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TOWARDS AN AFRICAN ECONOMIC COMMUNITY: A PERFORMANCE EVALUATION OF AFRICAN REGIONAL ECONOMIC COMMUNITIES

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Towards An African Economic Community: A Performance Evaluation of African Regional Economic Communities

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A word of gratitude for Rokia Aidahis as this work is much of hers as it is mine.

Blessed be God for making it all happen.

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List of Acronyms

ACP	- African Caribbean Pacific
ADB	- African Development Bank
AEC	- African Economic Community
AMU/UMA	- Arab Maghreb Union
ARIA	- Assessing Regional Integration in Africa
AU	- African Union
COMESA	- Common Market for Eastern and Southern Africa
ECCAS	- Economic Community of Central African States
ECOWAS	- Economic Community of West African States
EU	- European Union
FTA	- Free Trade Area
GATT	- General Agreement on Trade and Tariff
IGAD	- Intergovernmental Authority on Development
MFN	- Most Favored Nation
NEPAD	- New Partnership for African Development
OAU	- Organization of African Union
REC	- Regional Economic Community
RTA	- Regional Trading Arrangement
SADC	- Southern African Development Community
SEN-SAD	- Community of Sahel Saharan States
SSA	- Sub Saharan Africa
UNCTAD	- United Nations Conference on Trade and Development
UNECA	- United Nations Economic Commission for Africa
WTO	- World Trade Organization

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Abstract

Regional integration has always been an agenda for the heads of states of African nations, since it is considered as the major step towards an accelerated and sustained development of the continent. This familiar agenda finally succeeded in establishing the African Economic Community (AEC) in 1994 targeting a continent wide unity in a period of 34 years. Seven regional economic communities (RECs) were chosen to be the building blocs of the AEC. A performance evaluation of these RECs conducted in this study showed that ten years after the birth of the AEC no REC has yet to transform itself into a free trade area. Trade liberalization in terms of tariff and non tariff barrier removal, trade facilitation, and macroeconomic policy harmonization programmes are all behind schedule. Intra REC trade progressed little and dependence on trade with third country is still predominant. Fitting the gravity equation with panel data and controlling for country pair heterogeneity, this study confirms that the standard gravity variables; national income, distance and population (as well as explanatory variables such as contiguity, common language and membership to RECs) determine bilateral trade flows in Africa.

CHAPTER ONE

INTRODUCTION

1.1 Background and Statement of the Problem

It was just after independence that African nations gathered together and tried to tackle their common economic problems collectively. Small, fragmented and underdeveloped national markets were too narrow a base for the countries to build their respective nations. Since it is considered as the major step towards an accelerated and sustained development of the continent, regional integration has always been an agenda for the heads of states of African nations. It was this commitment by the African leaders towards cooperation and integration that led to the creation of the Organization of African Unity (OAU) in 1963. They later adopted the Lagos Plan of Action back in 1980 which translated itself into the Abuja Treaty in 1991 establishing the African Economic Community (AEC). The aim of the AEC is to achieve an African economic integration in a period of 34 years. The implementation of the treaty is a process that will be done in 6 stages over the specified period. The AEC treaty was ratified in 1994, and it has now concluded its first decade. The treaty establishing the AEC made it clear that the building blocks of the continent wide community are the Regional Economic Communities (RECs). The first of the six stages of the implementation process is strengthening the existing RECs while the next five stages depend a great deal on the strength and performance of the RECs. It is time, therefore, to ask whether existing African RECs are performing in accordance with the framework of trade driven integration scheme, and trying to achieve the set of goals targeted by the AEC treaty. It is also imperative to question whether the objectives are significant for the continued development of the RECs. What change do we observe after having decades of integration attempts? What is the level of trade, sectoral performance and economic development of the nations after the establishments of the regional communities? Are they on the right track? Are we really going towards an African Economic Community?

Whether or not RECs are serving as "building" or "stumbling" blocks for the multilateral trading system is still a question. The implications of the rules and regulations of the WTO to the regional communities in addition to the challenges they are facing from globalization is another focus point.

Globalization, as it gets momentum through improved information communication technology and greater inclination towards a market economy, is a challenge to African RECs in that it offers opportunities to all competing parties and only those who perform better stand out as winners. Obviously so, the benefits of globalization are very unlikely to accrue to the underdeveloped African nations. Furthermore, the RECs also have to deal with issues concerning the current wave of north-south regional trading arrangements (such as EU-ACP) and donor supported programs (such as NEPAD) which seem to present both opportunities and challenges. The clear implications of all these need to be scrutinized.

1.2 Objectives

This study intends to evaluate the performances the seven African Regional Economic Communities (RECs)[1] in an attempt to see if they are leading the continent towards the intended continent wide economic community, the AEC. In this regard the main objectives of the study are:

- to evaluate the trade performances of the RECs;
- to assess the effects of the RECs, and identify what determines bilateral trade flows within a REC;
- to discuss the challenges faced by the RECs and the opportunities available to them and to indicate what it might take to accelerate the growth of African RECs and lead them to AEC;
- to suggest policy directions that are believed to tackle outstanding problems of the RECs and foster their growth.

1.3 Hypotheses of the study

So far, African integration programs have not helped the continent move towards the intended cooperation and unity. The RECs of Africa are way behind schedule in implementing their respective objectives and, in attaining the targets set by AEC. In terms of trade facilitation, enhancement, growth and harmonization of policies the RECs are not yet on their feet. The bilateral

[1] The seven RECs are UMA, CEN-SAD, COMESA, ECCAS, ECOWAS, IGAD and SADC

intra REC trade flow is more or less the same as the flow registered before the establishments of the communities. Not only are the RECs lagging behind, but they are not also headed in the right direction. This particular study tries to quantitatively show these observable facts. The gravity equation will also be employed to test the hypothesis that intra-REC trade in Africa is determined by the size of the economies and the distance between them.

1.4 Scope and Limitations of the Study

Regional integration is a broad concept which among other things includes trade integration, monetary integration, labor market integration, capital market integration, and inter-governmental authorities. The programs and objectives of RECs (and the AEC as well) also range from trade liberalization among member states to establishing a common military organ for attaining peace and security. This study, however, will be restricted to the trade aspect of regional integration. Availability of relevant data, time, and budget has played a limiting role on the scope and content of the study.

1.5 Road Map

Cut in the general framework highlighted above, this study is designed and organized as follows. Chapter two reviews the existing literature relevant to the issue we raised. Arguments in favor and against regional integration and the role it plays in developing countries' economies will be presented. Institutional, political and legal aspects of African RECs are reviewed in chapter three. Chapter four begins by giving a brief profile on the RECs under study and the AEC; and then proceeds with evaluating the performances of African RECs based on data on trade and some macroeconomic variables obtained from different sources. Outstanding issues in African integration process will also be discussed in this chapter. Empirical assessment will then follow in chapter five using the gravity equation. Data on 28 African countries for 8 years is used for the analysis. Chapter six will wind up the project presenting some conclusions, policy issues and possible recommendations.

CHAPTER TWO

REVIEW OF THE RELATED LITERATURE

Developing countries have been involved in regional integration efforts for almost three decades. Although it often remained open whether regional integration was an instrument or target of policy, views were almost all positive. Voices opposing regional integration were rare, and most politicians argued that 'cooperation', a term often used interchangeably with regionalism, contributed to economic development (Hiemenz, 1991). Today, every nation in Africa is a member of at least one regional integration scheme. In fact, of the 53 African countries, 26 are members of two regional economic communities, and 20 are members of three. One country belongs to four, while only six maintain membership in a single community. The Heads of States of Africa have also signed the Abuja Treaty establishing the African Economic Community (AEC) believing that regional integration will lead to a better development. It is widely believed that "The AEC is the greatest test of Africa's seriousness about itself and its future generation".[2] It is, therefore, time for observing critically where the existing RECs are leading the continent. Quite a number of research projects (for example, AERC's 'Regional Integration and Trade Liberalization in Sub Saharan Africa', and UNECA's policy research reports under the ARIA project) and individual studies have been conducted to analyze and assess the relative importance of regional integration for Africa. A systematic review of these studies is presented below starting with a theoretical framework of regional integration, and proceeding with the particular case of African attempts at regionalism.

2.1 Regional Integration in Economic Theory

2.1.1 Regional Integration

Regional integration, or more crudely regionalism, "is any policy designed to reduce trade barriers between a subset of countries regardless of whether those countries are actually contiguous or even close to each other" (Winters, 1996). Integration aims at abolishing discrimination between local and

[2] A remark made by Dr. Yassin El-Ayouty, in his article 'forging a dynamic OAU partnership for development', published in 1999.

foreign goods, services, and factors. It is a process with at least four stages: free trade area, customs union, common market, and economic integration. In this sequence of stages the first is attained when partner countries remove barriers to trade among each other while each maintains its national tariff against non-member countries (**free trade area**). The second stage, which builds on the first, is the establishment of a common external tariff against non-member countries (**customs union**). Liberalization of the movement of factors of production within the customs union then moves the customs union to the **common market** stage, while harmonization of remaining national economic policies characterizes the fourth stage, the **economic union**. Finally, countries may go for total economic integration with a supranational authority (Balassa, 1962).

2.1.2 Effects of Regional Integration

Trade Effect

The static, partial equilibrium effects of forming a regional bloc are measured in terms of trade creation and trade diversion. **Trade creation** occurs when some domestic production in a nation that is a member of the bloc is replaced by a lower cost imports from another member nation. Assuming that all economic resources are fully employed before and after formation of the bloc, this increases the welfare of member nations because it leads to greater specialization in production based on comparative advantage. A trade-creating regional scheme also increases the welfare of non-members because some of the increase in its real income (due to its greater specialization in production) spills over into increased imports from the rest of the world. **Trade diversion,** on the other hand, occurs when lower cost imports from outside the bloc are replaced by higher cost imports from a member. This is a result of the preferential trade treatment given to member nations (Viner, 1950; Meade, 1955; Lipsey, 1957; Kemp and Wan, 1976; Salvatore, 1990).

Welfare effects[3]

It is argued that trade leads to the most efficient utilization of world resources and thus maximizes world output and welfare. Therefore, prior to Viner's work on customs unions in 1950, it was widely

[3] This section draws substantially on Salvatore (1990), and few other standard International Economics text books.

believed that any movement toward freer trade would also increase welfare. A regional integration scheme is more likely to lead to trade creation and increased welfare the higher are the pre-union trade barriers of member countries, the lower are the bloc's barriers on trade with the rest of the world, the greater the number of countries forming the bloc and the larger their economy is, the more competitive rather than complementary the economies of member nations are, the closer geographically are members of the bloc (then transportation costs represent less of an obstacle to trade creation among members). If there is established pre-union trade and economic relationship among potential members of the customs union, then this will lead to greater opportunities for significant welfare gains as a result of the formation of the customs union.

There are several welfare effects resulting from the formation of a regional bloc, both static and dynamic. One is the administration saving from the elimination of customs officers, border patrols, and so on, for trade among member nations. This benefit arises whether the customs union is trade creating or trade diverting. Second, a trade diverting customs union, by reducing its demand for imports from and its supply of exports to the rest of the world, is likely to lead to an improvement in the collective terms of trade of the customs union (Linder, 1966). Also, any customs union, by acting as a single unit in international trade negotiations, is likely to have much more bargaining power than all of its members separately. Besides the above static welfare effects, the nations forming a regional bloc are likely to receive several important dynamic benefits. These are due to the increased competition, economies of scale, stimulus to investment, and better utilization of economic resources.

The greatest dynamic benefit from the formation of a customs union is the increased competition that is likely to result. That is, in the absence of a customs union, producers (especially those in monopolistic and oligopolistic markets) are likely to grow sluggish and complacent behind trade barriers. But when a customs union is formed and trade barriers among member nations are eliminated, producers in each nation become more efficient to meet the competition of other producers within the union, merge or go out of business. The increased level of competition is also likely to stimulate the development and utilization of new technology. A second possible dynamic effect from the formation of a customs union is that *economies of scale* are likely to result from the enlarged market. However, it must be pointed out that even a small nation that is not a member of any customs union can overcome the smallness of its domestic market and achieve substantial

economies of scale in production by exporting to the rest of the world. Another possible benefit is the stimulus to investment to take advantage of the enlarged market and to meet the increased competition. Furthermore, the formation of a customs union is likely to spur outsiders to set up production facilities within the customs union to avoid the (discriminatory) trade barriers imposed on non-union products. These are the so-called *tariff factories*. Finally, in a customs union that is also a common market; the free community-wide movement of labor and capital is likely to result in better utilization of the economic resources of the entire community (Salvatore, 1990).

Speaking a different tone, preferences (and rules of origin) in regional trade agreements can potentially divert trade away from more efficient producers in non- member countries (Bhagwati and Panagariya, 1996; Yeats, 1996; Delvin and Castro, 2002). Krugman (1993) developed a model showing that regional integration is trade diverting due to the higher external tariff members levy. Some trade diversion, however, is inevitable in preferential arrangements, which has costs for domestic consumers and non-members (Delvin and Castro, 2002). This must be weighed against trade creation and the potential for the trade diversion to evolve into cost-reducing and welfare enhancing dynamic transformation effects (Corden, 1972; Ffrench-Davis, 1980). It is also argued that "North-South" regional trading arrangements pose less risks of trade diversion than "South-South" arrangements (Venables, 2002).

