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Reconsidering the African regional integration paradigm

Colin McCarthy

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



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

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

The limitations of RIAs

An RIA in the form of a free trade agreement reduces the transaction costs of trade by removing a border barrier, namely the customs duty. The tariff is undeniably an important barrier at the border but it can be questioned whether it is the most important one. While very difficult to analyse systematically, there is abundant anecdotal evidence that the aggravation experienced at borders is perhaps more onerous. This might be because of management problems at border crossings

or purely because documentation and procedures are not standardised. For landlocked African economies, the aggravation is exacerbated by the need to cross multiple borders.

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

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

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