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Marinov, Eduard

Economic Research Institute at BAS

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Eduard Marinov

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IMPACT OF THE EUROPEAN UNION ON REGIONAL INTEGRATION IN AFRICA

PhD. Student Eduard MARINOV[134]

***Abstract**: The development and dynamics of regional integration in Africa are severely influenced by the transformation of the trade relations imposed by the Cotonou agreement. Economic relations now based on unilateral trade preferences provided by the EU are envisaged to be based on Economic partnership agreements that should regulate trade and cooperation establishing new trade regimes between the EU and ACP regions selected by clear criteria. They also promote regional integration efforts and impose measures to support developing partner regions. A decade after the start of the negotiations for the EPAs, the impact on regional integration is still unclear. Although EPAs aim at the promotion of regional integration their immediate impact is even greater fragmentation of existing RECs. The report examines the principles, history, and current state of negotiations as well as the twofold effects of EPAs on regional integration efforts in Africa.*

***Keywords:** Regional integration; African economy, Economic Partnership Agreements*

***JEL classification**: F15, F50, F54*

Introduction

The influence of the European Union on integration processes in Africa is multidirectional: on one hand, as the most developed integration community, it serves as a model which is used in different degree in the creation of frameworks for the integration processes, blocks and institutions; on the other hand, the EU is the biggest trade partner for most of Africa's countries and regional economic communities (RECs), as well as the biggest donor, providing more than the half of the Official development aid (ODA) for Africa; and thirdly, the EU aims to support the development of regional economic integration processes through the measures of the Common development policy and more specifically through the Economic partnership agreements (EPAs).

The report will discuss the current state of regional integration in Africa, the trade flows of the continent with the EU as well as the proposed framework of EPAs and their impact on integration processes.

The process of regional integration in Africa

Regional integration in Africa is a stated priority goal both of African governments and world donor organizations from the early years on independence. It should address the dynamics of globalizing economy as a means to ensure competitiveness through better opportunities it creates in the field of international trade. In the case of Africa this is even more significant due to the colonial heritage, misgovernment and continuous conflicts (ECA, 2010, p. 23). Regionalism is seen as a potential cure for the various political and economic issues on the continent.

[134] *Economic Research Institute at the Bulgarian Academy of Sciences, eddie.marinov@gmail.com*

The Treaty for establishment of the African economic community (TAEC) is signed in 1991 and comes into force in 1994. It establishes the AEC as a part of the African union (AU). The Treaty defines six stages that should be completed for the gradual creation of the AEC for a period of 34 years (TAEC, Art. 6). The Treaty adopts an integration approach that to a great extent depends on the success of integration processes of the regional economic communities (Mlenga, 2012, p.2). The Treaty explicitly states that the AEC will be established mainly based on coordination and gradual integration of the activities of existing RECs. Thus RECs are defined as the building blocks of the AEC. The idea of this stage approach is that integration should firstly be ensured at a regional level through the creation and strengthening of the RECs which in a certain moment will merge into the AEC.

The first stage includes the strengthening of existing RECs and creation of new ones where there are no existing and should last till 1999 (TAEC, art. 6). At the time when the TAEC came into force in Africa existed the Maghreb union (UMA), the Common market of Eastern and Southern Africa (COMESA), the Economic community of West African States (ECOWAS), the Economic community of Central African States (ECCAS) and the South African Development Community which included all countries on the continent. Until 2001 the General assembly of AU accepts three more communities – the Intergovernmental agency for development (IGAD), the Economic community of Sahel-Saharan states (CEN-SAD) and the East African community (EAC). In 2006 a decision was made that no other RECs will be acknowledged as building blocks of the AEC.[135]

The second stage is with a 8 years duration and has the objective RECs to decrease or abolish tariffs, quotas and other restrictions to intraregional trade. Together with this is envisaged coordination of policies in the areas of trade, finance, transport, communications, industry and energy as well as coordination and harmonization of the activities of existing RECs (TAEC, art. 6). There is a progress in the strengthening of many REC sectors and despite the challenges the efforts are directed towards the requirements of the second stage of AEC establishment (Mlenga, 2012, p. 7).

