 month of its approval;
- Established a Tripartite Summit of Heads of State and/or Government which shall sit once every 2 years.

Pending the signing of the MOU - the Tripartite Summit concurred on the establishment of:

- a Tripartite Council of Ministers which will meet at least once every 2 years;
- a Tripartite Sectoral Ministerial Committee on Trade, Finance, Customs, Economic Matters and Home/Internal Affairs;
- a Tripartite Sectoral Ministerial Committee on Infrastructure;
- a Tripartite Sectoral Ministerial Committee on Legal Affairs and any other Ministerial committees,

- A Tripartite Committee of Senior Officials and Experts which shall meet at least once a year;
- A Tripartite Task Force of the Secretariats of the three RECs to meet at least twice a year.

As established by the Tripartite Council of Ministers, which shall meet at least once a year; extraordinary meetings of the Tripartite Summit and Tripartite Council of Ministers to be held as and when necessary. The Tripartite Summit called for collective action to help African and other least developed countries to address the adverse impact of the financial crisis and the global economic meltdown and urged international financial institutions to adopt effective remedial measures to mitigate the risks. The Tripartite Summit further noted the continued world food crisis and agreed to make strategic interventions to exploit the potential of African economies in the production of food and enhance accessibility to markets.

The EAC-SADC-COMESA Summit in 2008 reached a key consideration for the milestone to unite the 3 regional blocks. This is considered as historic decision by the 3REC executives because for the first time, since the birth of the African Union (AU), the key building blocks of the African Economic Community met and laid a foundation on how to integrate territories and moving towards deepening and widening integration within the overall Abuja Treaty for the establishment of the African Economic Union. At the moment the task force formed is working towards the harmonizing and negotiating on key issues for integrating the 3 regions to form one Free Trade Area (FTA)

time
include:

- Is the FTA suggested by the 3 RECs attainable/feasible?, the answer could be yes/no depending on how and type of FTA area to be structured
- What is the impact and implication for these suggested changes to Tanzania? (*Need for study?*)
- Are the member states committed to achieve it? What about their political will?

'We believe that if there is will; there is possibility to achieve it'.

6.0 THE WAY FORWARD FOR 3 REC AND AFRICA

Africa is witnessing how a new momentum of building up behind regionalism, but there are competing visions for the objectives and design of regional integration arrangements. In one side, there are those who argue that, because of the poor record of regional economic integration, African countries should "forget theoretical schemes of the pan-African type (a 'United States of Africa') or the neo-colonial type (a customs union), replacing them with simpler, cheaper, more productive, and more cost-effective models of integration through projects - choosing priority sectors for development (agriculture, industry, power, transportation, and training) and identifying specific, concrete projects in each sector to be implemented on a community basis, with possible financial support from outside (McCarthy, 1995). On the other hand, there are wide spread sceptics among donors who have been involved to supporting regionalism of a certain type; one which is outward-looking, which is focused on trade facilitation, which has strong private sector involvement and which has light institutional structures. Finally, there is a group that favour a traditional model of top-down African regionalism, espoused by the AU and endorsed by African Heads of State, which has a strong rhetorical basis and has large political significance.

Once again the EU's desire to encourage regional economic groupings as potential trade partners in negotiating EPAs under the Cotonou Agreement implies that trade integration as well as functional co-operation will necessarily be an important policy instrument of African regionalism during the next decade. This has implications for those interested in promoting a food security dimension as stated in the Abuja summit.

Specific constrains to be addressed by the 3 RECs and African Regional arrangements

If the new regional groupings in Africa are to have a role in development of the continent, then tackling infrastructure and food security problems should be given utmost weight. Moreover, the 3 REC must address the following issues which have been partly responsible for the poor record of the past:

Non-complementary trade structure and low industrialization degree

The main products traded in the regions are primary or simple manufactured products. Lack of industrial development and product complementarities indicate only limited potential for expanded intra-regional trade.

Low purchasing power and low macroeconomic convergence of member countries

South Africa and Egypt account for 77% of SADC's and 53% of COMESA's GDP respectively, In addition to different income levels, the countries also highly differ with respect to their macroeconomic indicators and policies. Tackling the challenges related to poverty should be given ultimate weight in the next decade.

Supply-side constraints

An unfavorable macroeconomic environment (e.g. insufficient capital supply and limited convertible currencies), lack of public infrastructure, a low labour and industrial productivity, poor health and housing provision, missing export market information, and missing backward- and forward linkages in production process. Such constraints need to be addressed.

Protectionist trade regimes and high dependency on trade taxes

Many SADC, EAC and COMESA countries have established a regime of high import tariffs to protect their domestic industries and to secure income sources. Openness to trade varies greatly among member countries. Tariffs as source of revenue account for around 30% of total revenue in Tanzania, Uganda and Zimbabwe, for around 40% in Comoros, Mauritius, Namibia and Zambia, and for more than 50% of revenue in Lesotho and Swaziland. Even the economic powers South Africa and Egypt, and Kenya are classified as not open; this may limit trade within the regions and constraint for forming an effective RTA. Members need to be more committed to liberalizing trade despite the cost attached to this move; in long run the move will benefit all member states.

Increasing trade-imbalances, polarized development and lack of political commitment

A high intra-regional trade surplus of South Africa and Egypt visà- vis the other member states. This has resulted to lack of complementary trade structure and trade divertive effects that benefit the higher developed economies at the expense of the less developed ones. When these differences are added to the long existent lack of political commitments by member states, the possibility to form one regional bloc becomes a night mare. How do we address this??

