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## The Challenges of Regional Integration in Africa and Policy Options

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## **The Challenges of Regional Integration in Africa and Policy Options** **A Summary of Conclusions and Policy Issues for Discussion**

The paper has set out some suggestions for addressing a number of key issues relating to (a) rationalizing and consolidating the existing network of RIAs; (b) harmonizing and liberalizing tariff structures both at the regional level, and also progressively across the RIAs; (c) signaling a stronger commitment to external trade liberalization; (d) engaging the private sector to play a lead role in the regional integration process; and (e) getting the EMF countries more actively involved in the regional integration efforts.. In what follows we bring together the main proposals for moving forward in each of these areas to facilitate an open discussion.

### *(a) Rationalizing and consolidating the existing network of RIAs*

The existing multiplicity of RIAs in Africa raises the issue of how they would be eventually merged into a single, continent-wide African Economic Community (AEC) as envisaged by the African Union. Moreover, the overlapping memberships of Africa's RIAs raises more immediate concerns about the incompatibility of objectives of different RIAs, the disadvantages of belonging to a single RIA while other regional partners are members of multiple RIAs, and the costs of administering a complex network of RIAs.

In view of this, the paper proposes for discussion the following options for rationalizing and consolidating the network of RIAs:

- Should countries belonging to more than one RIA limit their membership to only one RIA to avoid a commitment to conflicting objectives and policies?
- Would it be desirable to merge the memberships of two RIAs after a critical mass of member countries of the two RIAs have achieved a substantial degree of convergence of trade and other policies?
- Would it be useful to develop a common framework for convergence of trade and other policies among the overlapping RIAs, and explore options for merging some of them to move closer to the establishment of the planned AEC?

### *(b) Harmonizing and liberalizing tariffs at the regional level and across the RIAs*

The work of establishing FTAs and CUs under Africa's RIAs is still work in progress. In some countries, there is still a need to replace existing non-tariff barriers with tariffs. Given the existing cross-country differences in tariff structures, there is a need to harmonize them first within and subsequently across the various regional blocs. The external tariffs also need to be liberalized progressively to narrow the existing gap between these tariffs and those prevailing in other regions outside Africa. To address these issues, the paper presents the following set of proposals for discussion:

- Should the RIAs and their member countries give priority to replacing non-tariff barriers with tariffs and rationalizing their tariff structures?
- To harmonize tariff structures in a region, should member countries be encouraged to lower their tariffs to the least restrictive tariffs in the regional bloc?
- Should steps to liberalize tariffs on intra-regional trade be followed up with at least a phased reduction in tariffs on extra-regional trade?
- What can be done to reduce the scope of exceptions to free intra-regional trade and ensure that the external tariff structure does not discriminate between non-regional trading partners?
- Would the above proposals facilitate an effective transition from regional FTAs to CUs?

- When non-member countries wish to join a RIA, should they be allowed to become members based solely on their willingness to accept the rules and obligations of that regional bloc?

*(c) Signaling a stronger commitment to external trade liberalization*

The adoption of a more comprehensive tariff binding coverage and bound tariff levels that are closer to the applied MFN tariffs would help to signal a stronger commitment to trade liberalization and facilitate the efforts of firms to adjust to competitive pressures.

The negotiation of North-South agreements could also provide a mechanism for preventing policy reversals and opportunities for expanding access to export markets in the developed industrial countries, foreign investment, new technologies and aid flows. To signal a stronger commitment to trade liberalization, it would be useful to discuss the merits of the following proposals:

- Each regional bloc should encourage its members to make their tariff binding coverage more comprehensive and reduce their bound tariff levels closer to the prevailing applied MFN tariffs.
- Engage the larger economies to lead the process of change in the integration strategy, with a view to enhancing its feasibility and its credibility.

*(d) Engaging the private sector to play a lead role in the regional integration process*

To engage the private sector more actively in the regional integration process, progress is needed in a number of policy areas. To facilitate a discussion of the policy issues that need to be addressed more effectively and urgently within the regional blocs and to get a sense of what discussants feel should be the priorities, we list them as follows:

- More intensified efforts are needed to improve the regulatory environment and substantially reduce the costs of trading across borders (including through improved trade facilitation procedures). How could RIAs contribute to these efforts?
- There is a pressing need to develop essential infrastructure (transport, communication and energy supplies) and services (including in the financial sector). Could more be done to exploit opportunities for sectoral cooperation at the regional level and rely on public-private partnerships to facilitate progress in these areas?
- Finally, there is also a need to protect the overall government revenue base and safeguard macroeconomic stability while moving forward with external tariff liberalization. Would it be helpful to engage the IMF and World Bank to provide both technical and financial support for this purpose?

*(e) The potential role of EMF countries*

The governments of EMF countries can play a lead role through the RIAs and the AU to promote progress in each of the above four policy areas which are critical to evolving a more cohesive integration strategy among the RIAs, and a more outward-oriented and market-led regional integration process. The sharing of responsibilities for policy formulation and implementation between national governments and the RIAs would need to be based on how these responsibilities in different policy areas could be carried out most effectively by appropriately relying on national autonomy, mutual recognition and acceptance of different national practices, greater coordination among governments and RIAs, and harmonization of rules and practices. For the EMF countries to

get more actively involved in the integration process, the paper proposes some activities where their involvement would be useful. To facilitate an open discussion of these proposals, they are listed below:

- The EMF countries could help to forge a common understanding about the key policy areas (for example, trade liberalization and investment deregulation) for which national governments would retain full autonomy as well as full responsibility for advancing the regional integration process, subject to stronger monitoring and regular surveillance by the RIAs, and on an as needed basis, periodically also by the AU, NEPAD and the APRM.
- In cases of large regional infrastructure projects and activities or policies that have significant regional spillover effects (such as regional competition in granting corporate tax rebates or other tax incentives), the EMF countries could help to strengthen intra-regional coordination, collective decision making and joint implementation of common policies and projects.
- To reduce the burden of regulatory barriers to cross-border trade and investment, the EMF countries could steer an effort to get their partner countries in an RIA to adopt a policy of *mutual recognition* of national practices in such areas as production standards and certification procedures. The EMF countries could also encourage their regional partners to exploit on their own initiative the potential opportunities to *harmonize* their national regulations with neighboring countries to reduce the need to comply with different regulations at each border crossing.

The proposed integration strategy is aimed at reaping the benefits of (a) trade liberalization and investment deregulation, and (b) private sector led expansion of both intra-regional and extra-regional trade. It opens up opportunities for transforming the initial structure of production and exports away from primary resource dependent activities to more value-added production activities, and helps to overcome Africa's constraints of small regional markets by forging stronger links with global markets. It enhances the chances of benefitting from expanded trade with the high-income industrial countries as well as the rapidly growing developing countries (such as China and other Asian economies).

## **The Challenges of Regional Integration in Africa and Policy Options**

### **I. Introduction**

African countries are signatories to a large number of Regional Integration Agreements (RIAs), which seek to strengthen mutual political and economic ties. While promoting and safeguarding peace and security, and strengthening regional political ties could be considered predominant, the overarching objectives of most of these agreements of accelerating regional economic integration and cooperation has received increasing attention in recent years. This paper focuses primarily on the challenges of regional trade integration and cooperation in Africa, without ignoring the critical importance of broader economic integration efforts as well as political commitment and cooperation.

For the purpose of this study, we have selected a subset of the many RIAs prevailing in Africa, based primarily on market size indicators of the regional blocs and the depth and width of their active involvement in promoting regional economic integration and cooperation. The resulting selection of RIAs also covers the Emerging Market Forum (EMF) countries of Africa that are noteworthy for their significant economic reform efforts, growth prospects and regional leadership roles.

Two key themes of the paper are that (i) countries participating in a RIA can reap significant benefits when their governments implement market-friendly domestic policies to promote investment, growth and trade, and that (ii) regional trade policies can be designed to further both regional and global trade integration. Hence, while the paper focuses primarily on trade integration issues, it also points to the other areas of economic integration and cooperation where progress is vital to success in the trade area. The paper also highlights the importance of engaging the private sector to play an active role in the integration process.

The paper identifies four key issues for discussion:

- Given the large number of overlapping RIAs in Africa and the goal of the African Union (AU) to achieve an integrated African Economic Community (AEC), the paper suggests potential ways of consolidating and integrating the different regional blocs.
- The share of intra-regional trade in Africa's total trade has remained virtually stagnant and Africa's share in world trade has shown a declining trend. A key factor contributing to these disappointing developments has been the region's considerably higher tariff and non-tariff trade barriers relative to other regions of the world. The paper discusses an approach to liberalizing trade barriers that would promote the expansion of both intra-regional and extra-regional trade.
- Until recently, FDI inflows have benefited only a few countries that are richly endowed with oil and mining resources. To achieve a more broad-based expansion of private investment and diversify production and export structures, there is a need to engage the private sector in actively driving the regional integration process. To address this issue, proposals are made for improving the business and trading environment.
- Finally, the paper focuses attention on the potential role of Africa's EMF countries in providing a new impetus to the continent-wide regional integration initiatives.

## II. Membership and Regional Integration Objectives of RIAs

### 1. The network of RIAs and overlapping memberships

There are five major regional blocs in Africa that are the largest in terms of market size and membership in their respective geographic regions (Box 1 and Annex I).

#### **Box 1: Africa's major RIAs and their overlapping memberships**

The membership of the major RIAs in Africa consists largely of contiguous states or countries generally located in the same geographic region (Table 1). The regional organizations that serve the RIAs with the largest memberships are the following:

- The Arab Maghreb Union (AMU) in the North with five countries,
- The Economic Community of West African States (ECOWAS) in the West with 15 countries,
- The Economic Community of the Central African States (ECCAS) in Central Africa with 11 countries,
- The Southern African Development community (SADC) in the South covering 14 countries, and
- The Common Market for Eastern and Southern Africa (COMESA) in the East with 17 countries.

Within the above regional organizations, there are several sub-regional organizations such as the West African Economic and Monetary Union (WAEMU) and the West African Monetary Zone (WAMZ) in ECOWAS, the Central African Economic and Monetary Community (CEMAC) in the ECCAS, and the Southern African Customs Union (SACU) in SADC. There are also other significant membership overlaps among the regional organizations. The East African Community (EAC) has two members (Kenya and Uganda) participating in COMESA and one member (Tanzania) participating in SADC. Within COMESA, Burundi and Rwanda are members of both ECCAS and EAC, and Mauritius and Seychelles are members of SADC. The SACU countries are all members of SADC, but two of its members (Namibia and Swaziland) are also members of COMESA.