The third stage should be completed till 2017 and envisages all trade barriers to be abolished through the creation of free trade areas (FTA) in the RECs and the enforcement of common customs tariffs through the creation of customs unions (CU). Almost all RECs have completed the third stage to some extent except UMA,[136] IGAD[137] and CEN-SAD[138]. Differing from all other RECs, the CU is the first step of the creation of the EAC (in 2005). Progress towards the accomplishment of the third stage of the establishment of AEC is satisfactory,

[135] *Currently in Africa 8 more RECs exist – the Economic community of Great Lakes States (CEGPL), the South African currency union (SACU), the Manu river union (MRU), the West African economic and monetary union (UEMOA), the West African monetary zone (WAMZ), the CFA Franc zone (CFA), the Central African economic and monetary community (CEMAC) and the Indian ocean commission (IOC).*
[136] *The community is not functioning since May 2009, since 2012 is not considered a building block of AEC.*
[137] *Because of the conflicts in the region (Sudan, Somalia.*
[138] *The FTA agreement is still in draft form.*

though for the communities that have not accomplished the set goals in periods of relative tranquility the future accomplishment will be hampered by the current conflicts as in the case with UMA (Mlenga, 2012, p. 8).

The fourth stage is to be completed until 2019 and the goal is the establishment of an African customs union through harmonization of the common customs tariffs of all RECs. As a positive step towards the completion of this objective could be seen the creation of the tripartite FTA between COMESA, SADC and EAC in 2008 through which the three communities abolish trade barriers between each other (ECA, 2012, p. 10).

There is no progress made in completing the fifth and sixth stage – the establishment of an African common market and of a continental economic and monetary union. These stages should be completed respectively in 2023 and 2028.

EU impact on African integration

International trade

The EU is a vitally important destination for African exports and a source of foreign investment, and generally an important player with regard to the integration of the continent in the global economy. (Mbeki, 2011, p.8). The EU remains the biggest trade partner of Africa although the share of the EU both in exports and import declines (see Table 1) mainly on the account of Developing Asia and more specifically P.R. China. For the period 2003-2012 the total value of African exports to the EU has raised from 63 to 176 Billion USD and that of imports – from 79 to 225 Billion USD. Despite this the increase of total African exports and imports for the same period is significantly higher (more than 4 times) compared to the trade with the EU (2,8 times).

Table 1

Africa-EU imports and exports (share of total trade)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Exports	47,8	43,0	42,9	40,4	39,2	39,1	38,6	33,3	32,2	34,4
Imports	47,4	44,4	43,3	38,4	38,6	37,5	38,2	34,1	32,9	31,4

Source: Calculations based on DOTS (IMF), accessed 15.07.2013

There are also significant regional differences regarding the share of the trade with the EU between the different RECs (see Table 2) depending on the trade relations with the EU. CEN-SAD with about 223 Billion USD (exports plus imports) is the biggest trade partner of the EU, followed by SADC (93 Billion), COMESA (93 Billion), ECOWAS (82 Billion), ECCAS (39 Billion), IGAD (9 Billion) and EAC (7 Billion). The growth in trade with the EU for the period 2003-2012 also varies – from over 3,5 times (ECOWAS, ECCAS) to 2,4 times (IGAD, EAC, SADC).