Remaining non-tariff barriers

Customs procedures have not been harmonized, import bans and road blocks do still exist and transport corridors had only limited success to tackle administrative delays effectively. NTBs contribute to high business costs in the EAC, SADC and COMESA and have created a climate of uncertainty for exporters and importers. The regions need to work jointly to harmonize the procedures and eliminate the existing NTBs.

Overlapping membership and inconsistency of regional integration strategy

This problem increase member countries' financial burden and drain scarce human, administrative and technical capacities of the partner states. The proposal to form one RTA by the 3 REC could address it in future.

The Challenges EPA pose for regional integration in SADC, EAC and COMESA

The EU is an important trading partner for all SADC, EAC and COMESA Countries and accounts an average for 30% of countries' total imports and absorbs 40% of their exports. Southern African countries decided to negotiate EPAs in different blocs: the SADC EPA, the EAC-EPA and the Eastern Southern African (ESA) EPA. While the giant economy - South Africa has its own trade arrangements with the EU. This complicates the process of forming one regional block. Due to overlapping membership in regional integration frameworks and already existing bilateral FTAs with the EU, this in one way brings a contradictory trade regime within the 3 regions. Unlike the EU's claim that EPA will facilitate smooth regional integration in the continent, EPAs have added confusion and complication to regional integration rather than reducing countries' overlapping membership problem that exist. Once the EAC, SADC and COMESA form one custom union or FTA, they can effectively negotiate a new EPA. Because of the differing interest within the member states, this could prove difficult, but negotiating as one group could improve the situation.

Dispute settlement mechanisms need to be strengthened and ways to ensure policy credibility must be put in place. Investors need to have confidence that integration measures will not be reversed and that barriers to regional markets will not be re-instituted overnight. Binding liberalization commitments in the WTO rules should be encouraged where possible, while the opportunity of the new EPA negotiations with the EU should also be used to bind and enforce policy commitments by all the member states. It is imperative to think ahead on how the proposed RTA will tackle the EPA complications; this could form a base for further negotiations with the EU.

BIBLIOGRAPHY

Bhagwati, J. Greenaway, D. & Panagariya, A. (1998). Trading preferentially: Theory and Policy, *Economic Journal,* 108: 1128-48

Bhagwati, J. (1997). The causes of regionalism, *The World Economy,* 20 (7): 865-888.

Bhagwati, J. & Panagariya, A. eds. **(**1996). *The Economics of Preferential Trade Agreements*, Washington, D.C. AEI Press.

Cook, L. & Sachs, J. 1999. Regional public goods in international assistance. In Kaul, I., Grunberg, I. & Stern, M., eds., *Global Public Goods: International Cooperation in the 21st Century*, New York and Oxford, Oxford University Press for the United Nations Development Programme

EAC (2008): EAC TRADE REPORT (2007)

Ng'eno N, Nyangito H, Ikiara M, Ronge E, and Nyamunga J (2003). Regional Integration Study of East Africa: the Case of Kenya: Working paper 9

EAC: "Study on the Establishment of an East African Community Common Market", Report Submitted by M.A. Consulting Group, EAC Secretariat, Arusha, August 2007b.

EAC (2007): Agreements Establishing a Framework for an Economic Partnership Agreement Between EAC and the and the European Union

EAC: "Draft Protocol of the EAC Common Market", Report Submitted by M.A. Consulting Group, EAC Secretariat, 2007c.

EAC: "Protocol on the Establishment of the East African Community Customs Union", Arusha, East African Community Secretariat, March 2004b.

EAC: "Treaty for the Establishment of the East African Community", East African Community, Arusha, 2002.

Fernandez, R. & Portes, J. 1998. Returns to regionalism: an analysis of non-traditional gains from regional arrangements, *The World Bank Economic Review* 12: 197-220.

Jenkins, C**.** 2001. Integration and Co-operation in Southern Africa. Technical Paper No. 172, Paris, OECD Development Centre (available at http://www.oecd.org/dev/publication/tp1a.htm)

Noah Mutoti and David Kihangire (2006): Macroeconomic Convergence in COMESA

Matambalya F, (2007): Free Movement of Goods, Services and Capital in the Context of the Forthcoming East African Common Market: Key Negotiations Issues for Tanzania

McCarthy, C**.** 1995. Regional integration: part of the solution or part of the problem? In Ellis, S. ed., *Africa Now: People, Policies, and Institutions*. London, James Currey/Portsmouth, Heinemann.

Mkenda, B. K.(2001). Is East Africa an Optimum Currency Area? Working Papers in

Economics, No.41, Department of Economics, School of Economics and Commercial Law, Goteborg University.

Opolot, J. (2008). Monetary integration in the East African Community: feasibility and progress on macroeconomic convergence. *Unpublished PhD dissertation,University of Dar es Salaam, Tanzania*.

Schiff, M. & Winters, A. 2002: Regional Cooperation, and the Role of International Organizations and Regional Integration, Policy Research Working Paper 2872, Development Research Group, Washington, D.C., World Bank.

UNECA and African Union (2008): Assessing Regional Integration in Africa III, Addis Ababa

WTO Secretariat 1995: Regionalism and the World Trading System, Geneva, WTO.

WTO 2000: Mapping of Regional Trade Agreements, WT/REG/W/41, 11 October 2000, Geneva, WTO.