(Continued on next page)

Box 1 (continued): Membership of Africa's major RIAs						
Regions	Sub-regions and countries	Overlaps in COMESA	Overlaps in SADC	Overlaps in ECCAS	Overlaps in EAC	Overlaps in SACU
ECOWAS	<i>WAEMU</i> : Benin, Burkina Faso, Ivory coast, Guinea Bissau, Mali, Niger, Senegal, Togo. <i>WAMZ</i> : Gambia, Ghana, Guinea, Nigeria, Sierra Leone. <i>Others</i> : Cape Verde and Liberia					
ECCAS	<i>CEMAC</i> : Cameroon, Chad, Central African Republic (CAR), Equatorial Guinea, Congo and Gabon <i>Others</i> : Sao Tome and Principe Burundi, Rwanda Angola, Dem. Rep. of Congo (DRC)	X X	X		X	
COMESA	Djibouti, Egypt, Ethiopia, Eritrea, Sudan, Comoros, Madagascar Burundi, Rwanda Angola, DRC Mauritius, Seychelles Kenya, Uganda Namibia, Swaziland		X X	X X	X	X
SADC	Malawi, Mozambique, Zambia, Zimbabwe Angola, DRC Mauritius, Seychelles Tanzania SACU: Botswana, Lesotho, South Africa Namibia, Swaziland	X X X		X	X	
EAC	Kenya, Uganda Tanzania Burundi, Rwanda	X X	X	X		
AMU	Algeria, Morocco, Tunisia, Mauritania, Libya					

As shown in Box 1, two key characteristics of Africa's network of RIAs are that several countries have overlapping membership of more than one RIA and that some of the larger RIAs include sub-regional RIAs with their own regional organizations.

## 2. The objectives and related challenges of regional integration in Africa

As one of its key objectives, the African Union (AU) views the various RIAs as building blocks that would lead to the establishment of a single, continent-wide African Economic Community by 2028. However, relative to this overall plan for regional economic integration, the RIAs differ at this stage with regard to the immediate scope of their individual integration objectives. A common objective

of all of the above RIAs is to establish at least a customs union or progress towards that goal. COMESA envisages moving one step further towards establishing a common market, complementing a customs union with free cross-border movement of factors of production (labor and capital) across member countries. All the other larger RIAs (ECOWAS, ECCAS, SADC and AMU) have an even more ambitious objective of progressing towards a full economic union that involves a common market with unified monetary and fiscal policies and a common currency. Among the sub-regional organizations, the EAC, WAEMU and CEMAC envisage establishing economic unions, while the SACU countries by virtue of their membership of SADC could also be presumed to be sharing that ultimate objective.

The multiplicity and overlapping memberships of RIAs that are in varying stages of their integration processes make it necessary for countries to be vigilant about the potential incompatibility between the objectives of different RIAs, the disadvantages of belonging to a single RIA while other regional partners are members of multiple RIAs, and the costs of administering a complex network of RIAs.

When two RIAs have plans to adopt different common external tariff (CET) structures over different time horizons, countries that belong to both of them would need to sooner or later opt out of one of them unless the two RIAs agree to adopt the same plan for the CET. Electing to pursue different tariff policies under multiple RIAs would cause confusion and uncertainty among investors and firms. Also, the provisions of trade agreements that Africa's RIAs are negotiating with the EU and the U.S. are unlikely to be the same for all RIAs. In this situation too, countries belonging to multiple RIAs would have to avoid taking on conflicting obligations by limiting their membership to a single regional bloc.

When the memberships of two RIAs overlap partially, the countries that belong to both regions (group A of "hub" countries) are in some respects in a more advantageous position than the two non-overlapping sets of countries ("spoke" countries B and C) in the two regions. While the latter (groups B and C) would enjoy free trade privileges only within their respective regional blocs, the former (group A) would enjoy additional free trade privileges over a larger region because of their membership in both regional blocs. Exports from countries in B and C to countries in another regional bloc would face tariffs, while exports from the countries having overlapping membership with such a bloc would not. Moreover, only the countries in an overlapping region can access duty-free imports from two or more blocs and process them to have sufficient value-added content before reselling them to all the other countries in the combined region without facing duties. For all these reasons, countries with membership in multiple RIAs would be better positioned to induce investment inflows than their other regional partners that belong only to one bloc.

Countries belonging to two or more RIAs may have to bear a heavy administrative burden, especially in monitoring rules of origin when imports from third countries to the other countries in these RIAs transit through them. Apart from the need to be vigilant about compatibility and coherence of objectives and policies among the RIAs, overlapping memberships are likely to place a heavy demand on scarce administrative resources and time for meetings, negotiations and the related workload.



The options for addressing these issues of overlapping RIAs could be one or a combination of the following options:

- *Avoiding overlapping memberships of RIAs:* When RIAs differ substantially in their regional integration policies, countries which are members of more than one RIA could avoid potentially incompatible policies and provide a clearer indication of their policies by limiting their membership to only one RIA.
- *Merging memberships of RIAs:* When a critical mass of member countries of two RIAs have achieved a substantial degree of convergence of objectives and policies, they may be scope for merging their memberships.
- *Convergence of policies among RIAs:* One option would be to develop a common framework for achieving convergence of policies among the overlapping RIAs.

In considering these options, it would be important to obtain the views of the private sector about the best way to rationalize the RIAs.

### **III. Developments and Issues Relating to Regional Trade Integration**

#### **1. Key developments under Africa's institution-driven approach to regional integration**

Africa has followed a largely institution-driven approach to regional integration, based on formal regional agreements and institutions for guiding and monitoring regional integration efforts. It was expected that by creating larger regional markets, RIAs would increase the scope for exploiting economies of scale, promoting a more competitive business environment, boosting investment returns and stimulating domestic and foreign investment in the region. Hence, it is useful to take stock of the current situation of Africa's RIAs with respect to their intra-regional trade, total foreign trade and access to foreign investment inflows. This stock taking is done in Annex II.

The discussion in Annex II suggests that Africa's regional blocs have a number of structural features which are similar to what prevailed at the start of the regional integration process in East Asia. Under Africa's RIAs, the regional shares of world exports are very low, the share of intra-regional trade in the total trade of member countries is also low, and in most cases, there are no strong signs of sustained underlying growth in these shares. The production and export structures of the RIAs have remained highly concentrated on primary products. Moreover, Africa's share of global FDI flows (as shown in Table 3 of Annex II) has remained low and stagnant, with most of the inflows going to a few countries that are richly endowed with fuel and mineral resources.

Given these disappointing trends in trade and investment and the above initial structural conditions in Africa, it is useful to consider whether compared to RIAs in Africa, regional integration efforts have been more successful in other developing countries, after starting out from similar initial conditions. As regional integration in the East Asian countries is widely considered to be a successful experience among developing countries, we examine briefly the broad approach pursued there, and the trade and investment strategies implemented in that region. We then discuss the openness or restrictiveness of the trade and investment environment in Africa, and draw on the East Asian experience to suggest possible options for strengthening the regional integration efforts in Africa.

## 2. An alternative market-driven approach to regional integration in East Asia

In East Asia -- which comprises Japan, the newly industrialized economies (NIEs) of Hong Kong, Korea, Taiwan, and Singapore, and the ASEAN(4) group consisting of Malaysia, Indonesia, Thailand and the Philippines -- the approach to regional integration was more market led, with virtually no overarching regional agreements or institutions actively guiding the process. The ASEAN countries were not very active in promoting intra-ASEAN trade before 1992, when they agreed to form a free trade area by 2007.

In the second half of the 1980s, the developing economies of East Asia opened up their domestic markets to foreign direct investment and foreign trade in goods and services (relying mainly on unilateral liberalization). These policies were successful in engaging the region's private sector in the regional integration process, and their most notable impact was to induce a broad-based regionalization of both trade and investment flows in East Asia.

To engage the private sector, the governments of East Asia generally relied heavily on a policy of rewarding private firms that are successful in securing confirmed export orders or contracts by providing them with various combinations of special investment incentives, freer access to imported inputs, and special domestic credit facilities. While the specific incentives differed across countries, generally they sought to make the *rules* for granting these incentives sufficiently transparent, the *rewards* (or incentives) adequately attractive and *the bureaucrats administering this system insulated from political pressure*. This promoted a contest-based approach to competition whereby firms were encouraged to compete in a contest to win prizes (the special incentives) based on performance (in securing export contracts).

Along with these efforts, steps were taken to foster information sharing and cooperation among firms as well as between firms and the government, mainly through the establishment of various kinds of business councils. Thus, for example, Japan had so-called Deliberation Councils that interacted with the Ministry of Trade and Industry on general issues of industrial policy; Singapore had a National Wages Council which facilitated cooperation on wage policy issues between the government, business and labor; and Korea had an Export Promotion Council. Malaysia established a Malaysian Business Council similar to Korea's Export Promotion Council, after experimenting initially with a business council that like the Deliberation Councils of Japan sought to establish close ties between government ministries and the business community. Furthermore, to promote the legitimacy as well as broad acceptance of their policies, governments took measures to ensure that the benefits of economic growth are widely shared, mainly through land reforms (in Japan, Korea and Taiwan (province of China)); the promotion of small and medium-size enterprises (in Hong Kong, Japan, Korea, and Taiwan (province of China)); and the provision of housing and basic health services (in Hong Kong and Singapore).

Based on the desire to attract foreign investment to spur economic growth, the East Asian countries loosened restrictions on foreign investment and simplified related procedures. The specific measures varied across countries. In Korea, the areas open to foreign investment were expanded. Hong Kong adopted trade and investment policies that avoided discrimination between domestic and foreign investors, and an attractive tax system with a low corporate tax rate and exemptions for capital gains. Both Singapore and Hong Kong had low tariffs on imports of parts and raw materials. Malaysia embarked on an extensive deregulation effort in the late 1980s, and accorded special

treatment for foreign capital. Both Malaysia and Thailand strengthened their export promotion efforts.

Although the East Asian countries focused initially on freeing up the access to imported inputs for exporters, they later moved more broadly to eliminate trade-restrictive border measures as well as local institutions and practices that hindered trade flows. Most importantly, these countries lowered their trade barriers unilaterally on an MFN basis instead of formally establishing regional free trade areas and customs unions. The regionalization of trade and investment flows happened without any such institutional arrangements.

These liberalization efforts contributed to the acceleration of growth rates and industrialization in East Asia in the second half of the 1980s. More specifically, foreign investment and the accompanying transfer of technology played a key role in changing the initial pattern of specialization in the region.

The initial pattern of specialization varied across the East Asian countries, reflecting differences in income, trade openness and natural resource endowments. Japan specialized in manufacturing human capital and technology intensive manufactured goods, the NIEs produced unskilled labor-intensive manufactures, and the poorer ASEAN countries specialized in producing natural resource-intensive products.

During the 1980s, this regional pattern of specialization underwent significant changes. The regional NIEs shifted increasingly in to the production of technology and capital intensive goods, and the four ASEAN countries moved in to low-wage and unskilled labor-intensive production.