Table 2

African RECs trade with the EU (share of total trade)[139]

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
CEN-SAD	51,3	46,8	46,0	42,7	42,7	41,8	41,4	37,7	35,3	37,4
COMESA	47,5	45,5	44,3	42,3	42,6	41,5	38,2	34,8	27,8	32,4
EAC	28,5	27,4	25,4	24,3	23,9	22,2	22,5	18,1	18,5	16,0
ECCAS	36,4	27,4	26,6	22,7	26,4	25,7	27,8	22,2	24,6	23,5
ECOWAS	37,7	30,6	30,3	29,5	28,6	30,0	30,8	26,6	29,8	31,5
IGAD	24,2	22,1	20,9	16,4	18,4	16,5	17,5	14,3	14,9	14,3
SADC	40,2	37,4	36,9	32,9	32,4	30,3	31,0	25,8	25,1	22,8

Source: Calculations based on DOTS (IMF), accessed 15.07.2013

Development aid

Official development aid is provided by the EU within the EU Development policy that, besides reduction and long-term eradication of poverty, aims at promoting economic development and integration of the least developed and poor countries in Africa, Asia, Latin America, The Caribbean and the Pacific region. Last data of OECD show that over 45% of all official development aid provided by the EU goes to Africa. Data also show that the amount of official aid increases despite the global economic crisis (see Fig. 1). With the deepening debt crisis in the EU European governments will have to decrease expenses which would lead to decrease of official development aid for developing countries including Africa.[140] These measures will have a significant impact on some African countries that greatly depend on ODA – official aid of the EU account for 80% of the GDP in four countries (Algeria, Mauritius, Tunisia and Morocco), for 50% in 23 countries and for at least 20% in all African countries (World Bank, 2013).

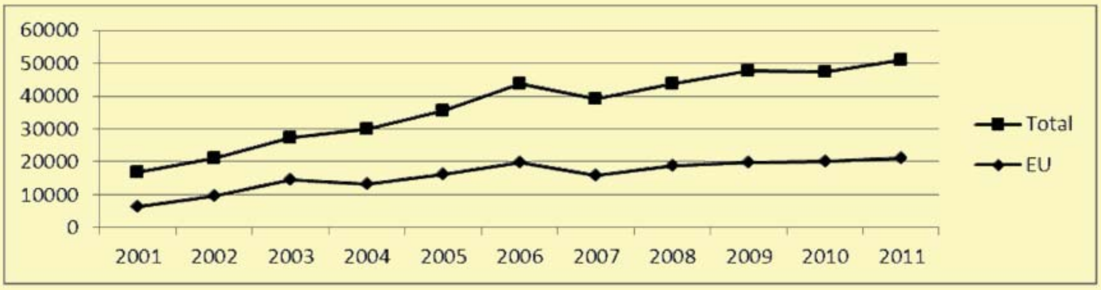

Figure 1. Official development aid for Africa (Billion USD)

Source: African Development Indicators, World Bank.

The Economic partnership agreements of the EU

The Economic partnership agreements (EPAs) are an integral part of the Development policy of the EU that is developed to answer the needs of the least developed and poor countries in Africa, Asia, Latin America, The Caribbean and the Pacific region.

[139] *Presented are only the RECs that are recognized as building blocks of the AEC.*
[140] *France reduces official aid due to its commitment to GDP, Ireland reduced its ODA budget with 22%, Germany reduced it with 81,6 Billion USD for 2011-2014 and Greece, Spain, Portugal and Italy apply strict expence reduction regimes.*

Development policy is a key area of the EU's external relations. The primary objective of EU development policy is reduction and long-term eradication of poverty. Each year, the Community and its Member States provide more than half of all international development assistance. The commitment to policy coherence prompts the EU to take account of the objectives of development cooperation in the policies it implements which are likely to affect developing countries. Relations between the EU and the African, Caribbean and Pacific (ACP) countries were formalized over time through the conclusion of several agreements or conventions. These are the conventions of Yaoundé, Lomé and Cotonou. The Cotonou Agreement foresees the finalization of the long standing non-reciprocal trade preferences granted to ACP countries through the conclusion of new WTO-compatible trade arrangements (EPAs).

EPAs are trade and cooperation agreements establishing a new trade regime between the EU and the ACP countries. They are designed to create WTO-compatible, development oriented reciprocal trading arrangements between Europe and its traditional developing country trading partners, while encouraging regional integration and drawing improved trade capacity building and other aid interventions into the developing partner regions. The agreements aim at covering not only trade in goods but also in services and other trade-related areas.