Economic Benefits

Policy makers in developing countries and many scholars dealing with issues of regional integration among developing countries dismissed the Vinerian theory of trade creation and trade diversion as irrelevant for the conditions prevailing in Third World countries (for example, idle capacities). They viewed intraregional trade expansion as beneficial in itself and even advocated trade diversion (Linder, 1966 and Jabber, 1970). Their arguments were in large part based on an assumed positive effect of infant industry protection in a regional union on quality control, marketing techniques, and other prerequisites for success on world markets. It is argued that (Morawetz, 1974) intraregional trade expansion can promote intra industrial specialization through product diversification and thus may improve the competitiveness of extra regional exports.

There are opposing arguments, however, saying that the cost of regional integration can go beyond the widely argued trade diversion effect. This cost comes in the form of redistribution when in the

presence of serious asymmetries in the average tariff levels between partners of an economic integration agreement the loss of tariff revenue in the high tariff country can have a serious redistributive impact between partners (Panagariya, 1996). Counter arguments say that part of the tariff lost as a result of regionalism goes to domestic producers in the form of profits.

To the extent that the small size of domestic markets limits economic growth, regional integration is seen as a means of boosting growth by increasing market size. Also, reducing the costs of investment per unit of output has often been mentioned as an important benefit of regional integration among developing countries (Hiemenz, 1991). When domestic markets proved to be too small to allow for industrialization based on efficient import substitution, countries viewed the formation of a regional market as a way out of their impasse. In economic terms, developing countries that regard industrialization as a rational social choice were willing to bear the costs of the income forgone by not importing from the cheapest available source or by specializing in activities in which they have no comparative advantage. So for any country entering a regional economic group, the greater its social preference for industrialization; the less important the Vinerian welfare-reducing effect of trade diversion (Johnson, 1967).

Another threat posed by regional integration on participating nations is the danger of benefit polarization. In the absence of corrective mechanisms, the benefits of regional integration are often asymmetrically distributed among partners with concentration in some partners, while others are dependent on uncertain spillovers (Delvin and Castro, 2002; Puga and Venables, 1997).

Third parties could also be harmed by the formation of regional integration. An explosion of economic integration agreements with preferences creates a "spaghetti bowl" of different trade and investment rules which reduce transparency and raise administrative costs in world trade (Wonnacott and Wonnacott, 1995). In terms of foreign direct investment, while enlarged regional markets and preferences can attract FDI, they potentially could divert it from more efficient locations (Winters, 1997). Winters (2001) further argues that the emergence of agreements can create a "gang effect" which leaves outside countries with little option but to join the agreement, and hence regional integration could distract attention from, and hence weaken, the multilateral trading system.

Benefits deriving from a reduction in the external vulnerability of developing countries have been considered mainly for countries that are dependent on commodity exports (UNCTAD, 1969). For countries, it was hypothesized that regional integration would foster structural changes in production from primary to the secondary sector, especially toward manufactured exports. The erratic price fluctuations common to commodity markets would then wreak less havoc on the import capacity and prevailing activities of the countries concerned (Hiemenz, 1991).

Old and New Regionalism

Recent literature on regional integration distinguishes between different degrees of integration (Burfisher et al, 2003; Delvin and Estevadeordal, 2001; Ethier, 1998). These degrees of integration range from "shallow" to "deep". The former goes only as far as the reduction of barriers to commodity trade, while the later further incorporates harmonization of national policies and free mobility of factors of production. The central element of the old regionalism theory (shallow regionalism) is the customs union concept as developed by Viner (1950), Meade (1955), and Kemp and Wan (1976). In the words of Delvin and Castro (2002) "the big defining difference between the New Regionalism and earlier Post-War experiences was the policy environment. The policy framework encircling the "old" Post-War regionalism in developing countries involved an inward-looking and protectionist/state- led import substitution strategy (often in the context of authoritarian regimes). Meanwhile, the New Regionalism is inserted into a framework of policy reform that promotes open and competitive private market-based economies in a modern democratic institutional setting. Indeed, the New Regionalism is an extension of that very policy reform process".

New regionalism involves the characteristics of that of the deepest form of integration. Among many such characteristics few are; establishment of investment protocols and protections, harmonizing macroeconomic policies including fiscal and monetary policies, improving regional communication levels and establishing regional institutions such as development banks, harmonizing legal regulations, and monetary union (Burfisher et al, 2003).

2.1.3 Regional Integration in the Global Trading Context

Regionalism versus Multilateralism

Following the famous question whether regional integration schemes are "building" or "stumbling" blocks to the multilateral trading arrangement by Bhagwati (1991) subsequent studies have been proliferating in the area of regionalism versus multilateralism. Winters (1996) defined multilateralism as a positive function of the degree to which discrimination is absent and the extent to which the country's trading regime approximates free trade. The general argument is that regionalism may foster multilateralism by going beyond the narrow issues of trade and global welfare, to include measures to promote foreign investment, human capital and technological development; infrastructure development, efficient exploitation of natural resources and effective response to environmental challenges (ECA, 2000). Regionalism could also act as an agency of restraint that locks in welfare enhancing trade reforms; or could create larger political-economic units that can bargain more effectively in international forums. Regionalism builds pro-export constituencies to counter domestic protectionist constituencies, and also encourage increased competition in domestic markets leading to lower prices and better quality products that are more competitive in global markets. Regionalism may also impede multilateralism in many regards. Encouraging incentives to protect domestic industries, manipulating the integration process by special interest groups; and diverting scarce resources away from multilateral efforts are few of the channels through which regionalism hurts multilateralism.

The story, however, could be reversed and seen from the context of regionalism. Multilateralism could also stand in the way of regionalism by "diverting policymakers' attention away from regional issues that need to be addressed on the road to globalization, or by hurriedly introducing issues for decision by African governments before the most beneficial African regional positions have been determined and support for them canvassed" (ECA, 2000: 2).

It is theoretically viable that regionalism enhances the economic welfare of the integrating partners. However, the important question is whether it sets up forces which encourage or discourage evolution towards globally freer trade. Winters (1996) in his exhaustive survey of the subject, remarks that the answer is "we don't know yet."

Views that support the idea that regional schemes are stumbling blocks for multilateralism argue that regional trade blocks significantly impede the functioning of a non-discriminatory multilateral trading system and the ultimate goal of free trade. Grossman and Helpman (1990) showed that sector specific lobbies are a threat in the presence of regionalism because trade diversion sounds good politically though it is detrimental economically. If sector specific lobbies exist, then multilateral liberalism could freeze because producers get most of what they seek from regional arrangements. In support of the building blocks view there are arguments that regionalism is welfare enhancing and trade creating, the higher are the pre-union trade barriers of member countries, the lower are the customs union's barriers on trade with the rest of the world, and the closer geographically are members of the customs union.

Bhagwati and Panagariya (1996) postulated that the longer-term impacts of regional trading schemes depend on the interactions of countries that do not belong to the same regional blocs. And depending on this force, they can follow either an 'expansionary path' or a 'stagnant path' to global free trade. Baldwin (1995) introduces the "domino effect" to explain the proliferation of regional trade blocs. Regional trading blocs produce gains from freer trade for members. Thus, exporters in nonmember countries will push their governments to seek membership of existing blocs or negotiate new regional trading arrangements in order to counteract the potential damage caused by the preferential trade liberalization. This enlargement triggers the domino effect, which can increase either the number of regional blocs or the membership size of existing schemes (Lee et al, 2004).

Bergsten (2001) also observes that the demonstration effect of significant payoffs coming from regional blocs makes broader membership possible. Bergsten (2001) and Lamy (2002) also argue that regional trading schemes promote "best practice," and thus improve multilateral outcomes. Furthermore, Summers (1991) and Laird (1999) argue that the smaller number of participants and more simplified management process under regional arrangements tend to reduce negotiation costs and therefore increase efficiency gains.

On the other hand, according to Lee, Park and Sheen (2004), some skeptics of regionalism emphasize the significant trade diversion effect of regional trading blocs caused by the discriminatory nature of trade barriers between members and nonmembers. They consider regional arrangements primarily as a protectionist strategy to impede further multilateral liberalization.

Winters (1996) asserts that regional trading arrangements can be a false insurance distracting a country's movement toward bigger free trade blocs. Freund (2000) also emphasizes first-mover advantages, which may act against expansion of the existing blocs. If sunk costs such as distribution network costs of trade are incurred at the entrance, incumbent members pay lower marginal costs than new entrants because the former pay only the production cost. While the first-mover advantages initially provide incentives to join the membership as quickly as possible, eventually nonmembers will have lower incentives to follow.

Bhagwati et al. (1998) and Panagariya (1999) introduce the concept of the "spaghetti bowl phenomenon" to explain the harmful effect caused by the multiple and complicated rules of origin in regional schemes, particularly from overlapping membership. The rules of origin are often used as a direct or indirect instrument of protection (Falvey and Reed, 2002). Several recent papers including Cadot et al. (2002) and Augier et al. (2004) provide evidence that restrictive rules of origin do indeed curtail the trade creation from regional trading schemes. In addition, severe non-tariff barriers and very high tariff barriers remaining in specific industries such as agriculture are other sources of trade diversion. Panagariya (1999) also suggests that members of existing blocs have an incentive to block new entrants if the size of the bloc reaches a certain level. These entry barriers render the "domino effect" less likely and more ineffective. However, it is still a debatable question whether overlapping schemes have mitigating effects on global trade or not. Regional blocs can internalize negative externalities such as the "spaghetti bowl phenomenon" by limiting the number of players and providing more opportunities for learning processes than multilateral trade negotiations can (Lee et al, 2004).

Despite their significantly increasing number, only few regional trading schemes formed among developing countries have effectively achieved their primary objectives. Almost all such schemes are working behind schedule. Observing this slow progress many have concluded that significant economic advantages from integration have not yet been reaped in terms of export diversification, increased international competitiveness, more efficient allocation of resources, or significant stimulation of production and investment (Cernat, 2003; Yeats, 1998; Foroutan, 1993).

Winters (1996) have compiled most of the empirical literature on the argument. According to Winters' survey of the subject, the topic can be split into four major classes of models, namely

symmetric models, asymmetric models, models of negotiated tariffs and models of political economy. In his conclusion, Winters remarked that the direct effect of regionalism on multilateralism is important, but possibly more so is the indirect effect it has by changing the ways in which (groups of) countries interact and respond to shocks in the world economy. Regionalism, by allowing stronger internalization of the gains from trade de-restriction, seems likely to be able to facilitate freer trade in highly restrictive circumstances or sectors. The possibility of regionalism probably increases the risks of catastrophe in the trade system. Regionalism is a means to bring trade partners to the multilateral negotiating table, because it is essentially coercive. This may have been an effective strategy, but it is risky.

2.2 Empirical Literature

2.2.1 Measuring progress on integration

For many years, the general belief was that any economic integration that represents a movement towards freer trade should therefore be beneficial and welfare-enhancing. This opinion was only challenged in 1950 when Jacob Viner demonstrated that the net impact of a regional trade agreement on welfare is uncertain and depends on a number of economic conditions. Following Viner's seminal work (Viner, 1950), subsequent literature on the subject opened up new ground by advancing the idea that the net welfare effects resulting from the formation of a regional bloc are ambiguous (Cernat, 2003).

Using a simple partial equilibrium model of analysis assuming perfect competition, a regional trading bloc will increase the level of trade between members by diverting away trade from less efficient domestic producers *(trade creation)* but also of more efficient non member third countries *(trade diversion)*. The net effect of the two, however, depends on their relative size. It is, therefore, possible to conclude that the issue of the net effect of regional blocs on the welfare of the member countries and on the world economy is an empirical one.

There have been numerous studies analyzing the economic effects of regional schemes. Empirical researches are based on two distinct methodologies. One relies on a simulation approach based on global general equilibrium models to analyze the economic effects of policy changes due to the

formation of a regional bloc. The other method applies econometric approaches to historical trade data and assesses the impacts of the formation of a regional trading scheme on bilateral trade flows. The simulation approach uses a static computable general equilibrium (CGE) model or a dynamic inter temporal general equilibrium model. The models specify economic structures and behavior of agents in detail and, using the framework, simulate the economic effects of existing or proposed regional blocs. Simulations based on the general equilibrium models usually find substantial potential gains from trade liberalization between members of an RTA.[4]

CGE Modeling

In recent years computable general equilibrium (CGE) models have become one of the most widely applied tools for the analysis of policies and shocks that appear in the economy. Trade policies have also benefited from applied CGE modeling in the literature (Whalley, 1984; Francois and Shiells, 1994). Though they are more complex approach than other models, CGE models take into account all inter sectoral and international linkages that are affected by changes in trade policies as a result of RTA formation (Cernat, 2003; Vaittinen, 2004).

The use of CGE models is best suited to estimate *ex-ante* the likely impact of an RTA (Francois and Shiells, 1994). Because of the complex nature of RTAs and the interplay between a large array of variables incorporated in these models, CGE models are well suited to analyzing the likely consequences of envisaged RTAs. Recent multi-country CGE models incorporate detailed input-output databases about domestic variables on consumption, savings and production disaggregated at sector and country level. These models also work out the inter-country linkages involved in international trade. Trade data are combined with protection and transportation costs to simulate these fundamental international linkages across countries and regions at sectoral level (Cernat, 2003).