Foreign investment by multinational companies (MNCs), notably from Japan, the regional NIEs and the US, were instrumental in bringing about these changes in the regional pattern of specialization. Within the region, apart from the widespread investment operations of Japan's MNCs, the MNCs from the regional NIEs rapidly expanded their investments in the poorer developing countries of the region. Taiwanese firms invested in Malaysia, Singapore's MNCs invested in Indonesia and Malaysia, and South Korean firms invested in all of the South-East Asian countries. As a result, the intra-regional component of FDI flows in East Asia increased quite markedly.

The regionalization of foreign investment flows contributed significantly to a rapid and broad-based expansion of intra-regional foreign trade. This was largely because the MNCs (from both within and outside the region) channeled a large part of their sales into the regional markets, and much of the capital goods, spare parts, intermediate goods and raw materials that the MNCs needed were procured from the region.

The private sector responded to investment deregulation and trade liberalization by exploiting the export opportunities that emerged with the increase in intra-industry trade. Intra-industry trade grew in the region because the firms of the more industrialized countries (initially in Japan and later in the NIEs) specialized increasingly on technology-intensive production while the firms in the less industrialized countries of the region increased their production of labor-intensive products. This

provided new export opportunities for firms in the developing countries of East Asia and resulted in new production and trading patterns:

- Japan's exports to (imports from) the region declined (increased) for such items as tape recorders and car stereos for which it progressively lost competitiveness; and Japan shifted progressively into manufacturing high-tech models while relying increasingly on imports of low-tech models from the newly industrialized and/or the ASEAN countries. Such intra-industry trade in differentiated products is generally attributed to intra-regional differences in income levels and tastes. The associated change in the regional production patterns can be illustrated by the example of the well-known multinational NEC of Japan. The latter focused on producing color television sets that had screens larger than 25 inches at its Nagano plant in Japan, after shifting the production of all its smaller size sets to Siam NEC in Thailand.
- Intra-regional trade flows were also based on division of labor or national comparative advantage. The more industrialized countries of East Asia focused increasingly on the technology intensive stages of production processes while the less industrialized countries took up the more standardized and labor-intensive stages of the production operations. An example in the semi-conductor industry is the Japanese firm Oki Electronics, which established a new factory in Thailand in 1990 to carry out the assembly and inspection operations for 1 M DRAM and logic ICs, and thereafter, handled the high-tech tasks of designing and wiring in its factory in Japan. Another Japanese firm which sold electric ovens divided up its manufacturing operations by producing the high-tech components in Japan, the other components in Singapore, and assembling the final product in Malaysia for export (to both regional and other partner countries).

Since East Asia's successful experience in achieving regional integration was largely driven by the private sector in response to investment deregulation and trade liberalization measures, it is useful to consider the role of these factors in Africa's regional integration efforts.

### 3. Regional and external trade liberalization under Africa's RIAs

The low share of Africa's RIAs in world trade is at least partly due to the restrictiveness and complexity of existing tariff policies and other non-tariff barriers.

Although there has been overall progress in reducing tariff levels in Africa, the simple average of applied MFN tariffs in Sub-Saharan Africa remains noticeably higher than those in other developing countries and industrial countries (Table 1). Moreover, the average tariffs vary quite markedly across the major regional blocs. They are lowest in SADC and highest in the CEMAC, with COMESA, ECOWAS and WAEMU having roughly similar average tariffs in the middle of the range.<sup>1</sup>

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<sup>1</sup>There is also considerable cross-country variation in the applied tariff rates within each RIA. The average MFN applied tariffs of member countries vary between 10.4-14.6 percent in ECOWAS, 18.0-18.4 percent in the ECCAS, 3.5-28.7 percent in COMESA, 3.5-13.9 percent in SADC, and 10.7-26.8 percent in the AMU. It is worth noting that within the sub-regional blocs WAEMU, CEMAC and SACU, the average applied MFN rates show little or no variation across their respective member countries. This means that virtually all the variation in intra-regional tariff structures is due to the differences in tariff structures between the non-WAEMU and WAEMU countries of ECOWAS, the non-CEMAC and CEMAC countries of ECCAS, and the non-SACU and SACU countries in SADC.

**Table 1: Simple Average Applied MFN Tariffs, 1997 and 2006**  
(In percent)

	1997	2006
Sub-Saharan Africa	21.6	14.3
CEMAC	19.9	20.6
COMESA	23.6	14.4
ECOWAS	20.0	14.1
WAEMU	22.6	14.5
SADC	20.0	11.6
Other developing countries	14.4	10.0
Asia Pacific (*)	16.1	9.8
Europe	11.2	7.2
Middle East and Central Asia	16.9	11.3
Western Hemisphere	13.2	10.2
Industrial countries	8.7	6.5

(\*) Includes high-tariff countries such as Bangladesh, India and Pakistan.

The applied MFN tariff structures of individual countries vary even when they belong to the same regional bloc mainly because of the following three factors.

- The task of establishing free trade areas and eventually customs unions is work-in-progress under all of the larger regional arrangements (ECOWAS, ECCAS, COMESA, SADC and AMU). In this task, the major sub-regional blocs (WAEMU, CEMAC, EAC and SACU) are ahead of the other countries of their respective larger blocs. Unlike the East Asian countries, Africa's major regional blocs have put a lot of emphasis on removing tariffs on intra-regional trade. However, intra-regional trade is tariff-free only in SACU. To varying degrees, the other regions are only in partial compliance with the requirements of a free trade area, because there are exceptions for sensitive commodities. The COMESA countries started reducing tariffs in 1994 and by October 2000, when a free trade area was established, only a subset of nine of its member countries had removed all tariffs on intra-regional trade. Subsequently, Burundi and Rwanda also joined the free trade area, and implemented substantial tariff cuts (by 80 percent and 90 percent, respectively).
- There are cross-country differences in tariff rates applied to raw materials, intermediate goods, capital goods and final consumer goods; and
- Under the regional agreements, there are explicit provisions to allow special tariff protections and exemptions for a variety of reasons, such as for protecting sensitive industries, promoting activities that have a high development priority, and honoring contractual commitments to various enterprises (see discussion in Annex III). In administering these provisions strict vigilance and strong efforts are needed on the part of the bureaucracy and the governments to prevent the emergence of corrupt rent-seeking practices.

Furthermore, tariff dispersion at the country level is high (meaning a relatively wide range of tariff rates) for countries in the COMESA, SADC and AMU relative to the countries in ECOWAS and ECCAS (due mainly to the relatively low tariff dispersion in the WAEMU and CEMAC countries)

Largely reflecting these cross-country and inter-regional differences in tariff structures and the varying extent to which countries rely on non-tariff barriers, the overall restrictive impact of tariff and non-tariff barriers differs considerably across both countries and the major regions. In a study carried out at the World Bank, Kee, Nicita and Olarreaga (2006) have developed trade restrictiveness indices (TRIs) that are more refined measures of overall trade restrictiveness vis-à-vis all trading partners than simple averages of applied MFN tariffs: One such index measures restrictiveness of tariffs only and another measures the restrictiveness of both tariff and non-tariff barriers (see discussion in Annex IV). For the relatively large sample of African countries covered in the study, the main results for the major RIAs in Africa are shown in Box 2.

In sum, the degree of trade restrictiveness varies across the regional blocs as well as within each bloc, overall restrictiveness is in many cases substantially enhanced when both tariff and non-tariff barriers to trade are taken into account, and in many of the RIAs trade barriers appear to be most restrictive in the larger economies.

Box 2: Trade restrictiveness indices under Africa's RIAs

- In ECOWAS, the TRI (tariffs only) indices for the WAEMU countries (which show minor variation across countries) are lower than those for the WAMZ countries, with Nigeria having the most restrictive level. As regards the TRI (tariffs + non-tariff barriers) indicators, the inclusion of non-tariff barriers contributes to almost a doubling of the trade restrictiveness of most countries. Based on the broader measure of TRI, the two larger WAEMU countries – Ivory Coast and Senegal – appear to be substantially more restrictive than the other WAEMU countries.
- Within the CEMAC, TRI (tariffs only) indices are relatively high in the two largest economies Cameroon and Gabon as well as in the CAR. Compared with the WAEMU countries, these indices for CEMAC countries are higher, signifying greater restrictiveness. Inclusive of non-tariff barriers, the TRI indices are higher, but the increases across the CEMAC countries are not as large as that of the WAEMU countries. In the CEMAC, tariff barriers appear to be the greater impediment to trade than non-tariff barriers.
- The TRI (tariffs only) indices of most COMESA countries are comparable to or lower than those of the CEMAC countries, the exceptions being Egypt and to a much lesser degree Mauritius. Also, inclusive of non-tariff barriers, the TRI indices do not show as much of a jump as in the WAEMU and CEMAC countries.
- In SADC, among the limited sample of countries, the TRI (tariffs only) index is lowest in Zambia, South Africa and Malawi and highest in Mauritius and Zimbabwe. Also, inclusive of non-tariff barriers, the indices rise quite significantly in most cases.
- In the AMU region, the TRI (tariffs only) indices are relatively high for Morocco and Tunisia, and including non-tariff barriers, the restrictiveness indices rise sharply in all the reported cases.

In this situation, given the goal of establishing a continent-wide African Economic Community (AEC), it is worth considering some principles that could be used to guide the process of harmonizing and liberalizing the tariff structures both within each regional bloc and across the different RIAs. For this purpose, consideration could be given to the following principles:

- *Replacing non-tariff barriers with tariffs and rationalizing the tariff structure:* While much progress has been made in this area under past reform efforts, there appears to be scope for further progress.
- *Convergence to the least restrictive external tariffs:* In harmonizing the external tariff structures of member countries within a regional bloc, efforts should be made to converge to

the least restrictive tariffs in the region. The same principle should apply when the tariff structures of two or more regional blocs are merged.

- *Combining external liberalization with internal liberalization in the region:* Steps taken to liberalize tariffs on intra-regional trade should be followed up with at least a phased reduction in external tariffs. Regional trade blocs can be a vehicle for integrating with the world economy when regional policies are outward oriented, designed to progressively lower a region's barriers to trade with both intra-regional and other trading partners.
- *Moving closer towards non-discrimination:* The scope of exceptions to free intra-regional trade should be reduced progressively and the MFN principle should be observed by applying an external tariff structure that does not discriminate between non-regional trading partners. Moreover, the tariffs on extra-regional trade should be lowered to reduce the discrimination between regional partners and the other non-regional trading partners...
- *Open regionalism:* Membership of a regional bloc should be open to a nonmember country that wishes to enter the bloc to advance its liberalization process, based only on its acceptance of the rules and obligations of the bloc.