The economic partnership agreements were initially designed to create an entirely new framework for the flow of trade and investment between the EU and the ACP countries, encouraging, amongst other positive factors, regional integration between ACP countries. The ACP EPA countries group themselves into seven regions: five in Africa, one in the Caribbean and one in the Pacific.

Addressing the weaknesses of the Lomé Conventions, the EU and the ACP agreed to radically reform the ACP-EU trade relationship through the negotiation of the EPAs. The Cotonou Agreement sets out four principles for EPAs:

-Development - EPA negotiations must be placed in the context of the overall development objectives of ACP countries and of the CPA. To be of benefit to the ACP, EPAs must be 'economically meaningful, politically sustainable, and socially acceptable'. Hence, EPAs are not just ordinary agreements on trade. Rather, they are intended to be development-oriented trade arrangements to foster development and economic growth in ACP countries which will ultimately contribute to poverty eradication.

-Reciprocity - The most important element of an EPA is the establishment of an FTA, which will progressively abolish substantially all trade restrictions between both parties. This is a radically new element in ACP-EU trade relations and also a necessary requirement to make the EPAs WTO-compatible. For the first time, ACP countries will have to open up, on a reciprocal basis, their own markets to EU products in order to retain their preferential access to the EU market. The rationale for reciprocity rests on the principle that liberalization of ACP markets towards the EU will increase competition within ACP economies, thereby stimulating local and foreign (including EU) investment and the necessary adjustment of their economies, leading to growth and development.

-Regionalism - The EU clearly envisages negotiations with ACP regional groupings which are in a position to do so, though it has not ruled out the possibility of concluding agreements with single countries in exceptional cases, as in some of the interim deals. The principle of basing future trade cooperation on regional integration stems from the conviction that regional integration is a key step towards further integration into the world economy, as well as an instrument to stimulate investment and lock in the necessary trade reforms.

Differentiation - Considerable weight is given to differentiation and special treatment, which affirms the North-South nature of the relationship. The CPA states that EPAs will take into account the different levels of development of the contracting parties. Hence, EPAs should provide sufficient scope for flexibility, special and differential treatment and asymmetry. In particular, LDCs, small and vulnerable economies, landlocked countries and small islands should be able to benefit from special and differential treatment.

Hence, the EPA negotiations constitute a shift in ACP-EU trade cooperation relations, ending an era of non-reciprocal trade preferences and replacing the all-ACP-EU trading arrangement by several separate agreements that are negotiated between the EU and the ACP negotiating regions, with the objective of fostering regional integration in the ACP. In essence, the EPAs should thus be essentially enhanced, development-oriented free trade areas between ACP regional groupings and the EU. They aim to cover not only trade in goods and agricultural products, but also in services, and should address tariff, non-tariff and technical barriers to trade. As proposed by the European Commission, other trade-related areas would also be covered, including by increased cooperation between the EU and the ACP, such as competition, investment, protection of intellectual property rights, trade facilitation, trade and environment, trade and labor standards, consumer policy regulation and consumer health protection, food security, public procurement, etc.

Perspectives given by EPAs

Many of the EU's ACP trading partners already have duty-free and quota-free access to the EU market under the "Everything but Arms" (EBA) scheme for the world's least-developed countries (LDCs). But EPAs have much more to offer (EC, 2013, p. 2-3):

-EPAs enhance trade – beyond free market access, EPAs come with less strict rules of origin, making it easier for LDCs to export products with inputs from other countries (third-country inputs);

-EPAs tackle co-operation on trade-related issues – EPAs provide an opportunity to address complex issues affecting trade;

-EPAs boost regional markets and rules – by tagging on to ACP regional integration initiatives, EPAs promote good for development regional solutions;

-EPAs provide for a broader approach to trade barriers – the EPA approach recognizes that tariffs and quotas aren't the only barriers to trade, and provides a way of addressing wider issues;

-EPAs bring tailor-made approaches to regional needs – EPAs are worked out in regional negotiations to make sure they take account of regional needs and each country's sensitivities and conditions;

-EPAs safeguard local economies – though ACP countries that sign EPAs must gradually open up to 80% of their markets to EU imports, safeguards ensure that EU products don't compete against locally produced products;

-EPAs respect national sovereignty – EPAs ask countries to determine their own development strategies and the pace and sequence of reform decisions;

-EPAs are stable partnerships between EU and ACP countries – EPAs establish viable contracts between equal partners which can't be altered without mutual agreement.