Dixon and Parmenter (1996) quoted in Vaittinen, 2004 described some distinguishing characteristics of CGE models. According to the authors, CGE models include explicit specifications of the behavior of several economic actors. Through the use of optimizing assumptions they emphasize

[4] For example, According to the summary by Lee and Park (2004), Brown, Deardorff, and Stern (1992) estimate that NAFTA has increased intra-region trade by 8.0 per cent from the baseline, and has led to a welfare gain of 0.1 per cent of GDP for the United States and 5.0 per cent of GDP for Mexico. Scollay and Gilbert (2001) estimate that a Japan-Korea-China FTA will generate welfare gains of 0.25 per cent of GDP for Japan, 0.80 per cent of GDP for Korea, and 2.1 per cent of GDP for China.

the role of commodity and factor prices in influencing consumption and production decisions by households and firms. CGE models also describe how demand and supply decisions made by different economic agents determine the prices of at least some commodities and factors by emphasizing market equilibrium assumptions. The models provide numerical results as well; that is, they are computable. The coefficients and parameters in their equations are evaluated by reference to a numerical data base (Vaittinen, 2004).

Robinson and Thierfelder (1999)[5] review theoretical and empirical models of RTAs and summarize 'a few robust conclusions' from empirical surveys of CGE model analysis. They suggest that empirical evidence of proliferating RTAs strongly supports positive welfare effect of RTAs on members measured in terms of real GDP or equivalent variation and net trade creation effect. On the other hand, Panagariya and Dutta-Gupta (2001) criticize that the 'few robust conclusions' in Robinson and Thierfelder (1999) are drawn by internally inconsistent assumptions and questionable values of key parameters.

With carefully considering caveats about CGE models, Lloyd and MacLaren (2003) suggest that there exist positive welfare and net trade creating effects of RTAs on members, while the effects on nonmembers are negative and tend to increase with the size of the RTA. However, as increased trade between member countries induces the expansion of market size, RTAs can provide non-member countries with the opportunities to exploit the large market too. The simulation approaches are useful in specifying the mechanism by which the formation of an RTA translates into improvements of the economy. However, in these general equilibrium model-based studies, it is unclear whether the member economies ultimately realize the potential effects (Lee and Park, 2004).

The Gravity Approach[6]

From a methodological point of view, gravity theory can be considered as a relational theory, which describes the degree of spatial interaction between two or more points in a manner analogous to physical phenomena (Paas, 2002). Classical gravity theory states that the attraction force a_{ij} between two entities i and j is proportional to their respective masses m_i and m_j and inversely proportional to the squared distance d_{ij}^2 between these entities. Gravity theory has primarily been centered on in the

[5] This review is based on Lee and Park (2004)
[6] The mathematical specification of the gravity equation will be discussed in section 1 of chapter 4.

fields where a distance plays a significant role. And it has proven to be useful in describing social phenomena in space such as population migration, flow of goods, money, and information; traffic movement and tourist travel, as well as a variety of policy issues, such as political blocs, patent rights, regional trading groups and various trade distortions (Paas, 2002; Cernat, 2003).

The gravity model as applied to examine international trade flow is also analogous to Newton's law, relating the gravity between two objects to their masses and the distance between them. According to the gravity approach, bilateral trade between two regions (countries) is directly related to their incomes (as measured by GDP, GNP) and inversely related to the distance between them.

Until recently (i.e., prior to the application of CGE models for regional analysis), the gravity model had to a large extent become the *workhorse* of studies on regionalism (Bayoumi and Eichengreen, 1997). There has been widespread use of gravity equations in estimating the trade effects arising from regional bloc formation, despite the fact that they are often perceived as lacking a strong theoretical basis. Some authors claim that most early papers using gravity models were ad hoc rather than being based on theoretical foundations (Deardorff, 1984). Despite its use in many early studies of international trade (Tinbergen, 1962; Poyhonen, 1963 and Linnemann, 1966), the equation was considered suspect in that it could not easily be shown to be consistent with the dominant Heckscher-Ohlin model explaining net trade flows in terms of differential factor endowments (Cernat, 2003).

The gravity approach was first used to model international trade flows by Tinbergen (1962);[7] and subsequently by Poyhonen (1963) and Linnemann (1966). Linnemann added more variables and went further toward a theoretical justification in terms of Walrasian general equilibrium system. He pointed out that, when considering the theoretical aspects of a gravity model for trade, there are three main factors to be considered: 1) the total potential supply (or exports) of a country to the world market; 2) the total potential demand (or imports) of a country from the world market; 3) those factors that create resistance to trade and thus affect the degree of trade intensity. These include ordinarily tariff barriers, transportation costs, common language and border, landlockdness, etc.

[7] This review is mainly based on the work of Paas (2002)

There are several theoretical foundations of the gravity model (Anderson, 1979; Bergstrand, 1985, 1989 and 1990; Helpman and Krugman, 1985, Helpman, 1987; Deadorff, 1995 and 1998; Feenstra, Markusen and Rose, 1998). Anderson (1979) presented a theoretical foundation of the gravity model based on constant elasticity of substitution (CES) preferences and goods that are differentiated by region of origin. He showed that the gravity model could be derived from expenditure share equations, assuming commodities to be distinguished by place of production. Anderson also showed that the model should also, to be fully consistent with the generalized expenditure share model, include distance measures in bilateral share equations. Subsequent extensions (Bergstrand, 1989 and 1990; Deadorff, 1998) have preserved the CES preference structure and added monopolistic competition and/or a Heckscher-Ohlin structure to explain specialization. Based on these extensions, Anderson and Wincoop (2001) derived an operational gravity model with a rather simple form. They derived the decomposition of trade resistance into three intuitive components: 1) the bilateral trade barrier between region *i* and *j*, 2) *i*'s resistance to trade with all regions, and 3) *j*'s resistance to trade with all regions. Analyzing various approaches to theoretical foundations of gravity equations, Evenett and Keller (1998, p. 1) summarized three types of trade models, which differ in the way product specialization is obtained in equilibrium:

1) Technology differences across countries;
2) Variations in terms of countries' differing factor endowments;
3) Increasing returns at the firm level.

However, in reality, both technologies and factor endowments differ over time and across countries; allowing them to be transferable between countries. Trade theory only explains why countries may trade in different products, but does not explain why some countries' trade links are stronger than others and why the level of trade between countries tends to increase over time. This emphasizes the limited applicability of trade theory in explaining the size of trade flows. Therefore, while trade theory can explain why trade occurs, it cannot explain the extent of trade, whereas the gravity model allows taking into account more factors for explaining the extent of trade as an aspect of international trade flows (Paas, 2002).

In the appreciative words of Eichengreen and Irwin (1998, pp. 33-34) the state of theoretical foundations for the gravity model is:

> "Where there is no close correspondence between the leading theoretical models of trade and the variables appearing in the gravity equation, a number of authors have suggested that the gravity-model framework is compatible both with the Heckscher-Ohlin model and with theories of trade in the presence of imperfect competition. The attraction of the gravity model (no pun intended) is not simply lack of theoretical incompatibility, of course, but its ability to explain the variation in bilateral trade flows across a wide variety of countries and periods. Few aggregate economic relationships are as robust."

Empirical results obtained by application of the gravity approach to explain international trade patterns allow us to conclude that despite its simplicity, the gravity model explains the actual pattern of trade flows remarkably well. In terms of explanatory power gravity equations do remarkably well with R^2 ranging from 70% to 95%. The gravity model of international trade has a remarkably consistent history of success as an empirical tool. The elasticities of trade with respect to both income and distance are consistently high, signed correctly and statistically significant in an equation that explains a reasonable proportion of the cross-country variation in trade. It is to be noted however, that, in analyzing trade between country A and B, the gravity model makes no provision for third party effects i.e. the model does not take into account the conditions and opportunities that prevail between A and C and B and C (Batra, 2004). The advantage of the gravity model is that it needs comparatively little data, and internationally comparable data for the construction of a gravity model are usually available (Paas, 2002).

Recently, it is criticized that the use of conventional cross-section estimation is miss specified since it is not able to deal with bilateral (exporter and/or importer) heterogeneity, which is extremely likely to be present in bilateral trade flows. In this regard a panel-based approach will be desired because heterogeneity issues can be modeled by including country-pair "individual" effects. In particular, Matyas (1997) argues that the correct econometric specification should be the so-called "triple-way model", where time, exporter and importer effects are specified as fixed and unobservable. But, Egger and Pfaffermayr (2002) demonstrate that when the Matays' triple-way model is extended to include bilateral trade interaction effects, then this three-way specification reduces to a conventional two-way model with time and bilateral effects only. Although a number of panel estimation techniques such as the pooled OLS, the Fixed Effects Model, and the Random Effects Model have been applied in various contexts, the assumption that unobserved individual effects are uncorrelated

with all the regressors is convincingly rejected in almost all studies. Therefore, the Fixed Effects estimation has been the most preferred estimation method in order to avoid the potentially biased estimation, e.g. Cheng and Wall (2002).

However, it is worth noting that the Fixed Effects approach does not allow for estimating coefficients on time invariant variables such as distance or common language dummies, though the consistent estimation of such effects are equally important in many situations. Cheng and Wall (2002) simply suggest estimating the regression of the (estimated) individual effects on individual-specific variables by the OLS, though this approach clearly ignores the potential correlation between individual specific variables and (unobserved) individual effects such that the resulting estimates are likely to be severely biased. In order to properly address this issue Serlenga and Sheen (2004) suggested employing the Hausman and Taylor (1981) instrumental variable estimation technique. Most recent empirical studies also emphasize the importance of explicitly allowing for the presence of time specific effects in order to capture business cycle effects or to deal with globalization issues.

2.2.2 Performance Evaluation of Regional Economic Communities

The primary objectives of establishing the regional blocs were the desire to overcome the economic disadvantages of fragmentation, in addition to the ultimate political objective of continental unity. The fundamental development constraints of the continent include small size of the economies, lack of structural complementarities as manifested in the narrow set of similar, low-value primary export products and basic minerals; and, dependence on import of intermediate and final goods. Regional integration was viewed as offering opportunities of expanded economic space for factors of production, industrial production and trade leading to market expansion, economies of scale and diversification of the economic base (Delvin and Castro, 2002).

However, all the empirical literature on the performance of African regional integration seems to have reached to one consensus: the anticipated benefits of regional integration have eluded the continent. Assessments of Africa's experience of regional integration over the past three decades imply that the process has proceeded weakly and unsteadily across sectors, countries, and regional economic communities (ECA, 2004).

Yeats (1999) compiled a database that reveals several interesting stylized facts. The first fact the empirical evidence shows is that trade among Sub-Saharan African countries accounts for only 12% of total SSA exports. Equally important figure is that SSA total exports are only 1 % of global exports; so this is a very small number. Furthermore, the major established regional arrangements have not contributed to this increase as their share of intra-SSA trade was at best static and in some cases has even declined over the sample period (a policy research paper of the African Development Bank strengthens this finding: trade within UDEAC declined from 2.9 percent to 2.1 percent; or the ECOWAS sub-region, the percentage fluctuated from 5.2 percent in 1985 to 8.3 percent in 1990 and to 7.2 in 1992 (ADB, 2000)). We can conclude that established regional economic groups have not had a significant impact on intra-SSA trade.

The second fact revealed by Yeats (1999) is that intra-SSA exports are highly concentrated. Five countries dominate intra-SSA trade; Cote d'Ivoire, Nigeria, Kenya, Zimbabwe and Ghana. Cote d'Ivoire accounts for a quarter of all intra-SSA exports, Nigeria originates 20 %, Kenya and Zimbabwe originate 9% each. The story is fairly the same regarding imports as well. Cote d'Ivoire is again the leader but there is relatively less concentration. While only 5 countries accounted for 75% of exports, 16 countries account for a similar share of imports. Furthermore, the importance of intra-SSA trade varies widely across countries. It accounts for less than 2 percent of Kenya's imports but it accounts for over 50 percent of Seychelles imports. Such wide differences indicate that tariff revenue losses associated with regional trading arrangements could fall very unevenly on participating countries. Very little or no trade occurs between countries that are geographically distant, say Nigeria and Tanzania (Yeats, 1999).

Concerning the commodity composition of intra African trade, minerals and fuels provide the largest share. In contrast, intra-SSA trade in machinery and transport equipment accounts for less than 4 % of this exchange as opposed to 75% of SSA imports from the rest of the world. In other words SSA relies more on imports from the rest of the world. Just a few primary commodities are of key importance in intra-SSA trade. These primary commodities are foods and feeds. Opportunities for expanded intra-SSA trade in these goods should be investigated because it appears that many African countries have a comparative advantage in these products (Yeats, 1999; ECA, 2000).