#### 4. Costs of trade restrictiveness

Trade restrictions inevitably have costs in terms of real income loss. In a recent World Bank study, estimates of such real income losses have been derived by comparing the real income impact of a restrictive tariff regime relative to that of a zero tariff regime. To make this comparison, a single composite TRI (tariffs only) indicator is defined as the uniform tariff rate that is equivalent to the existing tariff structure in the sense that it entails the same real income loss. The estimates of real income loss presented in this study are discussed in Annex IV.

In interpreting the data, one has to bear in mind that the real income loss being measured does not take into account (i) the costs of maintaining non-tariff barriers (which as we have seen result in significantly higher TRIs in many cases); (ii) the resources lost in producing import substitutes locally at a higher cost than suppliers outside the region; (iii) the foregone export production resulting from the anti-export bias of the tariff regime; and (iv) the foregone long-run benefits of maintaining an open trade regime (especially, those associated with access to better technologies and knowhow that are embodied in imports from diverse sources). Because of these major limitations, one can only consider the measured real income losses to be substantial underestimates of the true potential loss. In interpreting the results on estimated real income losses (presented below), one needs to bear in mind all the various potential costs of restrictiveness that are not reflected in them. One should take note only of the direction and not the precise magnitudes of the reported numbers, and consider them to be at best estimates of the minimum cost.

For the sample of 26 African countries for which TRI indices and related real income losses were estimated in the above study for agriculture, manufacturing and for the two sectors combined, the key results are the following:

- Because of the limited nature of the estimates, the estimated real income losses are small in proportion to GDP, varying between 0.1-1.3 percent of GDP. These losses are less than 0.5 percent of GDP for most countries. However, what is worrisome is that some of the bigger countries Ghana, Egypt, Malawi, Morocco and Tunisia have higher ratios.



- In most countries, agriculture receives greater protection than manufacturing. The few exceptions where manufacturing is more protected are Ghana, Ethiopia, Rwanda, Malawi, South Africa and the three Maghreb countries.
- In several cases, even when protection is lower for manufacturing than agriculture, the cost in terms of real income loss from the former turns out to be relatively larger. This is because the real income loss from protection in manufacturing tends to be higher than a similar level of protection in agriculture. This, in turn, is a reflection of the fact that for the same tariff rate, the response (or elasticity) of import demand to price increases caused by tariffs tends to be higher for manufactures than for agricultural goods, and hence quantities imported adjust (shrink) more for the former than for the latter. This partly explains the relatively higher income loss ratios of the countries listed under the first bullet point.

## 5. Vehicles for promoting external trade liberalization within RIAs

RIAs wishing to steer the regional integration process forward have inevitably to consider what are the appropriate institutional frameworks and signaling mechanisms that would be most effective for achieving steady progress in external trade liberalization (*vis-à-vis* non-member countries) and maintaining a sustained commitment to it. From this perspective, it is worthwhile discussing the relative advantages of free trade areas and customs unions, the benefits of partnerships with the developed industrial countries, and the role of tariff bindings under the WTO.

### (i) Relative advantages of free trade areas and customs unions

The costs and benefits of free trade areas (FTAs) and customs unions (CUs) derive basically from the fact that under an FTA member countries are free to set their own external tariffs on imports from non-member countries while under a CU all member countries are bound to apply a common external tariff (CET) on such imports.

Since most existing regional blocs in Africa are not full-fledged customs unions, their member countries are basically pursuing independent tariff or commercial policies *vis-à-vis* non-member countries. Consequently, FTAs rely on rules of origin (ROOs) to avoid trade deflection (or ensure that imports from countries outside the region do not come in through a low-tariff member country only to be transported duty free to a high tariff member country).

When the external tariffs of member countries of a FTA differ widely and are high, there is an incentive to adopt and enforce quite demanding ROOs. The latter uses up scarce administrative resources (as discussed below) that might have been put to better use, and hence, could be considered as costs that are additional to the costs of restrictiveness discussed earlier. Under Africa's RIAs, the existing ROOs differ widely across the various regional blocs as can be seen from Box 3.

Box 3: Rules of origin under Africa's RIAs

- The ECOWAS requires the domestic value added content of imports to be at least 35 percent, the domestic share of raw materials to be at least 40 percent of total raw material costs, and domestic capital costs to be 51 percent of the total capital costs. In the WAEMU sub-region, the domestic value added content of imports is set at 40 percent.
- In the CEMAC, the required local content of input costs is 50 percent, and for industrial goods the local value added share has to be 40 percent.
- Under COMESA's rules imports receive free trade treatment after meeting one of several criteria, including (a) a share of imported inputs from non-member countries that does not exceed 60 percent; (b) local value added is at least 35 percent of total cost; (c) for goods classified as important for economic development, the local value added content is at least 25 percent, or (d) the product is reclassified at a new tariff heading after production.
- SADC, which initially had a simple rule that imports should have gone through a sufficient local transformation process, is reported to have introduced new rules that are more restrictive.

These rules impose bookkeeping costs on firms and their enforcement requires certification of origin and verification of procedures. This contributes to a bureaucratic burden, a strain on scarce trained personnel, and raising the costs of doing business. All these costs can be reduced by simplifying the rules (perhaps in line with the older SADC practice). Moreover, if members of an FTA make sufficient progress in lowering tariffs on outsiders, firms may be induced to pay the MFN tariffs instead of incurring the bookkeeping costs associated with ROOs.

Since all these costs can be eliminated by moving to a CET, this is seen as an important advantage of belonging to a CU.

The main advantage of an FTA is that it provides its members flexibility in determining (including, reducing unilaterally) their tariffs on outsiders. In a CU, a reduction of external tariffs requires a high degree of cooperation among members and collective decision making. For these reasons, tariff barriers are more likely to be stuck at a high level in a CU than in an FTA. Indeed, under a CU some countries may feel that they have become captive markets for the protected high-cost goods being produced in other member countries. Under an FTA, a member country can avoid such exploitation by simply reducing their external tariffs on all products that are more costly to import from their regional partners.

The above discussion suggests that the current approach in Africa of establishing an FTA initially and then moving progressively to a CU is reasonable and practical, because it allows member countries to benefit from flexibility in determining tariff policy in the initial stages of regional

integration and at a later stage avoid the bookkeeping costs of ROOs by forming a CU. However, to make this approach work effectively during the transition period, it would be important for all members of an FTA to press ahead unilaterally with lowering tariffs on imports from non-member countries, thus making maximum use of the margin of flexibility in this area. This would help to establish a CU with a relatively low CET and minimize the risk of establishing one that is likely to be stuck for a long period with a high CET after its establishment. Waiting for coordinated, collective decisions on lowering tariffs would run the risk of stalling trade liberalization.

(ii) Partnerships with developing countries

Some have argued that trade agreements with developed industrial countries could act as an “agency of restraint” to prevent policy reversals and that for developing countries, North-South agreements are more advantageous than South-South agreements. However, compared with the route of multilateral trade liberalization, North-South FTAs are generally considered a second best alternative to multilateral liberalization, essentially because of the risks of trade diversion (which occurs when high-cost imports from a regional partner country replaces cheaper imports from countries outside the region).

With the multilateral trade negotiations stalled and a worldwide surge in regional trade agreements, it is not surprising to see Africa involved in negotiating several North-South integration initiatives. The SACU countries are negotiating free trade agreements (FTAs) with the EU and South Africa has already concluded such an agreement with the EU. SACU is also negotiating an FTA with the United States.

There is some evidence that North-South partnerships and trade ties with fast-growing and high income countries could be beneficial for Africa. The potential benefits for the poorer economies stem mainly from their abundance of labor and lower wage levels compared with those prevailing in the richer industrial economies. This setting provides incentives for foreign investors to establish labor-intensive industries in the export sector of a low-wage economy. The opportunities for developing countries to benefit from FDI inflows usually grows as new technologies make it possible to parcel out the labor-intensive stages of a production process to low-wage countries. These factors contributed importantly to the regionalization of investment flows in East Asia.

Developing countries involved in North-South trade agreements can also benefit from some of the special features of such agreements, which often include wider product coverage, some degree of reciprocity in trade liberalization, cooperation in other policy areas (such as trade facilitation, investment protection and regulatory reforms), and aid. These features of the agreements could also help to attract private investments from partner countries.

(iii) Tariff bindings under WTO and signaling commitment to trade liberalization

When countries bind their tariff rates with the WTO to not exceed specific maximum levels and adopt such tariff bindings for a given range of tariff lines on imported products, they do so to signal their commitment to observe a firm limit on the level and the scope of their tariff restrictions on imports from partner countries. A substantial tariff binding coverage and bound tariff rates that are close to the actual applied MFN tariff rates are considered to be a good indicator of a country's or

region's commitment to trade liberalization. Signaling a strong commitment to external trade liberalization through these indicators reduces the uncertainty of trade policy and related transaction costs, and by anchoring firms' expectations, helps them to adjust to reforms and changes in the trading environment.

A review of country practices in this area (which is presented in Annex V) shows the following:

- Most countries have either low binding coverage or high bound rates that are substantially above their applied MFN rates. Practices vary widely within the regional blocs as well as across the major regional blocs. Since a strong commitment to trade liberalization is signaled by combining a broad binding coverage with low bound rates (relative to applied MFN rates), such practices fall short of being effective for the signaling purpose.
- Several of the larger economies have both low binding coverage and high bound rates (relative to applied rates) when compared with their regional partners. This group includes Nigeria, Ghana, Cameroon, Kenya, Uganda, Mauritius and most of the non-SACU countries of SADC (other than the DRC and Angola). Some of the expected lead economies in virtually every major regional bloc are in this list.
- There are only a few countries with both a high binding coverage and bound rates that are close to the applied MFN rates: Gabon and the SACU countries (with the exception of Lesotho).

To signal a stronger commitment to trade liberalization, consideration might be given to the following:

- *Shift progressively to a more cohesive approach in each region:* Each regional bloc should encourage its members to make their tariff binding coverage more comprehensive and reduce their bound tariff levels closer to the prevailing applied MFN rates. This would help to signal more clearly the region's commitment to trade liberalization.
- *Engage the larger economies to lead more actively the process of change:* This would facilitate the desired change in direction, enhance its feasibility, and boost the credibility of the process.

#### **IV Engaging the Private Sector to Drive the Regional Integration Process**

The benefits of regional integration – a more competitive market environment, enlarged markets and economies of scale – can be reaped only if the private sector is engaged to drive the integration process. Hence, it is useful to consider the specific obstacles facing the private sector in Africa and what policies would be most relevant in addressing them. With this in mind, we discuss four key areas where the private sector would benefit most from supportive government policies: (1) improving the regulatory environment; (2) reducing the costs of trading across borders; (3) developing essential infrastructure and services; and (4) safeguarding the revenue base and macroeconomic stability.