The African EPA regions

Eligibility criteria for areas that may be concluded EPAs are clear enough. The difficulty lies in their application to the specific context of the existing structure of African regional groupings (Matthews, 2003, p.77). In this context, the EC supports RECs that:

-are large enough to constitute a "pole of attraction" that would lead to a trade and economic dynamics;

-are aimed at the formation of a customs union;

-are willing to remove non-tariff barriers to future common market;

-have effective mechanisms for the implementation of the decisions taken.

The five African EPA regions are:

-West Africa. The EU is currently in negotiations for an Economic Partnership Agreement with the member-states of ECOWAS and Mauritania. The EU signed an interim Economic Partnership Agreement with the Ivory Coast in November 2008. Ghana initialed an interim agreement in December 2007. The West African region is the EU's most important trade partner in the African, Caribbean and Pacific region. The West African countries account for 40% of all trade between the EU and the African, Caribbean and Pacific region. Despite advanced regional integration processes in the region, barriers to intra-regional trade remain a challenge for the economies in West Africa. Regional trade lags behind compared to trade with developed and emerging countries outside West Africa. The focus of the ongoing negotiations for an Economic Partnership Agreement is strengthening regional integration.

-Central Africa. The EU is currently in negotiations for an Economic Partnership Agreement with Cameroon, the Central African Republic, Chad, Congo, the Democratic Republic of Congo, Equatorial Guinea, Gabon, Sao Tome and Principe (member-states of COMESA and ECCAS). Cameroon signed an interim Economic Partnership Agreement with the EU in 2009. Regional integration remains a challenge for the economies in Central Africa. Regional trade lags behind compared to trade with developed countries outside Central Africa.

-Eastern and Southern Africa (ESA). The EU is currently negotiating an Economic Partnership Agreement with Djibouti, Eritrea, Ethiopia, Somalia and Sudan, Malawi, Zambia and Zimbabwe, Comoros, Mauritius, Madagascar and the Seychelles (member-states of ECA, IGAD and SADC). Eastern and Southern Africa is a diverse Economic Partnership Agreement group, including Indian Ocean islands, countries from the Horn of Africa and some countries of Southern Africa. Regional integration remains a challenge for this region.

-East African Community (EAC). The East African Community countries initialed an interim Economic Partnership Agreement with the EU in 2007. On this basis, the EU and the Eastern African Community are currently negotiating a comprehensive Economic Partnership Agreement. East Africa is a geographically and economically homogeneous region committed to regional integration. The East African Community established a Customs Union in 2005 and fully-fledged union with zero internal tariffs as from 2010. This region is fast tracking its economic integration process has ratified since July 2010 a more far-reaching common market protocol and is envisaging a monetary union.

-Southern African Development Community (SADC). The EU is currently in negotiations for an Economic Partnership Agreement with Angola, Botswana, Lesotho, Mozambique, Namibia, Swaziland and South Africa, as the Southern African Development Community Economic Partnership Agreement group. The other six members of the Southern African Development Community region – the Democratic Republic of the Congo, Madagascar, Malawi, Mauritius, Zambia and Zimbabwe – are negotiating Economic Partnership Agreements with the EU as part of other regional groups, namely Central Africa or Eastern and Southern Africa. The EU is the Southern African Development Community's largest trading partner, with South Africa accounting for the largest part of EU imports to and EU exports from the region.