Even though recent theoretical and empirical analyses makes it clear that a high level of intra industry trade plays an important positive role in many parts of the world, the available data shows that almost no intra-industry trade occurs among SSA countries. A comparison of intra-industry ratios in SSA shows that out of the 16 countries for which there is data; five countries (Angola, Ethiopia, Mali, Nigeria and Seychelles) report that no such exchange exists. Kenya records the highest intra-industry ratio (0.052) but this is still less than one-tenth of Mexico and the USA or Argentina and Brazil. Cross-country production sharing (which is a type of intra-industry trade) assists participating countries more fully integrate into global and regional markets. Production sharing involves the initiation of a manufacturing process for a specific good in one country and transfer of the activity to another for further processing. Such type of trade hardly exists in Sub-Saharan Africa (Yeats, 1999; ECA, 2000).

Foroutan and Pritchett (1993), however, have a different perspective about the small intra African trade illustrated by Yeats (1999). According to their finding intra African trade is not lower than what one should expect it to be. The authors used the gravity model to fit the trade data of 19 SSA countries and tested the hypothesis that intra-SSA trade is too low. They proceeded by comparing the actual trade data to the trade predicted for the region by combining estimates of the simulated gravity model coefficients with SSA data for the independent variables. The results they found suggest that the low share of intra-SSA trade is more than fully accounted for by the fact that SSA countries' natural trading partners (those that are close) are very poor and small offering very little trade potential. If SSA's total non-oil exports were only 1% of total world non-oil export, then the share of a given SSA country's export will only be 1% (assuming that SSA trade will be proportional to world trade). The gravity model predicted this same trade to be 3.5% on average to account for proximity, common border, and other similar factors. After accounting for trade potential and trade attraction, the discrepancy between Africa's predicted intra-regional trade and actual trade is very small (Faroutan and Pritchett, 1993).

Using the gravity equation as a basic tool a few more studies have also been conducted on SSA. One such study is Elbadawi (1997) in which the author applied an extended gravity model to evaluate the regional schemes in SSA and some other selected countries whose percapita income is closer to that of SSA for comparison purpose. He drew some fundamental conclusions from his analysis. One of these findings is that the experience of regional integration in SSA has by and large been a failure.

However, Elbadawi reported, the African experience is not unique as there are parallels to it in other developing regions (namely Latin America). The conclusion remains to hold even after controlling for key policy variables such as exchange rate variability and overvaluation in addition to the traditional trade flow determinants such as economy size and proximity. It is possible to conclude that the failures of these schemes can be attributed to their own characteristics and the constraints they face (Elbadawi, 1997).

Using the same econometric measure Alemayehu and Haile (2002) reached to a similar conclusion and; identified what they think are the most important constraints and characteristics. Issues of complementarity which are the result of similar economic stage and export commodity composition of member countries; revenue loss following tariff reductions (since most African governments depend on tariff revenue); overlapping membership, lack of political commitment, lack of macroeconomic policy harmonization, and limited private sector participation are the most pressing outstanding issues concerning the fate of African regional schemes (Alemayehu and Haile, 2002).

Cernat (2001, 2003) came up with a somewhat different result which he calls "the African puzzle". Evaluating some selected regional trading arrangements (RTAs) – ECOWAS, COMESA, and SADC from Africa – using the gravity model, he found out that all the three African RTAs are trade creating. Through-out the study period (1994 -1998) intra-RTA trade increased more than trade with non-members, as a result of RTA formation. These estimates, however, are in contrast to the widespread theoretical considerations and expectations that South-South RTAs between two or more poor countries is very likely to generate trade diversion, especially when external tariffs are high (World Bank 2000a: 42 as quoted by Cernat, 2001). Several other authors share this idea. Yeats (1999) looked at detailed trade data from Sub-Saharan Africa and concluded that, judged by the variance in their trade patterns from what current comparative advantage would predict intra-regional trade has potential adverse effects on members and on third countries. Arguing from a rather different perspective, Park (1995) states that the smaller the intra-regional shares in total trade, the more likely the trading blocs would become trade diverting (Cernat, 2001).

In his attempt to solve the puzzle, Cernat (2001) adopted the argument by Kemp and Wan which states that for any proposed customs union or free trade area there exists a set of common external tariffs that would leave the new trading bloc's trade with non-member countries unchanged, so that

the welfare of the latter countries would not be affected and any improvement to the welfare of the integrating countries would strictly add to world welfare. What is more likely to explain the absence of trade diversion is the fact that many of the South-South RTAs examined have not been able to fully implement the intra-RTA tariff elimination schedules proposed. This implementation failure, however, may explain why trade diversion did not occur, but not why there exists an increase in imports from third countries, or an increase in intra-regional trade.

In all the above reviewed studies which applied the gravity model as a methodological yardstick, the attempt was to explain what determines the bilateral flow of intra regional bloc trade and to see the trade creating diverting effects thereof. None of the studies, however, tried to evaluate the performances of the regional schemes vis-à-vis their respective objectives and conventions. In this regard, ECA (2004) did a thorough compilation of policy research on which a detailed sectoral and overall analysis of 14 African regional schemes is undertaken.

What is unique about this study is that the evaluations are done based on indicators to measure progress for each sector, for each regional economic community, and for all of Africa. An important part of the analysis involved compiling indicators of integration for each sector. This exercise produced a comprehensive list of indicators - quantitative measures of the effects that various activities, policy measures, and programs have on regional integration in Africa. The indicators measure the integration of each sector and should not be confused with the sectoral macroeconomic indicators used in aggregate economic analysis. The indices are intended to facilitate comparisons of outcomes and performance based on common denominators. The indices help identify and explain reasons for progress on the stated goals of the regional economic communities; assess the overall trends of regional integration in Africa, and also compare efforts and results among member states and regional economic communities (ECA, 2004).

On the basis of the integration indices, Africa's regional economic communities can be placed into five groups based on their performance measured in terms of average growth in integration indices in 1994–99: Above-average (6% and higher)—UEMOA, ECOWAS, and SADC; average (between 4% and 6%)—CEMAC, CEN-SAD, and ECCAS; close to average (between 2% and 4%)—EAC, IGAD, and COMESA; stagnant (2% and lower)—UMA; and volatile (erratic returns)—CEPGL, IOC, and MRU (ECA, 2004).

2.3 Summing Up

The review of the related literature presented in the previous sections makes few points clear. First, only few studies have been conducted to thoroughly assess the regional economic blocs of the continent (ECA, 2004; Oyejide et al, 1997). Most other studies focus either on case study of a particular regional scheme, or limit themselves to the analysis of the trade effects of the blocs. To the author's limited knowledge no study is made on the performance evaluation of African RECs using both descriptive and econometric approaches to determine what impacts intra regional trade as well as how the regional blocs performed according to their objectives. The only study that did a thorough performance evaluation of all African RECs is the one done by UNECA (ECA, 2004). The study developed measuring indices that facilitate comparisons of outcomes and performances against set objectives. One limitation of the study is that it only covered five years in its analysis (1994-1999). As a result it was not able to compare the situations that existed before the establishments of the RECs and their impact and contribution after establishment.

Methodology wise, quite a limited number of papers were produced using the gravity approach. None, however, applied panel data set to fit their respective models. This particular study is unique in that it starts by evaluating the trade performances of the RECs using data for a period covering few years before the establishments of each REC up to present date. The paper will then proceed with empirically testing what determines intra REC trade, and observing the trade effects thereof using a panel data set and estimating both the standard pooled cross section model and the fixed effects model. The paper will also discuss the objectives, conventions and achievements of each REC and try to evaluate if the RECs are going in the direction of their ultimate goal- the African Economic Community (AEC).

CHAPTER THREE

INSTITUTIONAL, POLITICAL, AND LEGAL ASPECTS OF REGIONAL INTEGRATION IN AFRICA

Institutional Aspects

One of the daunting tasks of regional trading arrangements is ensuring the sustainability of the arrangement. While the economic outcomes of a regional scheme will be the most important factors in determining its long-run viability, aspects of its institutional design can be a facilitating factor. The success of developmental strategies greatly depends on institutional development. A closer look at the integration process in Africa reveals that the institutional framework has been hampered and contributed very little to the continent's integration attempt. Mathews (2003) identifies three important areas where institutional issues are pressing in the design and implementation of regional integration schemes. These areas are (i) the extent to which countries are prepared to commit to sharing sovereignty in the policy areas covered by the regional blocs; (ii) the scope of regional integration and the role of regional public goods; (iii) factors likely to enhance the sustainability of regional trading arrangements over time.

Africa's regional integration institutions are the regional economic communities. These communities are in most instances weak and performing below their potential. Reasons why are plenty; among which are poor funding of the communities by member states, lack of supranational authority, to enforce commonly agreed decisions, poor staffing and lack of programmatic visibility.

Political Aspects

While regional integration arrangements are often evaluated in purely economic terms, integration may be pursued for explicitly political motives. Mathews (2003) argues that, although it is now almost taken for granted that trade integration is one of the main benefits sought by countries entering regional integration arrangements it is hard to explain the growth of interest in regional integration based on trade motives alone given that tariff levels in most regions have been falling and are now at relatively low levels. Trade may well be secondary to political or security objectives or

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a tool rather than an objective: it is difficult to find any groups which have only a strictly trade agenda. Even if political motives are not uppermost, political will is a crucial ingredient in the integration process and, in its absence, little progress will be made. At the same time, economic integration can have political consequences, as when it contributes to stabilizing a political regime or enhancing regional peace and security. On the other hand, the experience of unsuccessful integration may cause discord and even provoke the breakdown of relations between participants (Mathews, 2003).

Legal Aspects

The ultimate goal of regional integration in Africa is converging to one continent wide scheme, namely the African Economic Community (AEC). The AEC adopted a trade driven economic integration model with successive steps leading to complete economic union. Whether regional blocs have favored or conflicted with the mutual development of the multilateral trading system, that is, whether they have functioned as 'building blocks' or 'stumbling blocks' in respect of the multilateral process, has been heavily debated in recent years.

Those concerned with the negative effects of the trend towards regionalism stress its potential to fragment the multilateral trading system into a number of closed, competing blocs. As these blocs expand, so does their market power and thus the incentive to influence the terms of trade in their favor, providing an incentive to use trade policy to restrict imports. This argument assumes that the trade blocs are customs unions and have a common trade policy, when in fact the emerging continental blocs tend to take the form of free trade areas (FTAs). Also, there is no evidence to date to suggest regional blocs have pursued this incentive to raise external barriers (Mathews, 2003).

Regionalism also has a tendency to beget regionalism as outsiders attempt to minimize the costs of trade diversion by becoming insiders. This has given rise to the new phenomenon of overlapping regional trading arrangements which increase their complexity and their relationship with the multilateral trading system. One highlighted issue is the negative effects on trade of differing rules of origin, and the way in which rules of origin can be designed to have a protectionist impact. There is also the danger that, as countries pursue deeper integration within blocs, dispute settlement provisions contained in the 'new generation' regional blocs could build jurisprudence conflicting with that of the WTO (Mathews, 2003).

The positive view of the relationship between regional schemes and the multilateral trading system is based on a number of arguments. First, it is argued that regional integration schemes, by moving at a faster pace than WTO rules, while sharing its goals, represent a way of strengthening the latter. Second, smaller regional groupings may be more effective in tackling new areas such as services, investment, intellectual property protection, cooperation in competition policy, technical standards and government procurement compared to multilateral rule-making. By acting as laboratories to try out alternative rules and strategies to encompass these issues, it is argued that they can ease the reaching of agreements on these issues at the multilateral levels. Third, despite the fears of trade diversion, the empirical evidence suggests that trade-creating effects dominate in major blocs thus enhancing world welfare. A study conducted by the WTO Secretariat showed that there had been a definite trend toward broader as well as faster market access liberalization on non-tariff measures in regional trading arrangements, in parallel to developments in the multilateral trading system (WTO, 1995). Also, although on a simple static analysis third parties may be disadvantaged by trade diversion, this is less obvious in a dynamic context if overall growth, and hence the demand for imports, is increased as a result of the integration process. Fourth, it is argued that regional blocs have had a positive effect by facilitating the integration of developing countries into the world economy (Mathews, 2003).

The fact that this debate exists highlights the importance of WTO rules governing the establishment of regional trading arrangements to minimize their adverse systemic effects on the multilateral trading system.

3.1 The WTO and Regional Integration[8]

WTO members agree to treat all other WTO members as 'most-favored-nation'. This agreement which is embodied in Article 1 of the GATT charter means that they agree not to discriminate against non-members. In simple terms, if a tariff is lowered on imports from one member, the same cut will apply to the same imports from all other members. One important exception to this principle is that of customs unions and free trade areas. These involve the elimination of tariffs and other barriers on internal trade but not on imports from non-members. In the case of a customs union, the member countries apply a common customs tariff on extra-area imports, where as, in a

[8] This summary of the WTO rules regarding RTAs is based on the organizations official site at www.wto.org and Mathews, 2003.

free-trade area, individual members are free to determine their own level of tariff on such imports. Thus customs unions and free-trade areas involve discrimination against countries, which do not belong to the arrangement. Preference is given to imports from member states. Article 24 of the GATT permits the establishment of regional trading blocs providing that the external tariff after the formation of the customs union /free-trade area is no higher than the average tariff of the countries involved beforehand. Furthermore, where other GATT members are harmed by the setting up of such a customs union /free-trade area, they are entitled to compensation.