##### **1. Improving the regulatory environment**

An improved regulatory environment is essential in order to facilitate business operations and investment and induce a broader engagement from both foreign and local investors. There is

substantial evidence pointing to an urgent need in most African countries to intensify ongoing efforts to make the processes of starting new business operations, licensing businesses, registering property, obtaining bank credit, paying taxes, and enforcing contracts less burdensome and more efficient than at present.

The World Bank assesses these elements of the regulatory environment to arrive at an overall indicator of the ease of doing business in various countries. Its *2008 Doing Business Indicators* show that among the 178 countries ranked on the basis of its overall indicator for the ease of doing business, most African countries are ranked among the bottom 90 countries. There are only five countries among the top 88 rankings: Mauritius (27), South Africa (35), Namibia (43), Botswana (51), and Ghana (87). Although the business environment in the North African AMU countries is relatively better and improving, regional integration is constrained by inadequate regional cooperation in the services and infrastructure sectors; and a lack of quality control and product certification is limiting the ability to sell manufactured goods.

The experience of South African businesses in investing in regional markets and participating in regional projects illustrates the potential for engaging the private sector of Africa's other emerging market economies in continent-wide investment and project activity. Over the decade ending 2005, South African companies invested roughly US\$ 1.4 billion per year in African countries, making South Africa a key investor in the continent. The post-apartheid years have seen South African project activity and investment expand beyond its neighboring SACU countries to other regions of Africa. A business survey in 2005 found that non-SACU countries received about two-thirds of these inflows.

The initial destinations of South African project activity and investment were African countries that had oil and gas and mineral resources. Thus, South African project activity expanded in the oil sectors of Gabon, Equatorial Guinea, Cameroon, Angola, and Nigeria, and the mining sectors of Zambia and the DRC.

Non-mining investments from South Africa benefitted mainly African countries that had a relatively good record of economic liberalization and/or a well-established private sector. The non-mining investments have been in a variety of sectors – financial services, information and communication technology (ICT), commercial and retail, tourism and hotels. Among the newer destinations of investments from trans-national South African corporations were Ghana, Uganda, and Mali, where there was a relatively good record of structural reform and macroeconomic stabilization under IMF and IDA supported programs, and Kenya where the private sector, the manufacturing base and the financial sector were larger and more developed than other countries in the region. Ghana, Uganda and Mali had made notable progress in macroeconomic adjustment and structural reform by the 1990s, most notably in the following policy areas:

- Major exchange and trade liberalization measures were implemented in Ghana and Uganda, which laid the basis for market determined exchange rates in these countries. The 1994 devaluation of the CFA franc corrected a grossly overvalued exchange rate for countries of the franc zone, which includes Mali.
- There was progress in restructuring and the divestiture of public enterprises in Mali, Uganda and Ghana.

- In all these three countries, progress was made in eliminating price controls and /or in adopting a system of flexible adjustment for the administered prices of retail gasoline prices, electricity tariffs and transport tariffs.
- Reforms of the tax system and public expenditure management were implemented in all three countries to lay the basis for progress towards macroeconomic stability.
- Progress was made, in varying degrees, in eliminating interest rate controls and directed credit policies, adopting more indirect methods of monetary management, and strengthening the financial soundness of the banking sector through divestiture, and improvements in prudential regulations and banking supervision.
- As signatory to the OHADA treaty, Mali and its regional partners enacted uniform laws for general commercial law, corporations, bankruptcy proceedings and discharge of liabilities, debt collection procedures and arbitration. Ghana and Uganda took steps to promote FDI inflows through investment promotion agencies and through measures to ease the regulatory burden on investors.

## 2. Reducing the costs of trading across borders

The costs of trading in Sub-Saharan Africa are substantially higher than in other regions of the world (Table 2). Compared with the least costly trading environment of OECD countries, in Sub-Saharan Africa the number of documents required to be processed is 80 percent more numerous for both exports and imports; the number of days spent by traders are between two and a half to more than four times that spent by their counterparts in the OECD countries, and the costs of exporting and importing are about twice the costs in the OECD.

The landlocked countries have trading costs far above the average for Sub-Saharan Africa. The highest trading costs are for Chad and CAR (in CEMAC); Mali, Niger and Burkina Faso (in WAEMU), Uganda, Rwanda and Burundi (in COMESA), and Botswana, Zambia and Zimbabwe (in SADC). There are eighteen countries with trading costs above the Sub-Saharan average. All the AMU countries (with their coastal location) have below average trading costs (in terms of US\$ per container).

Improved trade facilitation processes can make the logistics of moving goods more efficient and reduce the burden of document processing associated with cross-border trade. The regional organizations can play a useful role in achieving this by exploring the potential for reducing transport and transit times and border-crossing problems; simplifying customs and other import and export procedures; making the payments, insurance and other financial requirements of cross-border trade transparent and less burdensome; improving information and communications technology and facilitating compliance with international trade standards. Cross-border harmonization of trade facilitation processes could be beneficial to all regional members.

**Table 2: Costs of trading across borders in Africa**

<u>Region</u>	<u>Documents for export (number)</u>	<u>Time for export (days)</u>	<u>Cost to export (US\$ per container)</u>
Sub-Saharan Africa	8.1	35.6	1,660.10
Middle East & North Africa	7.1	24.8	992.2
Eastern Europe & Central Asia	7	29.3	1,393.40
East Asia & Pacific	6.9	24.5	885.3
Latin America & Caribbean	7	22.2	1,107.50
OECD	4.5	9.8	905
<u>Region</u>	<u>Documents for import (number)</u>	<u>Time for import (days)</u>	<u>Cost to import (US\$ per container)</u>
Sub-Saharan Africa	9	43.7	1,985.90
Middle East & North Africa	8	28.7	1,128.90
Eastern Europe & Central Asia	8.3	30.8	1,551.40
East Asia & Pacific	7.5	25.8	1,014.50
Latin America & Caribbean	7.6	25.8	1,228.40
OECD	5	10.4	986.1

### 3. Developing essential infrastructure and services

Regional integration can be facilitated by regional cooperation in developing essential infrastructure and services (including in the financial sector). Adequate and effective regional infrastructure (transport, communications and energy supplies) can facilitate the integration and expansion of markets and reduce the costs of doing business, and thereby support private sector development. This is particularly important for landlocked countries that have to cope with high transit costs, including delays at border posts and lengthy transit times. SADC has a successful record of regional infrastructure development, which could provide a basis for such cooperation in the other regions. Moreover, the potential for private/public partnerships to play an increasing role in this area could usefully be exploited.

### 4. Safeguarding the revenue base and macroeconomic stability

A key concern of African governments has been the potential for revenue losses following trade liberalization, because on average trade taxes account for about one third of revenues. Also, there is a risk that business confidence and private investment would be adversely affected because such revenue losses could lead to macroeconomic instability. However, since intra-regional trade is relatively small (about 10 percent of total trade) in most cases, the revenue loss from regional free trade is likely to be small unless there is significant trade diversion. The risk of revenue loss is greater when tariffs are reduced on imports from outside the region.

Safeguarding trade tax revenues in the context of a broader trade liberalization effort is very much a macroeconomic management problem. In this context, it is useful to recognize that trade policies are likely to be endogenous, because macroeconomic conditions often influence trade policy decisions, and the latter, in turn, affects macroeconomic conditions. In this situation, trade reforms have to be designed in the broader context of sound macroeconomic policies (including, fiscal, exchange rate and monetary policies). The difficult policy trade-offs that would have to be faced in designing such a reform effort can be eased to some extent by developing and widening the domestic tax base (including by curbing tax exemptions and incentives that often reduce the corporate tax rate and shrink the related tax base). Revenues are also likely to be least affected when tariff reductions are accompanied by the introduction of tariffs to replace quantitative restrictions, the reduction of tariff dispersion, the introduction of a minimum tariff, reforms of customs and tax administration, and steps to curb tax evasion.

The recent record of progress towards macroeconomic stability in Africa suggests that conditions have become more favorable for making progress in trade liberalization. However, to address the need to design and implement trade liberalization and macroeconomic policies in a mutually consistent and sustainable manner, it would be important for the IMF and the World Bank to place renewed emphasis on supporting the regional integration efforts of Africa's RIAs and member countries. This would be especially important if African countries were to implement extra-regional tariff liberalization under their respective regional integration initiatives. Empirical studies indicate that the collected tariff rates in many African countries may already be near or below the revenue-maximizing rate (estimated at about 18 percent of imports), so that further tariff reductions could affect revenues adversely.

The IMF's Trade Integration Mechanism (TIM) is designed to help member countries adjust to shocks that emanate from the process of multilateral trade liberalization. In other words, a member can request support under the TIM only when it expects a net balance of payments shortfall as a result of measures implemented by other countries that lead to more open market access for goods and services. The TIM was basically designed to help developing countries that faced balance of payments shortfalls as a result of erosion of tariff preferences, a worsening of the terms of trade of net food importers, or the expiration of quotas under the WTO's Agreement on Textiles and Clothing. The IMF's instrument for supporting member countries when they face balance of payments problems as a result of their own domestic reforms or liberalization measures is the PRGF (and not the TIM). Given this situation, there is a need to explore how the IMF could play a more visible role through the PRGF or an alternative instrument to explicitly support external trade liberalization in low income countries.

## **V. The Potential role of Emerging Market Forum (EMF) Countries**

The potential role of the EMF countries in the regional integration process needs to be seen in the context of the broad objectives of the AU and the development strategy spelt out by Africa's leaders in the New Partnership for Africa's Development (NEPAD).

With regard to Africa's regional economic integration efforts, the Constitutive Act of the AU (the AU Act) indicates that the broad objectives of these efforts are to (i) accelerate the political and socio-economic integration of the continent; (ii) promote the integration of African economies and



cooperation in all fields of human activity to raise the living standards of African peoples; and (iii) coordinate and harmonize the policies between existing and future regional economic communities. After two initial phases of establishing and consolidating regional economic communities, the third phase of the AU's regional integration program, covering the period 2007-17, consists of consolidating FTAs and CUs through the progressive elimination of tariff and non-tariff barriers as well as other trade restrictions, and eventually, the adoption of CETs. The AU Act also called for continent-wide efforts to promote democratic principles and institutions, popular participation and good governance.

The importance of achieving these objectives has been underscored in the New Partnership of Africa's Development (NEPAD). In particular, NEPAD has stressed that concrete action plans need to be implemented by African countries for (i) promoting the private sector and attracting private capital flows; (ii) boosting Africa's exports, removing non-trade barriers, and reversing the marginalization of Africa; (iii) developing infrastructure and enhancing regional integration; (iv) deepening financial markets and promoting their cross-border integration; and (v) enhancing the quality of political, economic and corporate governance. In support of the AU's governance objectives, which were seen as essential for economic development and engaging the private sector, NEPAD launched a voluntary African Peer Review Mechanism (APRM) with a group of eminent persons to oversee it, and out of a list of 15 countries that had initially agreed to peer reviews, Ghana was the first to be reviewed in 2003.