As of 21 January 2013 only Madagascar, Mauritius, Seychelles and Zimbabwe had an EPA in force. Côte d'Ivoire from the West African region; Cameroon from the Central African region; and Botswana, Lesotho, Mozambique and Swaziland from the Southern African Development Community had signed "stepping stone" or interim EPAs, although the agreements were not yet in effect. Seven others – Ghana from the West African region; Burundi, Kenya, Rwanda, Uganda and Tanzania from the East African Community; and Namibia from the Southern African Development Community – have initiated EPAs but have not signed them. The remaining countries have not made any official commitments towards ratifying EPAs. (ECA, 2013, p. 54)

EPA effects on regional integration in Africa

EPA is an ambitious and innovative policy heading towards growth and development in ACP regions. The European Commission stated that regional integration should become a fundamental tenet of EU development policy and EU-ACP relations (EC, 2008, p.10). For the ACP signatories, it combines immediate gains (market access, some relaxation of rules of origin, financial assistance targeted to EPAs needs), significant commitments (liberalization towards EU goods and services within EPA regions, transparency and predictability of business rules) and medium-to-long term opportunities (in exports, investments and regional trade, enhanced cooperation) (Morissey, Milner, Zgovu. 2010, p.23). It is also associated with risks (business closures, budget restrictions). The EPA strategy is global and its various pillars – trade, services, regional integration, cooperation, aid – are mutually supportive. Therefore the partial African agreements which address trade in goods and some technical cooperation cannot achieve the development benefits attached to the overall strategy.

Despite the stated goal to promote regional integration, in Africa the impact of EPAs on regional integration is disappointing. The poor results are particularly striking in Western and Central Africa, where negotiations did not create the hoped-for group dynamic. It is obvious that the opportunities offered by the EPAs are not sufficient to motivate further regional integration (IFATPC, 2011, p. 6). In fact, the forces that oppose African integration seem to have spilled over into the EPA negotiations, rather than bringing about an integration impetus. The main criticism concerns the ability of EPAs to deliver their development benefits.

Although the overall assessment suggests poor progress towards African integration, positive impacts do exist and need to be fairly underlined. They include an initial impetus, the EAC agreement, and to some extent the SADC-group agreement (IFATPC, 2011, p. 16). The EPAs process contributed to integration incentives and to the implementation of the first FTAs and CUs. in African RECs. The EU-EAC EPA is a successful outcome for regional integration and the EPA between the EU and the SADC group presents some potential for enhanced regional integration. Aside from the EAC and SADC, the agreements lack the ability to generate regional impetus. More than half of the sub-Saharan African countries remain outside any form of concluded EPAs, which limits the geographical scope of possible integration dynamics that might come from EPAs.

Conclusions

The main conclusion that could be made is that the EU plays a significant role in African integration through various channels. The impact however is not always positive especially in the case of the Economic partnership agreements negotiations. Other conclusions are that:

-Regional integration in Africa is a complicated evolutive process and results are diverse in different RECs.

-Despite the decline in the years after the global financial crisis, the EU remains Africa's main trade partner thus influencing regional integration as well.

-The possible reduction of official aid flow from the EU to Africa will probably have negative influence on some of the continent's economies, but on the other hand could encourage and strengthen alternative (regional) resource mobilization.

-As the EU is the biggest trade partner and the main donor for most ACP states, the strategy of EPAs has the potential to impulse a significant development impetus.

-Although promoting regional integration is a stated goal of EPAs, the effects of the negotiations are twofold, posing some threads to the already complicated integration processes.

The EU and the African ACP states agreed on the significance of regional integration both as a central objective and a tool to achieve other aims of the agreements. EPAs are an ambitious and innovative attempt to use external leverage to strengthen economic integration. However the EPA process added a layer of new groupings to the already complex map of African integration. Except for EAC, none of the other EPA negotiating configurations coincide with the existing African RECs. The poor progress so far is an evidence that the African regional process is not mature. Economic integration still lacks genuine political support and commitment in Africa. The economic integration initiatives rub against the inability of individual countries to consent the necessary transfers of sovereignty. Insufficient institutional capacity and a failure to prioritize objectives pose additional obstacles.

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