Another exception to the non-discrimination principle was made in the 1970's when GATT members agreed to allow countries to introduce preferences on manufacturing imports from developing countries. This so-called 'Generalized System of Preferences' (GSPs) represented an attempt by GATT members to meet the demands of developing countries for easier access to the markets of developed countries for their manufacturing exports. The argument was conceded that 'equal treatment of unequals' was unfair and that developing countries were entitled to positive discrimination in their favor.

3.1.1 Scope of RTAs

Regionalism is described in the Dictionary of Trade Policy Terms, as "actions by governments to liberalize or facilitate trade on a regional basis, sometimes through free-trade areas or customs unions".

In the WTO context, regional trade agreements (RTAs) have both a more general and a more specific meaning: more general, because RTAs may be agreements concluded between countries not necessarily belonging to the same geographical region; more specific, because the WTO provisions which relate specifically to conditions of preferential trade liberalization with RTAs.

The coverage and depth of preferential treatment varies from one RTA to another. Modern RTAs, and not exclusively those linking the most developed economies, tend to go far beyond tariff-cutting exercises. They provide for increasingly complex regulations governing intra-trade (e.g. with respect to standards, safeguard provisions, customs administration, etc.) and they often also provide for a preferential regulatory framework for mutual services trade. The most sophisticated RTAs go

beyond traditional trade policy mechanisms, to include regional rules on investment, competition, environment and labor.

RTAs can complement the multilateral trading system, help to build and strengthen it. But by their very nature RTAs are discriminatory: they are a departure from the MFN principle, a cornerstone of the multilateral trading system. Their effects on global trade liberalization and economic growth are not clear given that the regional economic impact of RTAs is ex ante inherently ambiguous. Though RTAs are designed to the advantage of signatory countries, expected benefits may be undercut if distortions in resource allocation, as well as trade and investment diversion, potentially present in any RTA process, are not minimized, if not eliminated altogether. An RTA's net economic impact will certainly depend on its own architecture and the choice of its major internal parameters (in particular, the depth of trade liberalization and sectoral coverage). Concurrent MFN trade liberalization by RTA parties, either unilaterally or in the context of multilateral trade negotiations, can play an important role in defusing potential distortions, both at the regional and at the global level.

The increase in RTAs, coupled with the preference shown for concluding bilateral free-trade agreements, has produced the phenomenon of overlapping membership. Because each RTA will tend to develop its own mini-trade regime, the coexistence in a single country of differing trade rules applying to different RTA partners has become a frequent feature. This can hamper trade flows merely by the costs involved for traders in meeting multiple sets of trade rules.

The proliferation of RTAs, especially as their scope broadens to include policy areas not regulated multilaterally, increases the risks of inconsistencies in the rules and procedures among RTAs themselves, and between RTAs and the multilateral framework. This is likely to give rise to regulatory confusion, distortion of regional markets, and severe implementation problems, especially where there are overlapping RTAs.

3.1.2 The WTO's rules

When a WTO member enters into a regional integration arrangement through which it grants more favorable conditions to its trade with other parties to that arrangement than to other WTO members' trade, it departs from the guiding principle of non-discrimination defined in Article I of GATT, Article II of GATS, and elsewhere.

WTO Members are however permitted to enter into such arrangements under specific conditions which are spelled out in three sets of rules:

Paragraphs 4 to 10 of Article XXIV of GATT (as clarified in the Understanding on the Interpretation of Article XXIV of the GATT 1994) provide for the formation and operation of customs unions and free-trade areas covering trade in goods;

the so-called *Enabling Clause* (i.e., the 1979 Decision on Differential and More Favorable Treatment, Reciprocity and Fuller Participation of Developing Countries) refers to preferential trade arrangements in trade in goods between developing country Members; and

Article V of GATS governs the conclusion of RTAs in the area of trade in services, for both developed and developing countries.

Other non-generalized preferential schemes, for example non-reciprocal preferential agreements involving developing and developed countries, require Members to seek a waiver from WTO rules. Such waivers require the approval of three quarters of WTO Members. Examples of such agreements which are currently in force include the US — Caribbean Basin Economic Recovery Act (CBERA), the CARIBCAN agreement whereby Canada offers duty-free non-reciprocal access to most Caribbean countries, Turkey-Preferential treatment for Bosnia-Herzegovina and the EU-ACP Partnership Agreement.

3.1.3 WTO set criteria to be met by RTAs

The main requirements of the WTO rules on RTAs can be summarized as follows:

The neutrality of trade restrictiveness requirement: For trade in goods, Article XXIV:5(a) provides that, with respect to a customs union, the "duties and other regulations of commerce imposed at the institution of any such union ...in respect of trade with contracting parties not parties to such union or agreement shall not on the whole be higher or more restrictive than the general incidence of the duties and regulations of commerce applicable in the constituent territories prior to the formation of such union...". With respect to a free trade area, Article XXIV: 5(b) makes the same requirement for the trade policy of each of the countries which are party to such an agreement.

The 1994 Understanding made clearer the methodology to be used to judge this requirement in the case of a customs union. With respect to tariffs and duties, the evaluation should be based on an overall assessment of weighted average tariff rates and of customs duties collected. The calculation is done by the WTO Secretariat based on import statistics for a previous representative period on a tariff-line basis using the methodology used to compute the tariff offers in the Uruguay Round negotiations. Importantly, it is specified that the duties and charges taken into consideration should be the applied rates of duty. For non-tariff measures, individual examination to assess whether their overall trade restrictiveness has increased or not should be undertaken.

The substantial coverage requirement: Article XXIV: 8(b) specifies that duties and other restrictive regulations of commerce, except as otherwise permitted under GATT rules, should be eliminated on substantially all the trade between the constituent territories. Article 5:1 of the GATS has similar language that an agreement should have substantial sectoral coverage, which is defined in terms of the number of sectors, the volume of trade affected and modes of supply. Specifically, to meet this condition, agreements should not provide for the a priori exclusion of any mode of supply.

The reasonable time requirement: Article XXIV: 5(c) requires that any plan to form a customs union or free trade area must show that it will be completed within a reasonable length of time. In the 1994 Understanding, this is defined as not exceeding 10 years except in exceptional cases. The GATS does not contain an equivalent provision with respect to a regional agreement covering trade in services.

The compensation requirement: If, in forming a customs union, it is necessary for a Member to raise a bound rate of duty; other Members have a claim for compensatory reductions in bound tariffs on other goods. The 1994 Understanding specifies that, in calculating the amount of compensation

required, due account should be taken of reductions of duties on the same tariff line made by other parties to the customs union upon its formation. The idea of compensation is not provided for in the GATS with respect to regional trade agreements covering services. However, Article V:6 does provide that nationals or firms of any WTO Member which engage in substantive business operations in the territory of parties to a regional agreement are entitled to whatever special treatment is provided for in that agreement. There is no reciprocal obligation on third countries which benefit from a reduction of duties following the formation of a customs union, or from more liberal market access under an EIA (economic integration agreements) services agreement, to offer any tariff or other concession to its members.

Special and differential treatment for developing countries: With respect to trade in goods, the Enabling Clause permits "regional or global arrangements entered into among less-developed contracting parties for the mutual reduction or elimination of tariffs and... non-tariff measures, on products imported from one another". Two aspects of this provision can be highlighted. First, it allows for preferential trade agreements which fall short of either an FTA or a customs union. That is, it does not require the elimination of duties, nor does it require that substantially all trade should be liberalized. Second, the only constraints on the operation of preferential trade arrangements between developing countries are that (i) they shall be designed to facilitate and promote the trade of developing countries and not to raise barriers or to create undue difficulties for the trade of any other contracting parties, and (ii) they shall not constitute an impediment to the reduction or elimination of tariffs and other restrictions to trade on a most-favored-nation basis. This language is less demanding than the corresponding injunction in Article XXIV that the post-agreement trade policies shall not be more restrictive than the trade policies in force in the constituent countries prior to the formation of the agreement. Finally, there is no requirement for any indicative timetable for such liberalization with respect to trade in goods.

With respect to trade in services, where the Enabling Clause does not apply, Article 5:3 of the GATS provides special and differential treatment for developing countries, in two dimensions. First, where developing countries are party to an EIA involving services, flexibility can be shown, particularly with respect to the requirement that substantially all discrimination must be removed in the service sectors covered by the EIA, in accordance with the level of development of the countries concerned, both overall and in individual sectors and sub sectors. Second, in the case of EIAs

involving only developing countries, more favorable treatment may be granted to juridical persons owned or controlled by natural persons of the parties to such an agreement.

The notification requirement: All RTAs concluded by WTO Members require notification. RTAs involving developed countries are sent to the CRTA for examination, while RTAs among developing countries under the Enabling Clause are notified to the Committee on Trade and Development. Some WTO Members argue that the Enabling Clause is not appropriate to deal with RTAs which take the form of either a customs union or FTA which should be covered by Article XXIV. According to this view, the Enabling Clause should be confined to preferential trade agreements which stop short of an FTA or customs union.

3.1.4 Controversies in the interpretation of WTO rules

There are a number of controversies in the interpretation of these requirements. These have been summarized by the WTO Secretariat in two documents dealing with "systemic" issues related to RTAs (WT/REG/W/16 and WT/REG/W/37). A summary of the issues discussed in these documents is reported here to give a flavor of the debate.

The neutrality of trade policy: While the 1994 Understanding clarified the methodology to be used in evaluating tariff policy in a customs union, questions still remain. For a customs union, a global assessment of tariff neutrality is not necessarily relevant to an individual country whose exports may be concentrated in particular sectors. Economists also point out that it is still possible for trade diversion to occur even if tariffs are reduced. Some observers have proposed using trade levels as a better indicator of whether or not trade diversion occurs as a result of an RTA, but this test is only feasible ex post and does not help in an ex ante assessment of the compatibility of an RTA with WTO rules. Other proposals to ensure the neutrality of trade policy effects include requiring an open accession clause that would minimize the possibility of trade diversion and the 'hub and spoke' effect of multiple RTAs, or requiring the use of the lowest pre-CU tariff rate as the common external tariff. The growing scope and importance of non-tariff measures covered by RTAs, such as anti-dumping, preferential rules of origin, technical standards, subsidies and countervailing measures, also makes it more difficult to evaluate damage to third countries when a customs union is formed or extended.

While the neutrality of tariff policy in a customs union is to be evaluated on the basis of applied rates, there is disagreement as to whether applied or bound rates are relevant when evaluating an FTA.[10] With respect to non-tariff barriers in FTAs, there is disagreement whether preferential rules of origin come within the scope of the "other regulations of commerce" concept in Article XXIV. The possibility that preferential rules of origin may lead to trade diversion is used as an argument for their inclusion. Some Members object to this on the grounds that rules of origin merely determine which goods qualify for preferential treatment and thus cannot be considered a regulation of commerce.

Is the introduction of new quantitative restrictions justifiable when a country or countries join or form a customs union? This issue highlights a potential conflict between paragraph 8 of Article XXIV (which requires all members of a customs union to apply substantially the same trade policies to third countries) and paragraph 5 (which requires that non-tariff barriers should not be more restrictive on average). In the WTO Turkey-Textiles case, the Appellate Body ruled that new restrictions could be defended provided it was part of integrating into a customs union and that the party demonstrates that the formation of that customs union would be prevented if it were not allowed to introduce the measure at issue. However, the burden of proof lies with the defendant to show that the customs union meets the requirements of Article XXIV and that there were no alternative means available to it that would be compatible with the formation of the customs union. Where non-tariff barriers are extended in this way, the issue arises of how to compensate third countries so as to maintain the overall neutrality of trade policy before and after.

The substantial coverage requirement: This has been a major source of difficulty in the examination of RTAs by GATT and now WTO. Essentially, there are two views on how to interpret "substantially all trade". The quantitative view proposes a statistical threshold on the proportion of trade covered. Objections to this procedure include the fact that a 'one-size-fits-all' approach may not have the flexibility to take into account case-by-case circumstances, that a volume of trade measure may be biased by the existence of high trade barriers in the base period, and that it does not allow for the possible expansion of trade over time as a result of the RTA. The alternative qualitative view argues that the provision should be interpreted as meaning that no sector (or at least no major sector) should be left out of intra-RTA trade liberalization. But this approach may simply push the

controversy back to the definition of a sector. In practice, the debate revolves around the exclusion of agriculture, or agricultural products, from the regional integration process.

The notification and examination process: Issues arise over the timing of notifications, the amount of information which should be supplied, and non-compliance with the notification requirement. Despite the flexibility allowed to Members in the timing of the notification of RTAs, the WTO Secretariat notes that a large number of RTAs in force today have not (yet) been notified to the WTO. There is no provision for counter-notification of agreements under current WTO rules. Even the status of those agreements which have been notified and examined remains unclear. Only one of the reports on the examination of RTAs adopted to date (the Czech Republic-Slovak Republic Customs Union) states clearly that the RTA is fully compatible with the relevant GATT rules. Opinions differ on the status of the remainder. One view is that where reports are adopted without recommendations to the parties, such RTAs are tolerated or deemed compatible by the WTO. Others argue that, in the absence of a conclusive report, WTO Members retain the right to challenge an agreement under dispute settlement provisions.

Given these controversies, in the Doha Declaration, WTO Members agreed to initiate negotiations to clarify and improve RTA-related disciplines and procedures. While recognizing that RTAs can play an important role in promoting trade liberalization, WTO Members stressed the need for a harmonious relationship between the multilateral and regional processes.