In light of the above, the governments of the EMF countries could take the lead in actively steering the existing regional integration efforts towards achieving the broad objectives of the AU and the NEPAD. To this end, several suggestions were made in the preceding sections for making the regional integration process in Africa more cohesive and harmonized within and across RIAs; more outward-oriented in trade and investment policies; and more private sector led. Such a three-pronged strategy could be effectively implemented with the active engagement of the EMF countries in the following tasks:

- Forging a common understanding about the key policy areas (for example, trade liberalization and investment deregulation) for which national governments would retain full autonomy as well as full responsibility for advancing the regional integration process, subject to stronger monitoring and regular surveillance by the RIAs, and on an as needed basis, periodically also by the AU, NEPAD and the APRM. Such reviews would enhance monitoring of progress at the country and regional levels, provide guidance in implementing policies in the suggested direction, and focus attention on further actions that may be needed.
- Strengthening intra-regional coordination mechanisms to facilitate collective decision-making and the joint implementation of mutually agreed policies in such areas as large regional infrastructure investments (that are too large to be undertaken by a single country) and activities that have beneficial externalities (such as cross-border harmonization of tax systems to prevent an erosion of the tax base through fruitless competition in providing tax incentives). It would signal a strong regional consensus and commitment behind the important policy actions that are aimed at benefitting an entire region.
- Encouraging the member countries of an RIA to adopt increasingly a policy of mutual recognition of national practices in such areas as production standards and certification

procedures. This could be a way of removing unnecessary regulatory barriers to cross-border trade and investment.

- Encouraging any group of member countries of an RIA to exploit on their own initiative the potential opportunities to harmonize their national regulations, with a view to reducing the burden of complying with different regulations at each border crossing.

It is important to note that the above proposals call for collective decisions and joint policy implementation at the regional level to address issues of project indivisibilities and/or spillover effects, while leaving ample scope for decision making and policy implementation at the national level when there are no such issues involved.

### Annex I: Indicators of market size, and the growth and structure of exports

Based on domestic market size indicators, SADC, COMESA and AMU are relatively larger than the other two regions ECOWAS and ECCAS. In terms of GDP, the largest economic regions are SADC, COMESA and AMU, followed by ECOWAS and ECCAS (Table 1). However per capita income is highest in AMU, where the population is the lowest. The next highest per capita incomes are in SADC and COMESA, followed by substantially lower per capita incomes in the ECCAS and ECOWAS regions.

**Table 1: Domestic indicators of market size, 2006**

Regions	Population (thousands)	GDP (million US\$)	GDP (PPP) (million US\$)	GDP per capita (million US\$)	GDP (PPP) per capita (million US\$)
<b>AMU</b>	<b>83096</b>	<b>255315</b>	<b>498162</b>	<b>3073</b>	<b>5995</b>
<b>ECOWAS</b>	<b>273131</b>	<b>183390</b>	<b>381903</b>	<b>671</b>	<b>1398</b>
<i>WAEMU</i>	<i>88938</i>	<i>49383</i>	<i>119441</i>	<i>555</i>	<i>1343</i>
<i>WAMZ</i>	<i>184193</i>	<i>134007</i>	<i>262462</i>	<i>728</i>	<i>1425</i>
<b>ECCAS</b>	<b>129757</b>	<b>107844</b>	<b>190364</b>	<b>831</b>	<b>1467</b>
<i>CEMAC</i>	<i>36791</i>	<i>51844</i>	<i>84411</i>	<i>1409</i>	<i>2294</i>
<b>COMESA</b>	<b>372496</b>	<b>268711</b>	<b>791075</b>	<b>721</b>	<b>2124</b>
<b>SADC</b>	<b>228915</b>	<b>374131</b>	<b>831222</b>	<b>1634</b>	<b>3631</b>
<i>SACU</i>	<i>54115</i>	<i>275816</i>	<i>618721</i>	<i>5097</i>	<i>11433</i>

Based on external indicators, AMU and SADC have the largest export bases, followed by COMESA, ECOWAS and ECCAS with broadly comparable shares in world exports (Table 2). In terms of shares in world imports, SADC has the largest share, followed by AMU and COMESA with roughly similar shares. The import shares of ECOWAS and ECCAS are considerably lower than the other regions.

**Table 2: External indicators of market size, 2006**

Regions	Merchandise exports (f.o.b.) (million US\$)	Share in world exports (%)	Merchandise imports (c.i.f.) (million US\$)	Share in world imports (%)
<b>AMU</b>	<b>119623</b>	<b>1</b>	<b>67819</b>	<b>0.55</b>
<b>ECOWAS</b>	<b>70472</b>	<b>0.57</b>	<b>44626</b>	<b>0.35</b>
<i>WAEMU</i>	<i>13552</i>	<i>0.1</i>	<i>15204</i>	<i>0.12</i>
<i>WAMZ</i>	<i>56920</i>	<i>0.47</i>	<i>29422</i>	<i>0.23</i>
<b>ECCAS</b>	<b>65544</b>	<b>0.54</b>	<b>25811</b>	<b>0.18</b>
<i>CEMAC</i>	<i>28043</i>	<i>0.23</i>	<i>10408</i>	<i>0.07</i>
<b>COMESA</b>	<b>70639</b>	<b>0.59</b>	<b>70408</b>	<b>0.52</b>
<b>SADC</b>	<b>118647</b>	<b>0.98</b>	<b>119258</b>	<b>0.95</b>
<i>SACU</i>	<i>68484</i>	<i>0.57</i>	<i>87025</i>	<i>0.70</i>

Over the period 2000-06, the average export growth rate of the non-oil producing countries of Sub-Saharan Africa was broadly in line with that of world exports, while the exports of the oil-producing countries grew at a much faster pace (Table 3).

**Table 3: Africa: Exports in 2006 and export growth rates during 2000-06**  
(Value in billion US\$, growth rates in percent)

	Value of 2006 exports	Average growth rate in 2000-06	Growth rate in 2004	Growth rate in 2005	Growth rate in 2006
Africa	361	16	31	30	21
South Africa	58	12	27	12	13
Africa less South Africa	303	17	32	34	23
Oil exporters	212	19	40	46	25
Non-oil exporters	90	13	20	14	17
World exports	11762	11	22	14	15

Fuels and mining products account for the largest share of Africa's exports. Their share in total exports has risen sharply over the past two years accompanied by declines in the shares of manufactures and agricultural products (Table 4). Furthermore, more than half of the exports of manufactures come from two countries: South Africa's share of Africa's exports of manufactured goods is US\$ 38.17 billion (45 percent) and the next highest exporter of manufactures in Africa is Morocco with a share of about 11.6 percent (US\$ 8.24 billion). When these figures are excluded, exports of manufactures of the rest of Africa (US\$ 24.7 billion) are much less than the value of agricultural exports. Most of Africa, apart from the few exporters of fuels and manufactured goods, is largely dependent on agricultural exports (Table 4).

**Table 4: Africa: Export structure, 2004-06**

Products	2004	2005	2006
<i>Value of total exports (billion US\$)</i>	229.91	299.54	363.29
<i>of which: Agricultural products</i>	27.70	29.84	31.96
Fuels and mining products	136.77	197.34	248.97
Manufactures	58.32	64.48	71.17
<i>Shares (in percent)</i>			
Agricultural products	12.1	10.0	8.8
Fuels and mining products	59.5	65.9	68.5
Manufactures	25.4	21.5	19.6

## Annex II: Intra-Regional Trade, Total Foreign Trade and Foreign Investment Inflows under Africa's RIAs

Intra-regional trade generally accounts for a very low share of total trade in Africa's regional trade blocs (Table 1). For Africa as a whole, the share of intra-regional trade has stagnated around 9-10 percent. It is the lowest in the AMU (about 1.2 percent) and highest for ECOWAS (about 19 percent).

**Table 1: Africa: Intra-regional trade, 1970-2006**  
(In percent of total trade)

	1970	1980	1990	1998	2003	2006
<b>Exports</b>						
CEMAC	4.9	1.6	2.3	2.3	1.5	0.9
COMESA	9.7	9.1	8.1	8.9	8.6	7.6
ECOWAS	3.1	10.6	8.9	11.1	10.1	9.2
WAEMU	7.9	12.6	15.3	13.0	16.2	19.4
SADC	9.4	2.7	6.9	6.0	5.9	5.9
<i>Africa</i>	8.8	5.2	7.3	10.5	9.8	9.0
<b>Imports</b>						
CEMAC	5.0	3.7	3.6	3.9	3.1	2.9
COMESA	6.7	2.8	3.4	3.9	6.5	9.0
ECOWAS	3.3	10.2	14.9	12.9	11.9	11.3
WAEMU	6.4	7.6	14.8	9.8	14.4	18.8
SADC	4.9	3.8	6.0	6.1	6.4	5.0
<i>Africa</i>	7.4	5.1	7.9	9.2	9.7	10.0

There is also little evidence of sustained growth in the share of intra-regional trade in total trade in most of the regional blocs, except for WAEMU and COMESA (for intra-regional imports). On the export side, the 2006 figures for all the regions except for WAEMU are below their past peak levels. On the import side, the shares of WAEMU and COMESA show noticeable increases, while those for the other regions are on a declining trend. This feature of the RIAs reflects partly the lack of complementarity in resource endowments among African countries (which has led to broadly similar production and export structures that are highly concentrated on primary products).

Although Africa's overall share in world exports has risen over the past three years from 2.4 percent in 2003 to about 3 percent in 2006, the latter is still about half its peak level of 5.97 percent in 1980. The recent gains mainly reflect increases in the shares of the ECCAS, COMESA and SADC in world exports, largely because the oil and mineral producing countries in these regions have benefitted from higher export prices. The world export shares of the other regional trade blocs have not recorded any significant increase (Table 2).

**Table 2: Shares of exports of Africa's trade blocs in world exports, 1990-2006**  
(In percent)

<b>Regions</b>	1990	1995	2000	2004	2006
ECOWAS	0.6	0.4	0.6	0.5	0.57
WAEMU	0.1	0.1	0.1	0.1	0.1
ECCAS	0.3	0.2	0.3	0.3	0.54
CEMAC	0.2	0.1	0.1	0.2	0.23
COMESA	0.4	0.4	0.4	0.5	0.59
SADC	1.0	0.8	0.7	0.7	0.98

The share of Sub-Saharan Africa in FDI inflows to developing countries averaged about 6-7 percent during 2000-05. However, FDI inflows are largely concentrated on the oil and mining sectors of the few countries that are richly endowed with these resources (Table 3).