3.1.5 The Doha Declaration explained

The November 2001 declaration of the Fourth Ministerial Conference in Doha, Qatar, provides the mandate for negotiations on a range of subjects, and other work including issues concerning the implementation of the present agreements. The declaration reconfirms the long-term objective already agreed in the present WTO Agreement: to establish a fair and market-oriented trading system through a programme of fundamental reform. The programme encompasses strengthened rules, and specific commitments on government support and protection for agriculture. The purpose is to correct and prevent restrictions and distortions in world agricultural markets.

Without prejudging the outcome, member governments commit themselves to comprehensive negotiations aimed at:

- market access: substantial reductions
- exports subsidies: reductions of, with a view to phasing out, all forms of these
- domestic support: substantial reductions for supports that distort trade

The declaration makes special and differential treatment for developing countries integral throughout the negotiations, both in countries' new commitments and in any relevant new or revised rules and disciplines. It says the outcome should be effective in practice and should enable developing countries meet their needs, in particular in food security and rural development.

WTO rules say regional trade agreements have to meet certain conditions. But interpreting the wording of these rules has proved controversial, and has been a central element in the work of the Regional Trade Agreements Committee. As a result, since 1995 the committee has failed to complete its assessments of whether individual trade agreements conform with WTO provisions.

This is now an important challenge, particularly when nearly all member governments are parties to regional agreements, are negotiating them, or are considering negotiating them. In the Doha Declaration, members agreed to negotiate a solution, giving due regard to the role that these agreements can play in fostering development.

The declaration mandates negotiations aimed at "clarifying and improving disciplines and procedures under the existing WTO provisions applying to regional trade agreements. The negotiations shall take into account the developmental aspects of regional trade agreements."

These negotiations fall into the general timetable established for virtually all negotiations under the Doha Declaration. The negotiations are to end by 1 January 2005. The 2003 Fifth Ministerial Conference in Mexico is to take stock of progress, provide any necessary political guidance, and take decisions as necessary.

Many developed countries have now significantly decreased or actually scrapped tariffs on imports from least-developed countries (LDCs). Some did this before the May 2001 Third UN Conference on LDCs. Some did it afterwards.

In the Doha declaration, WTO members governments commit themselves to the objective of duty-free, quota-free market access for LDCs' products and to consider additional measures to improve market access for these exports.

Members also agree to try to ensure that least-developed countries can negotiate WTO membership faster and more easily.

Some technical assistance is targeted specifically for least-developed countries. The Doha Declaration urges WTO member donors to significantly increase their contributions.

In addition, the Sub-Committee for LDCs (a subsidiary body of the WTO Committee on Trade and Development) will design a work program, taking into account the parts of the declaration related to trade that were issued at the UN LDC Conference. It will report on this work program to the General Council at the council's first meeting in 2002.

3.2 The WTO agreement and African RECs

Each of African RECs has its own unique purpose and origin. Most RECs were initially established to address different specific issues or just as a consequence of some historical and political events. The COMESA evolved from the PTA (preferential trade area) which was originated from the efforts of the ECA and the OAU, with the support of the UN system. IGAD replaced IGADD which was established to mitigate the sustained drought and desertification affecting the East African countries. Now the scheme is modified to incorporate issues of development cooperation. SADC, a follow up of SADCC, is now structured around major economic issues and activities. This diversity is believed to have some implications to the relationship between the WTO and African RECs.

As explained in the preceding sections, the relationship between the multilateral trading system and regional economic communities mainly depends on the likely impacts that regionalism might bring about. A potential conflict between the RECs and the multilateral trading system may be avoided so log as trade is facilitated and third countries are left unaffected by the establishments of the RECs. Free trade areas leave the post union tariff the same as pre union tariff thereby avoiding the conflict between the regional and multilateral trading systems. A customs union further avoids the application of a common list and rules of origin. There is a tendency of shifting attention from

removal of tariff barriers to issues of non tariff barriers and domestic policies, which might widen the gap between RECs and the multilateral trading system (Teshome, 1998).

Recent developments regarding African integration process include the economic partnership agreements (EPA) between the European Union and individual RECs under the economic and trade cooperation pillar of the Cotonou Partnership Agreement. According to this agreement; African, Caribbean and Pacific countries will benefit from non reciprocal trade preferences until year 2007. These unilateral preferences will then be replaced by WTO compatible reciprocal EPAs providing progressive elimination of tariffs and non tariff barriers. Arguments in favor of these EPAs predict that such arrangements promote and foster sustainable development to integrate the poor regions of the world with the global economy. The EPA builds on other bilateral negotiations between the EU and individual African countries or groups of countries. Examples are the negotiations with North African countries to establish Euro-Mediterranean free trade area, and negotiations with South Africa which succeeded in establishing a free trade area. The African Growth Opportunities Act (AGOA) of the USA is yet another initiative that provides improved access for Africa's exports to the US market on a non reciprocal basis. The United States is also negotiating a free trade area with SACU with a possibility of extending it to other RECs.

North-South integration schemes are recommended for Africa on the ground that the existing South-South co-operations are trade diverting than trade creating. Among the identified possible benefits associated with North-South cooperation in the African perspective are access to the rich Northern market, insurance against policy reversal, and the opportunity to African electorate to liberalize markets via free trade agreements rather than unilateral liberalization (Teshome, 1998). The channels through which the developed world makes the agreements practical are political declarations, economic incentives in the form of financial support and capacity building regionally, and trade incentives (Cernat, 2003). A skeptic view regarding North-South agreements is that such cooperation schemes are tailored to suit the interests of the North in the respective regions in the South rather than the basic needs of the South.

These recent developments along with many other bilateral trade and economic negotiations between African countries and the rest of the world indicate the undeniable urgency to give a new lease of life to regional integration in Africa.

CHAPTER FOUR

AFRICAN ECONOMIC COMMUNITY AND AFRICAN RECs: AN ASSESSMENT

4.1 The African Economic Community

History and Present Status[9]

In 1980, the OAU Extraordinary Summit adopted the Lagos Plan of Action as a major step towards the goal of integration. The commitments in this Plan and the Final Act of Lagos were translated into concrete form in Abuja, Nigeria in June 1991 when the African Heads of State and Government signed the Treaty establishing the African Economic Community (AEC) during the 27th Ordinary Session of the Assembly. Since May 1994, the OAU has been operating on the basis of the OAU Charter as well as the AEC Treaty.

The aim of the AEC is to promote economic, social and cultural development as well as African economic integration in order to increase self-sufficiency and endogenous development and to create a framework for development, mobilization of human resources and material. The AEC further aims to promote co-operation and development in all aspects of human activity with a view to raising the standard of life of Africa's people, maintaining economic stability and establishing a close and peaceful relationship between member states. The AEC Treaty (more popularly known as the *Abuja Treaty*) came into force after the requisite numbers of ratification in May 1994. It provided for the African Economic Community to be set up through a gradual process, which would be achieved by coordination, harmonization and progressive integration of the activities of existing and future regional economic communities (RECs) in Africa. The RECs are regarded as the building blocks of the AEC. The existing RECs are:

[9] The main source for the document in this section is the Department of Foreign Affairs, South Africa. The official website of the department is .....

- AMU (The *Arab Maghreb Union*) whose 5 members encompass all of North Africa;
- ECCAS *(Economic Community of Central African States*) whose 11 members span Central Africa;
- CEN-SAD (*Community of Sahel - Saharan States*) having 18 members in west, south, north and central Africa;
- COMESA *(Common Market of Eastern and Southern Africa*) whose 20 members include all of East Africa (except Tanzania) and most of Southern Africa;
- SADC *(Southern African Development Community*) whose 14 members cover all of Southern Africa;
- IGAD (*Inter-Governmental Authority on* Development) comprising 7 states of the Horn of Africa; and
- ECOWAS *(Economic Community of West African States*) whose 15 members cover all of West Africa.

The implementation of the *Abuja Treaty* is a process that will be done in 6 stages over 34 years, i.e. by 2028, as follows:[10]

- **Phase 1**: Strengthening existing RECs and creating new ones where needed (5 years: 1994 - 1999);
- **Phase 2**: Freezing tariff and other non tariff barriers, customs duties, and internal taxes, and the strengthening and gradual harmonization of sectoral integration, particularly in the field of trade, agriculture, finance, transport and communication, industry and energy, as well as coordination and harmonization of the activities of the RECs (8 years: 1999 - 2007);
- **Phase 3**: Establishment of a free trade area and a Customs Union at the level of each REC (10years: 2007 - 2017);
- **Phase 4**: Coordination and harmonization of tariff and non-tariff systems among RECs, with a view to establishing a Continental Customs Union (2 years: 2017 - 2019);
- **Phase 5**: Establishment of an African Common Market and the adoption of common policies (4years: 2019 - 2023); and
- **Phase 6**: Integration of all sectors, establishment of an African Central Bank and a single African currency, setting up of an African Economic and Monetary Union and creating and electing the first Pan-African Parliament (5 years: 2023 - 2028).

[10] Article six of the *Treaty Establishing the AEC*; OAU (1991)

RECs, none of the other protocols have been finalized, adopted, or ratified by member states (ECA, 2004).

Some Important Protocols

The AEC treaty includes several protocols in its articles. Among these protocols are those on trade and customs, sectoral and infrastructure development and cooperation, special treatment for certain countries, relation between the AEC and others.

Protocols on trade and Customs: Articles 29 – 42 of the treaty declare members' agreements on trade liberalization and customs issues. These issues include, reduction and elimination of customs barriers, rules of origin, customs operation, intra community transit facilities, trade promotion, etc.

Protocols on Sectoral and Infrastructure Development and Cooperation: Articles 44 – 77 exhaust sectoral issues as well as infrastructure development and cooperation. Money, payments and finance; agriculture and industry; transport, communication and tourism; education, training and culture; energy and natural resources; human resources, social affairs, health and population, etc. are among the sectors member countries agree to cooperate with.

Protocols on the Relationship Between the AEC and Others: Articles 88 – 94 outline the rules that guide the relationship between the community and regional economic communities, regional continental organizations and other socio-economic organizations and associations; relations between the community, third states and international organizations; as well as relations between member states, third states, regional and sub-regional organizations and international organizations.

4.2 Regional Economic Communities

Today there are a number of regional integration schemes performing in Africa. Among this array of schemes seven are considered to be the building blocs of the African Economic Community. A brief profile of these seven RECs is presented below followed by a summarizing table (Table 4.1).

The principal technical policy making organ of the AEC is the Economic and Social Council, also known as ECOSOC. The functions of ECOSOC are central to the implementation of the objectives of the AEC. As such ECOSOC is the most important specialized organ in respect of all activities relating to, directly or indirectly, the intended establishment of the African Economic Community. In this regard it is responsible for the preparation of policies, programs and strategies for cooperation in the socio-economic field, as well as the coordination, evaluation and harmonization of activities and issues in this field. In addition, ECOSOC is responsible to examine the reports of all the Specialized Technical Committees. It is supposed to monitor the progress made in the establishment of the AEC, i.e. by way of the six phases identified in the Treaty and, consequently, under the Sirte Declaration process. Lastly, the body is responsible for supervising the preparations for international negotiations in these fields and for assessing their results.

It is evident from the *Abuja Treaty* that the concept of the Community, its eventual take-off and its progressive establishment are closely related to the process of cooperation at the regional level, as the RECs are perceived as the building blocks of the Community. A Protocol on Relations between the AEC and the RECs was concluded and signed in February 1998. This Protocol serves as an efficient instrument and framework for close cooperation, program harmonization and coordination, as well as integration among the RECs on the one hand (horizontal) and between the AEC and the RECs on the other (vertical). The Protocol has the advantage of enhancing the status and role of the AU Secretariat, which is also the Secretariat of the AEC, in all matters pertaining to the implementation of the *Abuja Treaty*. The adoption of the *Constitutive Act of the African Union* during the 2000 OAU/AEC Summit in Lomé, Togo, necessitates a structural, process and content review of the *Abuja Treaty*. This is important from a legal point of view, as this will ensure a sound legal basis for the African Union, will ensure that respect for the Rule of Law is maintained, and provide for the progression from organizational activities dominated by security and stability crisis situations to a developmental focus and emphasis.

The treaty establishing the AEC includes a number of auxiliary protocols on trade, customs, special treatment for certain countries, popular participation, dispute settlement, and sectoral and infrastructure development. Except for the protocol on the relationship between the AEC and

4.2.1 Profile of the RECs

The Arab Maghreb Union (UMA):[11] The treaty establishing the UMA was signed by the Heads of State of the five countries on February 17, 1989 in Marrakech. Since 1990, the five countries have signed more than 30 multilateral agreements covering diverse economic, social, and cultural areas. While member countries have ratified varying numbers of these agreements, only five have been ratified by all members of the union. These include agreements on trade and tariffs (covering all industrial products); trade in agricultural products, investment guarantees; avoidance of double taxation; and phyto-sanitary standards.

The UMA has not met at the level of Heads of State since April 1994, and has effectively been paralyzed by the dispute over the status of Western Sahara, annexed by Morocco in 1975. The UMA has no relations with the African Economic Community (AEC) and has not yet signed the Protocol on Relations with the AEC. It was, however, originally designated a pillar of the AEC.

The main objectives of the UMA Treaty are to strengthen all forms of ties among Member States (in order to ensure regional stability and enhance policy coordination), as well as to gradually introduce free circulation of goods, services, and factors of production among them. Common defense and non-interference in the domestic affairs of the partners are also key aspects of the Treaty. The Treaty highlights the broad economic strategy to be followed, namely, the development of agriculture, industry, commerce, food security, and the setting up of joint projects and general economic cooperation programs. Finally, the agreement provides the possibility for other Arab and African countries to join the Union at a later stage.

Common Market for Eastern and Southern Africa (COMESA):[12] The history of COMESA began in December 1994 when it was formed to replace the former Preferential Trade Area (PTA) which had existed from the earlier days of 1981. COMESA (as defined by its Treaty) was established 'as an organization of free independent sovereign states which have agreed to co-operate in developing their natural and human resources for the good of all their people' and as such it has a wide-ranging series of objectives which necessarily include in its priorities the promotion of peace

[11] The official website of the AMU at www.maghrebarabe.org
[12] The official website of the COMESA at www.comesa.org

and security in the region. However, due to COMESA's economic history and background its main focus is on the formation of a large economic and trading unit that is capable of overcoming some of the barriers that are faced by individual states.

The Free Trade Area (FTA) of COMESA was achieved on 31st October, 2000 when nine of the member States, namely Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe eliminated their tariffs on COMESA originating products, in accordance with the tariff reduction schedule which was adopted in 1992 for the gradual removal of tariffs to intra-COMESA trade, following trade liberalization program that commenced in 1984 on the reduction and eventual elimination of tariff and non-tariff barriers to intra-regional trade. Thus, the FTA has not only gotten rid of customs tariffs but has also involved the relaxation and eventual elimination of quantitative restrictions and other non-tariff barriers.

The objective of the FTA is to create an integrated market for trade in goods and services and to increase the COMESA region's competitive advantage as a production base geared for the world market. The FTA fosters competition within the region before regional industries and firms face the inevitable competition brought about by global liberalization. The FTA is serving as a catalyst for greater efficiency in production and long-term competitiveness. In addition, it is giving the COMESA consumers wider choice and better quality consumer products.

As a free trade area is, by definition, a reciprocal arrangement, trade between the member countries is conducted on the basis of reciprocity. Member States that are in the FTA trade on a duty-free basis on all trade between themselves; member States not in the FTA are granted trade preferences by the FTA member States on the basis of the tariff reduction they have attained; and member States that have not effected the minimum tariff reduction of 60% are not granted any preferential rate by the FTA member States nor by those that have reduced tariffs by the 60% tariff reduction rate.

On the above basis, the matrix of trade relationships among the COMESA member States is currently as follows:

- FTA Countries: Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia, and Zimbabwe;

- Non-FTA countries /minimum tariff reduction effected/: Burundi (80%), Comoros (80%), Eritrea (80%), Rwanda (90%), and Uganda (80%);
- Non-FTA countries /minimum tariff reduction not effected/: Angola (nil), D.R. Congo (nil), Ethiopia (10%), and Swaziland.

Other objectives which will be met to assist in the achievement of trade promotion include: trade liberalization and customs co-operation, including the introduction of a unified computerized customs network across the region; improving the administration of transport and communications to ease the movement of goods services and people between the countries; creating an enabling environment and legal framework which will encourage the growth of the private sector, the establishment of a secure investment environment, and the adoption of common sets of standards; the harmonization of macro-economic and monetary policies throughout the region.

Community of Sahel-Saharan States (CEN-SAD):[13] This organization was established on 4th February 1998 following the conference of leaders and heads of states held in Tripoli, Libya. The treaty on the establishment of the community was signed by the heads of states of Burkina Faso, Mali, Niger, Chad and Sudan. CAR, Eritrea, Senegal, Djibouti and Gambia joined the organization at later times.

CEN-SAD is a framework for integration and complementarity. It intends to work to strengthen peace, security and stability and achieve global economic and social development. CEN-SAD was established to achieve some specific objectives. One such objective is the establishment of global economic union based on strategy through a development plan complementary to national development plans of the countries concerned, embracing investment in the agricultural, industrial, energy, social and cultural fields. Another objective of the organization is the removal of all restrictions hampering integration of these countries through adoption of necessary measures to ensure free movement of persons, capital and interests of nationals of member states; right of establishment, ownership and exercise of economic activity; free trade, movement of goods, commodities and services originating from the signatory countries.

[13] the profile is obtained from the website address of the organization at www.cen-sad.org

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[13] the profile is obtained from the website address of the organization at www.cen-sad.org

Economic Community of Central African States (ECCAS):[14] ECCAS was established on 18 October 1983 by the Central African Customs and Economic Union (UDEAC) and the members of the Economic Community of the Great Lakes States (CEPGL) as well as Sao Tome and Principe following the agreement in an early summit of December 1981 by UDEAC members to form a wider economic community of Central African states. ECCAS began functioning in 1985 but was inactive for several years because of financial difficulties, and the conflict in the great lakes region. ECCAS has been designated a pillar of the AEC, but formal contact between the AEC and ECCAS was only established in October 1999 due to the inactivity of the community since 1992.

ECCAS aims to achieve collective anatomy, raise the standard of living of its populations and maintain economic stability through harmonious cooperation. Its ultimate goal is to establish a Central African Common Market. The priority fields of the organization include efforts to develop capacities to maintain peace, security and stability, which are essential prerequisites for economic and social development; to develop physical, economic and monetary integration; to develop a culture of human integration; and to establish an autonomous financing mechanism for ECCAS.

The Economic Community of West African States (ECOWAS): ECOWAS was created on May 28, 1975 in Lagos, Nigeria. ECOWAS was established to promote cooperation and integration in order to create an economic and monetary union for promoting economic growth and development in West Africa. ECOWAS has encountered many problems in the process of regionally integrating West Africa, including: political instability and lack of good governance that has plagued many member countries; the insufficient diversification of national economies; the absence of reliable infrastructure; and the multiplicity of organizations for regional integration with the same objectives.

ECOWAS aims to promote co-operation and integration in economic, social and cultural activity, ultimately leading to the establishment of an economic and monetary union through the total integration of the national economies of member states. It also aims to raise the living standards of its peoples, maintain and enhance economic stability, foster relations among member states and contribute to the progress and development of the African Continent. ECOWAS integration policies and programmes are influenced by the prevailing economic conditions in its member countries, the need to take the principal provisions of the AEC Treaty into account, and relevant developments on the international scene.

[14] The profile is obtained from the official website of the organization at www.ceeac-eccas.org

The revised treaty of 1993, which was to extend economic and political co-operation among member states, designates the achievement of a common market and a single currency as economic objectives, while in the political sphere it provides for a West African parliament, an economic and social council and an ECOWAS court of justice to replace the existing Tribunal and enforce Community decisions. The treaty also formally assigned the Community with the responsibility of preventing and settling regional conflicts.

Intergovernmental Authority on Development (IGAD): The Intergovernmental Authority on Development (IGAD) in Eastern Africa was created in 1996 to replace the Intergovernmental Authority on Drought and Development (IGADD) which was founded in 1986. The recurring and severe droughts and other natural disasters between 1974 and 1984 caused widespread famine, ecological degradation and economic hardship in the Eastern Africa region. In 1983 and 1984, six countries in the Horn of Africa - Djibouti, Ethiopia, Kenya, Somalia, Sudan and Uganda - took action through the United Nations to establish an intergovernmental body for development and drought control in their region. The Assembly of Heads of State and Government met in Djibouti in January 1986 to sign the Agreement which officially launched IGADD with Headquarters in Djibouti. The State of Eritrea became the seventh member after attaining independence in 1993.

On 21 March 1996 in Nairobi the Assembly of Heads of State and Government signed "Letter of Instrument to Amend the IGADD Charter / Agreement" establishing the revitalized IGAD with a new name "The Intergovernmental Authority on Development". The Revitalized IGAD, with expanded areas of regional cooperation and a new organizational structure, was launched by the IGAD Assembly of Heads of State and Government on 25 November 1996 in Djibouti, the Republic of Djibouti.

IGAD aims to expand the areas of regional cooperation, increase the members' dependency on one another and promote policies of peace and stability in the region in order to attain food security, sustainable environment management and sustainable development. The IGAD strategy is to attain sustainable economic development for its member countries. Regional economic co-operation and integration are given special impetus and high priority to promote long-term collective self-

sustaining and integrated socio- economic development. The ultimate goal of IGAD is to achieve economic integration and sustainable development for the region.

Southern African Development Community (SADC): The formation of SADC was the culmination of a long process of consultations by the leaders of Southern Africa. The Frontline States meet in Arusha, Tanzania, in July 1979. The Arusha meeting led to the birth of the Southern African Development Co-ordination Conference a year later. Through SADCC, the founding fathers sought first to demonstrate the tangible benefits of working together, and to cultivate a climate of confidence and trust among member States.

SADC has developed since then, to become an organization that has a Program of Action, covering several broad economic and social sectors, namely, energy, tourism, environment and land management, water, mining, employment and labor, culture, information and sport and transport and communications; finance and investment, human resource development, food, agriculture and natural resources, legal affairs and health. Over the past two years SADC has undertaken an exercise to restructure its institutions forced by the number of difficulties and constraints encountered in the process of moving the organization from a coordinating conference into a Community. One problem is inadequate institutional reforms to enable the effective transformation from SADCC (Coordinating Conference) to SADC (the Community). Furthermore, the resource provision and the management system were not adequately addressed. The need to put in place appropriate mechanisms capable of translating the high degree of political commitment to shape the scope and scale of community building through regional integration is another problem area. This implies delegating authority and strengthening the capacity for decision-making to the relevant agencies responsible for implementing the SADC agenda. Other problems include lack of synergy between the objectives and strategies of the Treaty on one hand and the existing SADC Program of Action (SPA) and the institutional framework on the other; limited capacity to mobilize significant levels of the region's own resources for the implementation of its Program.

The objectives of SADC are to achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged through regional integration; evolve common political values, systems and institutions; promote and defend peace and security; promote self-sustaining development on the basis of collective self-reliance, and the interdependence of Member States; achieve complementarity

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between national and regional strategies and programs; promote and maximize productive employment and utilization of resources of the Region; achieve sustainable utilization of natural resources and effective protection of the environment; strengthen and consolidate the long standing historical, social and cultural affinities and links among the people of the Region.

The ultimate objective of SADC, the Community is, therefore, to build a Region in which there will be a high degree of harmonization and rationalization to enable the pooling of resources to achieve collective self-reliance in order to improve the living standards of the people of the region.

Table 4.1: Members, objectives and current status of African RECs

Name of the REC	Member States	Specified Objective	Achieved Status
Arab Maghreb Union (AMU)	Algeria, Libya, Mauritania, Morocco, Tunisia	Full economic union	free trade area not yet achieved, but conventions in force for investment, payments and land transport
Community of Sahel-Saharan Sates (CEN-SAD)	Benin, Burkina Faso, Central African Republic, Chad, Djibouti, Egypt, Eritrea, Gambia, Libya, Mali, Morocco, Niger, Nigeria, Senegal, Somalia, Sudan, Togo, Tunisia	Full economic union	monetary and customs unions achieved, macroeconomic policy convergence in place
Common market for Eastern and Southern Africa (COMESA)	Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe	Common market	free trade area achieved among nine member states in October 2000, criteria set for macroeconomic policy convergence
Economic Community of Central African States (ECCAS)	Angola, Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Republic of Congo, Equatorial Guinea, Gabon, Sao Tome and Principe, Rwanda	Full economic union	study on free trade area considered for implementation
Economic Community of West African States (ECOWAS)	Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo	Full economic union	tariffs removed on unprocessed goods, peace and security mechanism in place, macroeconomic policy convergence in place
Intergovernmental Authority on Development	Djibouti, Eritrea, Ethiopia, Kenya, Sudan, Uganda	Full economic union	Multilateral programs elaborated in key priority areas (agriculture and environment, political and humanitarian affairs, and regional economic cooperation, including physical infrastructure projects)
South African Development Community (SADC)	Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe	Full economic union	free trade area launched in September 2000, power pool and peace and security mechanisms in place

Source: ARIA: ECA Policy Research Report, May 2004

4.2.2 Economic Overview

In 2001, the combined Gross Domestic Product (GDP) for the African continent was estimated at $552.5 billion. With a total population level of 814.4 million, per capita GDP for the continent is $678. Africa covers a total land area of 29.3 million square kilometers. In the same year Africa's external debt has reached $175.5 billion. These figures are, however, unevenly distributed across the continent (see **Table 4.2**). CEN-SAD and COMESA rank first and second in land area, population and GDP; while UMA and SADC scored the highest two per capita GDP levels.