**Table 3: Net inward foreign direct investment (FDI), 1997-2005**  
(Billion US\$)

	2000	2001	2002	2003	2004	2005
Developing countries	168.8	176.9	160.3	161.6	211.5	237.5
Sub-Saharan Africa	6.5	15.0	9.5	13.6	11.3	17.6
Angola	0.9	2.1	1.7	3.5	1.4	1.5
South Africa	1.0	7.3	0.7	0.8	0.6	6.3
Middle East and North Africa	4.1	3.4	3.7	5.6	5.3	9.1
Algeria	0.4	1.2	1.1	0.6	0.9	1.4
Morocco	0.2	0.1	0.1	2.3	0.8	1.0
Egypt	1.2	0.5	0.6	0.2	1.3	3.1
South Asia	4.4	6.1	6.7	5.6	7.2	8.4
East Asia and Pacific	44.3	48.5	57.2	59.8	64.6	65.3
Europe and Central Asia	30.2	32.7	34.9	35.9	62.4	75.6
Latin America and the Caribbean	79.3	71.1	48.2	41.1	60.8	61.4

### **Annex III: Harmonization of Trade Policies in ECOWAS and ECCAS**

#### *a. ECOWAS*

Within the ECOWAS, the WAEMU sub-region is much further ahead in establishing a customs union than the non-WAEMU countries of ECOWAS. The WAEMU have already adopted a CET with four tariff bands: 0 percent for books and medicines, 5 percent for raw materials and most capital goods, 10 percent for intermediate goods and some capital goods, and 20 percent for finished consumption goods. Nevertheless, there are deviations from the common CET among the WAEMU countries. For example, Senegal maintains surcharges on textiles and agricultural imports that compete with local production, Benin has levies and surcharges on selected products, Burkina Faso has additional taxes on some imports, and Togo levies a stamp duty (4 percent) on imports. Some countries also have a cyclical import tax to protect agriculture and agro-industries.

ECOWAS has agreed, in principle, to align and harmonize the external tariffs of the non-WAEMU members with that of the WAEMU CET by 2008. However, the guidelines for extending the CET provided member countries flexibility for a transition period to apply tariff rates different from the WAEMU CET rates for a variety of purposes. The latter includes such objectives as providing industrial protection, limiting budgetary revenue losses, honoring commitments to various industrial companies, complying with bilateral or international commitments, and promoting various economic and social policy goals. Furthermore, the guidelines specified two categories of tariff rates that could differ from the CET: the first category (type A) relates to tariffs that could differ from the CET for a transition period with the aim of achieving full alignment with the CET by 2008, and the second category (type B) refers to the tariff lines for which member countries wished to change the CET rates. These exceptions to the proposed CET are reported to be numerous (797 of type A and 137 of type B).

While some countries such as Ghana and Sierra Leone may be well placed to make the transition to the WAEMU CET, the tariff harmonization process is expected to be more challenging in other countries. In particular, progress will depend critically on Nigeria's commitment to adopt the WAEMU CET and press ahead with trade liberalization. Nigeria has several bans and prohibitive tariffs (150 percent), which adversely affects its trade with neighboring countries (including Ghana, Benin and Sierra Leone). Although Nigeria has committed to removing the existing bans, it has proposed maintaining a 50 percent tariff for some goods at least until 2008.

#### *b. ECCAS*

CEMAC, the key sub-region of ECCAS, launched a new and reformed customs union in 1994 (replacing the older customs union UDEAC which was established in 1964). The new CEMAC customs union was part of a broad reform effort to enhance regional integration following the last 1994 devaluation of the CFA franc relative to the French franc. The reforms included a common external tariff, the complete removal of tariffs on intra-regional regional trade by 1998, the temporary use of import surcharges (until 2000) to replace quantitative restrictions, and the harmonization of indirect taxes. Like the WAEMU, the CEMAC meets the requirements of a free trade area and has a CET with four tariff bands: 5 percent for basic necessities, 10 percent for raw materials and most capital goods, 20 percent for intermediate and other capital goods, and 30 percent for general consumer goods. By contrast, there has been little or no concrete progress in developing a free trade area or customs union for the broader ECCAS group of countries.

Nonetheless, even the CEMAC countries have not been complying fully with the above reform commitments in the trade area. There are deviations from the basic CET for a number of reasons. First, to facilitate the removal of quantitative restrictions, several member countries introduced in 1994 temporary tariff surcharges (of up to 30 percent) that were to be phased out over a period of six years or less. These surcharges still remain in some countries (Chad and Equatorial Guinea). Second, some CEMAC countries are still providing firm-level tariff exemptions in the oil, mining and the tourism sectors. Finally, member countries have provided additional protection to national industries. The CAR has a preferential tariff (8 percent) for imports of heavy machinery and some vehicles used for investment purposes.



### Annex IV: Trade Restrictiveness Indices (TRIs) and Resulting Real Income Losses

A recent World Bank study by Kee, Nicita and Olarreaga (2006) provides more useful indices of trade restrictiveness than simple averages or import-weighted averages of tariffs. In simple averages of tariffs, low tariffs on economically insignificant items have the same weight as high tariffs on other goods, and in import-weighted tariffs, goods subject to high tariffs have small weights due to the resulting low share of such imports in total imports. These average measures of trade restrictiveness tend to underestimate the degree of restrictiveness. For these reasons, the paper by Kee *et al* presents data on trade restrictiveness indicators (TRIs) for a relatively large sample of countries, using a methodology originally proposed by Anderson and Neary (1994 and 1996). The TRIs are not only a function of import shares and protection levels, but also of import demand elasticities (which reflect the response of import volumes to tariffs).<sup>1</sup> The study presents data for two types of TRI indices, one based only on tariffs and another based on tariffs plus non-tariff measures. Since trade restrictiveness can reflect both tariff and non-tariff barriers (such as quantitative restrictions), it is useful to look at broader measures or indices of trade restrictiveness.

#### a. ECOWAS

The available data for six ECOWAS countries show that the TRI (tariffs only) indices vary little among the WAEMU countries and are markedly lower than those of the WAMZ countries Nigeria and Guinea. As regards the TRI (tariffs + non-tariff barriers) indices, it is evident that the inclusion of non-tariff barriers leads to almost a doubling of the trade restrictiveness index for most countries. Based on the broader measure of TRI, the two larger WAEMU countries – Ivory Coast and Senegal – appear to be substantially more restrictive than the other WAEMU countries.

Table 1: ECOWAS: Trade restrictiveness indices (TRI)

ECOWAS	TRI (tariffs only)	TRI (tariffs + non-tariff barriers)
Burkina Faso	0.128	0.245
Ivory Coast	0.129	0.521
Mali	0.125	0.207
Senegal	0.118	0.506
Guinea	0.185	0.258
Nigeria	0.350	0.700

The combined sectoral TRI (covering agriculture and manufacturing) ranges between 10-17 percent, and apart from the highest rate in Ghana, there is little variation in the overall TRI across the sample countries. In the ECOWAS countries for which there is data, agriculture is more protected with higher tariffs than manufacturing in five countries (including Nigeria). Ghana protects manufacturing more than its agricultural sector. Nonetheless, manufacturing accounts for the bulk of the total income losses in the region. This is because for the same tariff rate, the response (or elasticity) of import demand to price increases caused by tariffs is higher for manufactures than for agricultural goods, and hence quantities imported adjust (shrink) more for the former than for the latter. The real income loss is small in proportion to GDP for most countries (with Ghana suffering the largest loss). In absolute numbers the combined loss for the six countries is not a negligible order of magnitude (US\$ 135 million for six countries).

Table 2: ECOWAS: The deadweight loss (DWL) of trade restrictiveness (TRI)

ECOWAS	TRI (%)	DWL (million US\$)	DWL/GDP (%)	TRI (manufacturing) (%)	DWL (mfg) (million US\$)	TRI (agriculture) (%)	DWL (agric.) (million US\$)
Burkina Faso	13	10	0.2	12	9	14	1
Ivory Coast	11	22	0.1	11	18	12	4
Mali	11	7	0.1	10	5	14	1
Senegal	11	17	0.2	10	11	12	6
Ghana	17	61	0.6	18	54	13	8
Nigeria	13	118	0.1	10	69	24	49

## b. ECCAS

In the ECCAS, the two biggest economies –Cameroon and Gabon – have the highest TRI indices. While these indices rise with the inclusion of non-tariff barriers, the increases are not as large as those in the ECOWAS countries.

Table 3: ECCAS: Trade restrictiveness indices (TRI)

ECCAS	TRI (tariffs only)	TRI (tariffs + non-tariff barriers)
DRC	0.118	0.147
Cameroon	0.192	0.221
CAR	0.201	0.237
Chad	0.180	0.191
Eq. Guinea	0.182	0.189
Gabon	0.192	0.201

For the three countries in the ECCAS, the results based on the overall sectoral TRI index are similar to that of ECOWAS: agriculture gets more protection than manufacturing, but the real income losses are larger in the latter case. These losses are small in proportion to GDP and the total loss for the three countries is US\$ 55 million.

Table 4: ECCAS: The deadweight loss (DWL) of trade restrictiveness (TRI)

ECCAS	TRI (%)	DWL (million US\$)	DWL/GDP (%)	TRI (manufacturing) (%)	DWL (mfg) (million US\$)	TRI (agriculture) (%)	DWL (agric.) (million US\$)
Rwanda	23	5	0.3	23	4	22	1
Cameroon	16	34	0.2	15	27	18	8
Eq. Guinea	18	16	0.2	18	12	21	4

## c. COMESA

The TRI (tariffs only) indices of most COMESA countries are comparable to or lower than those of the CEMAC countries, the exceptions being Egypt, and to a much lesser extent also Mauritius. As

in other cases, inclusive of non-tariff barriers, these indices are noticeably higher, with particularly sharp increases for Sudan, Ethiopia and Mauritius.

Table 5: COMESA: Trade restrictiveness indices (TRI)

COMESA	TRI (tariffs only)	TRI (tariffs + non-tariff barriers)
Egypt	1.496	1.595
Ethiopia	0.100	0.217
Kenya	0.188	0.206
Madagascar	0.06	0.082
Mauritius	0.27	0.359
Rwanda	0.118	0.147
Sudan	0.233	0.609
Uganda	0.095	0.099

In the COMESA region, there is considerable variation in the combined sectoral TRI across countries (ranging between 8 percent in Mauritius and 34 percent in Egypt). Compared with the ECOWAS and the ECCAS countries, the real income losses are generally higher in magnitude and in proportion to GDP. Again, more countries provide higher protection to agriculture than manufacturing, and the bulk of the region's losses are due to protection of manufacturing. With the large loss of Egypt, the combined loss of the region is close to a billion US dollars.

Table 6: COMESA: The deadweight loss (DWL) of trade restrictiveness (TRI)

COMESA	TRI (%)	DWL (million US\$)	DWL/GDP (%)	TRI (manufacturing) (%)	DWL (mfg) (million US\$)	TRI (agriculture) (%)	DWL (agric.) (million US\$)
Egypt	34	677	0.8	32	442	41	235
Eritrea							
Ethiopia	16	28	0.3	17	24	14	4
Kenya	15	49	0.3	10	18	35	31
Madagascar	11	38	0.2	7	19	17	19
Mauritius	8	6	0.1	6	4	8	2
Rwanda	23	5	0.3	23	4	22	1
Sudan	20	74	0.3	20	65	20	9
Uganda	19	36	0.4	14	16	32	20

#### d. SADC

Among the limited sample of six SADC countries, the TRI (tariffs only) index is lowest for Zambia (0.128) and highest for Mauritius (0.27). South Africa and Malawi have TRI indices closer to the bottom end of the range, while Zimbabwe is at the high end of the range.

Table 7: SADC: Trade restrictiveness indices (TRI)

SADC	TRI (tariffs only)	TRI (tariffs + non-tariff barriers)
Malawi	0.139	0.214
Mauritius	0.270	0.359
Tanzania	0.164	0.581
Zambia	0.128	0.178
Zimbabwe	0.226	0.283
South Africa	0.137	0.182

In the SADC region Tanzania and Zambia provide considerably greater protection to agriculture, and to a lesser degree, Mauritius also provides such protection. By contrast, South Africa and Malawi provide greater protection to manufacturing than agriculture. The losses for the region are relatively high (about half a billion US dollars), with South Africa accounting for a major share of it.

Table 8: SADC: The deadweight loss (DWL) of trade restrictiveness (TRI)

SADC	TRI (%)	DWL (million US\$)	DWL/GDP (%)	TRI (manufacturing) (%)	DWL (mfg) (million US\$)	TRI (agriculture) (%)	DWL (agric.) (million US\$)
Malawi	14	10	0.5	14	9	12	1
Mauritius	6	6	0.1	6	4	8	2
Tanzania	15	32	0.3	11	15	30	17
Zambia	12	19	0.3	12	16	17	3
South Africa	12	408	0.2	13	396	9	10

e. AMU

In the AMU region, the TRI (tariffs only) indices are relatively high for Morocco and Tunisia, and including non-tariff barriers, the restrictiveness indices rise quite sharply in all the reported cases.

Table 9: AMU: Trade restrictiveness indices (TRI)

AMU	TRI (tariffs only)	TRI (tariffs + non-tariff barriers)
Algeria	0.192	0.612
Morocco	0.316	0.642
Tunisia	0.345	0.523

Of all the regions, the overall sectoral TRI is highest in the three reported AMU countries. This is also true at the sectoral level: protection levels for both agriculture and manufacturing are higher than those reported for the other regions. Hence, the income losses from both sectors are quite substantial, with manufactures still accounting for a larger share of the combined loss. As a proportion of GDP the income losses are higher than in other regions, and the total loss for the region is over a billion US dollars.

Table 10: AMU: The deadweight loss (DWL) of trade restrictiveness (TRI)

AMU	TRI (%)	DWL (million US\$)	DWL/GDP (%)	TRI (manufacturing) (%)	DWL (mfg) (million US\$)	TRI (agriculture) (%)	DWL (agric.) (million US\$)
Algeria	15	219	0.2	15	178	14	42
Morocco	25	594	1.1	21	400	43	194
Tunisia	26	387	1.3	23	276	53	110

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<sup>1</sup> The TRIs are based on the square root of the weighted average of the squares of the levels of protection at the tariff line level, where the weights are not only a function of import shares and protection levels, but also of import demand elasticities.

## Annex V: Tariff Bindings under the WTO and Applied MFN Tariff Rates

Information on existing tariff binding coverage under the WTO and a comparison of bound tariff rates with applied MFN tariff rates are useful for assessing a country's commitment to external trade liberalization. The coefficient of variation (COV) of the applied MFN rates provides information about the extent of variation in a country's tariff rates.

### a. ECOWAS

Among the ECOWAS countries, tariff binding coverage is generally low, except in Guinea Bissau, Niger, Senegal and Sierra Leone. Moreover, with the exception of Ivory Coast, the bound tariff rates are far above their respective applied MFN rates.

All the countries with high binding coverage have bound rates that are much higher than their applied MFN rates. Two of the relatively larger economies -- Nigeria and Ghana -- have low tariff binding coverage as well as relatively high bound rates that are several multiples of the corresponding MFN applied rates. Among the smaller countries, Togo and the Gambia also have a similar problem.

The available data on average applied MFN rates for ECOWAS countries show that these are noticeably low with virtually no variation across countries. However, the coefficients of variation (COVs) around the country averages are relatively high for all countries, indicating a relatively wide dispersion of tariff rates in each country. The tariff dispersion is particularly large in the WAMZ countries of Nigeria, Sierra Leone and Cape Verde.

Table 1: ECOWAS: Tariff bindings, applied MFN tariff rates and COV

ECOWAS	Tariff binding coverage (%)	Bound rates (simple average, %)	Applied MFN tariff (simple average, %)	Coefficient of variation (COV) of applied MFN tariff rates
Benin	39.3	28.3	12	57
Burkina Faso	39.2	41.8	12	57
Guinea Bissau	97.8	48.6	12	57
Ivory Coast	33.1	11.1	12	57
Mali	40.6	28.8	12	57
Niger	96.8	44.3	12	57
Senegal	100	30	12	57
Togo	14	80	12	57
Cape Verde			10.4	130
Gambia	13.7	102		
Ghana	14.3	92.5		
Guinea	38.9	20.1	11.9	57
Nigeria	19.2	118.3	12	75
Sierra Leone	100	47.4	13.6	68

### b. ECCAS

Within the ECCAS region, the picture is much less positive in most CEMAC countries: Cameroon and Chad have the lowest binding coverage and the highest bound rates (which are more than four times the applied MFN rates), and although the CAR has a relatively high binding coverage, its bound rate is double the applied MFN rate. On the positive side, Gabon (a key CEMAC country) has a 100 percent binding coverage and the lowest bound rate, which is relatively close to the actual applied MFN rate. Outside the CEMAC region, Rwanda has 100 percent binding coverage but its bound rate is over four times the applied MFN rate.

The applied MFN rates are virtually uniform across the ECCAS countries with a relatively high coefficient of variation indicating significant tariff dispersion in each country's tariff structure. Relative to the WAEMU countries the applied MFN tariffs are higher.

Table 2: ECCAS: Tariff bindings, applied MFN tariff rates and COV

ECCAS	Tariff binding coverage (%)	Bound rates (simple average, %)	Applied MFN tariff (simple average, %)	Coefficient of variation (COV) of applied MFN tariff rates
Rwanda	100	89.5	18.7	53
Cameroon	13.3	79.9	18	51
CAR	62.5	36.2	18	51
Chad	13.5	79.9	18	51
Congo	16.1	27.3	18.4	51
Eq. Guinea			18	51
Gabon	100	21.4	18	51

### c. COMESA

In the COMESA bloc, among the countries with a high binding coverage, the two SACU countries Namibia and Swaziland have relatively low bound rates. All the other countries with high binding coverage (Angola, DRC, Djibouti, Egypt and Rwanda) have relatively high bound rates (that are much higher than the corresponding applied MFN rates). Burundi, Kenya, Mauritius and Uganda have relatively low binding coverage with very high bound rates (ranging between 68-94 percent).

Apart from Comoros, Djibouti, Egypt and Sudan, the applied MFN rates of all other countries are comparable to or lower than those of the WAEMU and CEMAC countries. However, in most COMESA countries tariff dispersion (as measured by the COV) is much higher than in the WAEMU and CEMAC countries.

Table 3: COMESA: Tariff bindings, applied MFN tariff rates and COV

COMESA	Tariff binding coverage (%)	Bound rates (simple average, %)	Applied MFN tariff (simple average, %)	Coefficient of variation (COV) of applied MFN tariff rates
Angola	100	59.2	7.2	92
Burundi	21.8	68.2	12.7	74
Comoros			28.9	20
DRC	100	96.2	12	51
Djibouti	100	41	28.1	30
Egypt	99.3	36.8	19.3	731
Eritrea			7.9	107
Ethiopia			16.8	68
Kenya	14.6	95.7	12.7	92
Madagascar	29.7	27.4	13.3	44
Mauritius	17.8	93.7	3.5	255
Namibia	96.6	19.1	8.0	151
Rwanda	100	89.5	18.7	53
Sudan			20.1	74
Swaziland	96.6	19.1	8	169
Uganda	15.8	73.4	12.7	92

#### d. SADC

In the SADC region, the SACU countries -- with the exception of Lesotho -- have the highest binding coverage as well as the lowest bound rates. Lesotho has a high binding coverage, but has very high bound rates. With the exception of Angola and DRC, all the other countries have relatively low binding coverage and high bound rates that are several multiples of the corresponding applied MFN rates.

The applied MFN rates for the SACU bloc are lowest among the African regional blocs under review, and while most of the non-SACU members of SADC have higher rates, these are also lower than the applied MFN rates prevailing in the other regions. This being said, the extent of tariff dispersion (measured by the COV) is significantly higher than those in other regions.



Table 4: SADC: Tariff binding coverage and rates, applied MFN tariff rates and COV

SADC	Tariff binding coverage (%)	Bound rates (simple average, %)	Applied MFN tariff (simple average, %)	Coefficient of variation (COV) of applied MFN tariff rates
Angola	100	59.2	7.2	92
DRC	100	96.2	12	51
Malawi	31.2	75.9	13.5	254
Mauritius	17.8	93.7	3.5	255
Mozambique	13.6	97.4	12.1	80
Tanzania	13.4	120	12.7	92
Zambia	16.7	106.4	13.9	72
Zimbabwe	21.0	91.9		
Botswana	96.6	18.8	8	169
Lesotho	100	78.5	7.9	136
Namibia	96.6	19.1	8.0	151
South Africa	96.6	19.1	8.0	199
Swaziland	96.6	19.1	8.0	169

*e. AMU*

In the AMU region, Morocco has 100 percent binding coverage, but it has high bound rates that are substantially higher than the applied MFN rates. The available data on other countries show that bound rates are well above the applied MFN rates.

The average applied MFN tariffs for Algeria, Morocco and Tunisia are well above the average for developing countries and Sub-Saharan Africa. For all the reported countries tariff dispersion (as measured by the COV) is a significant problem. The trade regimes of these countries are also characterized by a large number of product exemptions, burdensome licensing requirements, and complex and restrictive rules of origin.

Table 5: AMU: Tariff binding coverage and rates, applied MFN tariff rates and COV

AMU	Tariff binding coverage (%)	Bound rates (simple average, %)	Applied MFN tariff (simple average, %)	Coefficient of variation (COV) of applied MFN tariff rates
Algeria			18.7	56
Mauritania	39.3	19.6	10.7	67
Morocco	100	41.3	24.5	96
Tunisia	57.6	57.9	26.8	97

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