Table 4.2: Major Economic Indicators of African RECs (2001)

REC	Land area (Sq Km)	GDP (Cur. US$)	Population	External Debt (US$)	GDP per capita
CEN-SAD	12,405,150	225,902,855,872	352,835,000	99,434,331,264	543
ECCAS	6,539,860	37,202,029,080	110,443,000	16,185,517,184	960
IGAD	4,893,760	36190822720	166,424,000	34,693,922,432	249
UMA	5,768,160	111,946,751,360	77,737,000	19,658,618,880	1,363
COMESA	11,477,030	180,062,961,664	354,544,992	74,218,373,120	508
ECOWAS	5,030,150	80,781,393,920	239,510,000	57,772,371,968	337
SADC	9,066,840	171,591,991,296	201,330,000	23,830,315,008	852

Source: World Bank Africa Database, 2004

4.2.3 Performance Evaluation

Trade Performance

The structure of Africa's trade is very simple to illustrate as it is highly concentrated on few export items and heavily weighted in imports of manufactured goods. Furthermore, the destination for African exports and the origins of its imports are usually concentrated in the markets of Europe, Asia, and North America. According to recent studies on African trade structure (ECA, 2004; ECA, 2000; ADB, 2000) the commodity composition of exports of the continent is dominated by primary commodities in Standard International Trade Classification (SITC) categories 0 – 4 which include food and live animals (section 0), beverages and tobacco (section 1), crude materials except fuel (section 2), mineral fuels (section 3), and animal and vegetable oils and fats (section 4). As a result more than 80% of export earnings come from primary commodities.

Likewise, the commodity structure of imports is highly concentrated on few items. SITC product categories 5 – 8 (namely- chemical and related products (section 5), manufactured goods classified by material (section 6), machinery and transport equipment (section 7), and miscellaneous manufactured articles (section 8)) dominate African imports.

Despite the number of proliferating RECs and their extensive trade liberalization and reform attempts, intra REC trade in Africa is quite low and undiversified. Of the total exports of the continent only 9% is traded internally. Similarly 90% of its imports originate from outside the continent. In terms of commodity composition of intra-REC trade manufacturing exports take more than 50% in UMA and SADC while it only accounts for 16% in ECOWAS. In other RECs, the value varies between 30% and 45% **(Table 4.3)**.

Table 4.3: Volume of trade for African RECs in 2001 (mill. of US$)

REC	Total Trade		Intra-REC Trade		% of Intra-REC Trade to Total Trade		Intra-REC Manufacturing Trade (Average 1994 – 2001)		
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Share of Mfg Exp
All Africa	118,973.00	118,816.00	11,037.00	12,102.20	9.28	10.19			
CEN-SAD	53,709.86	58,979.86	1,925.40	2,166.58	3.58	3.67	648.40	710.00	43.20
COMESA	22,779.90	33,389.23	1,358.69	1,425.05	5.96	4.27	401.20	400.40	36.70
ECCAS	17,239.78	9,809.87	218.93	245.15	1.27	2.50	50.00	30.80	30.80
ECOWAS	29,091.81	29,247.36	2,802.08	3,057.03	9.63	10.45	371.60	278.00	16.10
IGAD	5,040.13	9,203.03	693.30	739.19	13.76	8.03	147.00	206.10	29.10
SADC	35,574.05	39,752.42	3,625.46	3,774.19	10.19	9.49	2,189.90	2,148.80	59.80
UMA	45,001.25	37,175.47	1,139.75	1,259.57	2.53	3.39	499.50	497.00	50.30

Source: Direction of World Trade, IMF (2003), and ECA (2004)

Individual top performers in manufacturing exports include Kenya and Zimbabwe for COMESA, Cote d'Ivoire, and Senegal for ECOWAS, South Africa and Zimbabwe for SADC, and Tunisia and Morocco for both CEN-SAD and UMA (ECA, 2004). The data shows an encouraging trend in trade in manufactures among members of African RECs. However, during the period 1994 – 2000 manufactured output accounted for an average of only 12% of GDP in COMESA and ECOWAS, while it took 15% in SADC. Furthermore, manufacturing output is dominated by few countries (Cote d'Ivoire alone accounts for 82% of that of ECOWAS, while South Africa takes 85% of SADC). Such trend calls for a harmonized and strengthened effort by member states to sustain the

growing demand of manufacturing output from within the REC; and at the same time avoid the danger of benefit polarization by few members.

Another indicator of the small amount of intra-REC trade in Africa is the direction of trade. As the figures in **table 4.4** show, the continent depends on trade with the rest of the world. Only less than 15% of both imports and exports are traded within the continent. Half of it exports are destined to Europe alone, while 42% of its imports originate from there. Intra-REC imports and exports account for less than 10% of the total volume in all the RECs except SADC which only exceeds this figure by 2%. Intra-Africa trade is also very low having a maximum of 13% in the case of IGAD. SADC performs relatively well in expanding intra-REC trade, while ECCAS and CEN-SAD still depend heavily on trade with countries and regions outside Africa.

This trend is not without explanation. First, most of the exportable items of the continent are undiversified primary goods which usually are not the basic consumption items of Africa. Second and somehow related to the first point, Africa's import demands are manufacturing items that could not be fulfilled by intra-REC, and intra-Continent, trade. Recent economic displays are indicating that Africa may still continue to depend on trade with the outside world because of increased trade liberalizations of the developed world and their developing country oriented initiatives such as the AGOA of the United States and the ACP-EU partnership initiated by the European Union.

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Table 4.4: Direction of African Trade (Average% of 1994 – 2001)

REC	Destination of Exports					Origin of Imports				
	Intra-REC	Rest of Africa	Europe	United States	Others	Intra-REC	Rest of Africa	Europe	United States	Others
All Africa	6.8	5.8	49.7	15.1	22.7	5.1	9.7	42	6.4	36.8
CEN-SAD	3.6	3.5	52.7	14.5	25.6	3.2	2.9	51.2	8.5	34.3
COMESA	6	8.2	39.3	20.8	25.7	3.5	9.7	33.7	10	43.1
ECCAS	1.9	2.5	45.2	27.7	22.8	3	16.1	53.4	7.7	19.8
ECOWAS	10.3	2.9	39	26.1	21.8	11.5	2.1	45.8	6.9	33.8
IGAD	13.8	13	37.4	3.8	31.9	7.6	7.3	32.2	5.4	47.5
SADC	12.8	4.6	26.6	14	42	10.7	2.1	25.9	6.6	54.7
UMA	3.1	1.3	71.1	6.3	18.2	3.2	1.7	60.8	6.1	28.1

Source: Economic Commission for Africa, 2004

Trade data for all of the RECs showed that intra-REC trade has increased from the level it had before their respective establishments. The magnitude, however, varies across communities. One obvious reason why, is the increase in the overall trade volume of the countries over the years. The efforts of the RECs to introduce various trade liberalization schemes and related protocols also have a role to play. Annex 1 report the full trade data of every REC and member state for the years before and after the establishments of the communities.

To assess the performances of African REC first we need to evaluate each member country's performance and relate it to the goals and objectives of the REC and that of the AEC. To assess individual country performances and to compare their contributions to their respective RECs some methodological measuring mechanisms should be developed. The policy research report on the assessment of African regional integration by the UNECA has produced such measuring indices. Progress by regional communities was estimated using a weighted average of the performances of eight sectors.

Taking the year the African Economic Community was established (1994) as a base year the study by the ECA reported that the average weighted annual increase in the regional integration index for the continent during 1994 – 2001 was 4.5%. On the basis of the integration indices, African RECs can be ranked based on their respective performances. ECOWAS and SADC are the top performers registering 6% and above annual increase in integration index. The main explanations to this better performance are trade expansion, as well as faster and steady growth in transport,

telecommunications, and money and finance sectors. CEN-SAD and ECCAS averaged between 4% and 6%, while IGAD and COMESA showed a close to average result of 2% - 4% increase. UMA was stagnant at lower than 2% average increase.

The performance of the RECs in trade and integration can better be explained by taking a further look at the efforts they are exerting towards market integration through schemes such as tariff and non-tariff barrier removal; trade facilitation; and timely compliance with the set objectives of the RECs. Similarly, the level of progress made by member countries to achieve the sectoral objectives of the communities they belong to is a better ground for assessment. The following sub sections will try to bring these issues in focus.

4.2.4 Performance With Regard To Market Integration

Eliminating Tariffs

COMESA: Article 46 of the treaty establishing the community envisaged that all member states shall reduce and ultimately eliminate tariffs by the year 2000. The countries began cutting and abolishing tariffs in 1994 and by the year 2000 nine member states were able to satisfy the requirement declaring a free trade area. Two more states are planning to join the free trade area soon. Four countries, on the other extreme, have yet to cut any tariffs.

ECOWAS: Tariff reductions by member states began back in 1981 with the establishment of the community on some unprocessed and traditional goods. All member countries except Liberia have raised tariffs on unprocessed goods. Tariffs on industrial commodities were supposed to be eliminated during the decade 1990 – 2000, but only one country (Benin) has done so.

SADC: The SADC Protocol on Trade, as amended, envisages the establishment of a Free Trade Area in the region by 2008 and its objectives are to further liberalize intra-regional trade in goods and services; ensure efficient production; contribute towards the improvement of the climate for domestic, cross-border and foreign investment; and enhance economic development, diversification and industrialization of the region. The tariff reduction scheme, however, is consistent with the varying capacities of the members. It allows countries to choose the products on which to reduce

duties. For example in year 2000 Mauritius allowed 65% of imports from South Africa while Tanzania only lets 9% in.

UMA: Member States of the Union have signed a protocol in 1991 agreeing to remove tariffs on commodities originating in and traded among members. In practice, though, tariffs are yet to be eliminated. Members trade more through bilateral agreements than through the protocols they signed under the union.

Eliminating Non-Tariff Barriers

Non-tariff barriers (NTBs) are the hidden or invisible barriers to trade. NTBs mainly include direct restrictions in the form of quotas, monetary restrictions, and technical and administrative regulations. NTBs also cover a wide range of trade retarding policies and activities, most of which are not directly measurable. Such obstacles include deliberate stalling of customs clearance papers by corrupt customs personnel; illegal road blocks; cumbersome customs formalities; multiple interstate checkpoints and road blocks, etc. (Manure, 1998). Data on NTBs are often not comprehensively published, for most of the barriers are hard to quantify. Below are brief assessments of the performances of two individual RECs with regard to removal of NTBs.

COMESA: Djibouti, Ethiopia and Sudan claimed to have eliminated all NTBs and COMESA is studying compliance. Existence of quantitative restrictions, import bans, charges, cumbersome duty drawbacks, road blocks, personnel integrity and administrative charges are reported against Kenya. Likewise, Tanzania, Uganda and Zambia are accused of technical, physical, procedural and immigration restrictions and barriers related to national policies and laws (ECA, 2004).

ECOWAS: Various NTBs are reported in many member states of ECOWAS. One indicator of the existence of several NTBs is the number of official checkpoints established on routes of their highways. There are seven checkpoints per thousand kilometers on the routes of Lagos, Nigeria to Abidjan, Cote d'Ivoire. Similarly, there are four blocks on the routes Lome, Togo to Ouagadougou, Burkina Faso; and Niamey, Niger to Ouagadougou, Burkina Faso.

Rules of Origin

Where member states establish a free trade area before the establishment of CET, it is imperative to have in place rules of origin which facilitate the screening of imports from non-members of the free trade area so that they do not enjoy the free trade tariff preferences. Without rules of origin being in place or effectively administered, the potential for deflection of trade is high. Foreign imports can enter the free trade area through countries with lower or zero national tariffs and move throughout the regional community. To insure that members do not cheat on each other and to prevent non members from free riding the benefits of free trade, rules of origin should be put in place identifying goods that qualify for free trade treatment. However, in order to promote intra-community trade and investment the rules of origin should be simple and relatively liberal commensurate with the level of liberalization and based on the prevailing economic policies of member states to promote trade and investment. The definitions of rules of origin by the different RECs are reported below.

COMESA: To qualify for free trade treatment goods must satisfy either of the following criteria. One, they should be wholly produced in a member state; two, they should contain no more than 60% of imported inputs from non-member countries; three, they should incorporate local value added of at least 35% of total cost; four, they should be designated as particularly important to economic development and contain no less than 25% local value added; and five, they should be reclassified, after production, under a new tariff heading.

ECOWAS: The rules of origin of this community requests that domestic capital to be 51% of total capital, community raw materials should take 40% of total raw material costs, and domestic value added should be no less than 35% of product value. In the last decade the number of goods eligible for preferential treatment reached 1,190 from a number as small as 25.

SADC: Unlike other regional communities SADC does not have clearly defined binding rules of origin. One most often mentioned reason for that is lack of products that are wholly produced within the community. Short of such products necessitated a sufficient transformation process as a result of which raw materials from non member sources are allowed to be used in the manufacture of a product within the community as long as their value does not exceed 10% of the product's factory price (ECA, 2004).

Common External Tariff (CET)

Free trade areas are transformed into a customs union when member states agree to set a common external tariff structure for trade with nonmembers. A CET is established on goods entering the union from outside or 'third' countries to ensure that all producers within the community face the same cost of importing raw materials, components, and capital goods necessary for successful investment and industrialization. A CET should therefore be seen as an industrial policy instrument and not as a means of import restriction. However, agreement will have to be reached by participating member states as to the harmonization of external tariffs involving the adoption of a common definition of goods bearing similar tariffs and similar rules for exemptions from customs duties, the apportionment of customs revenue between members of the union according to an agreed formula as well as an agreement as to the familiar principle of rules of origin.

SADC is in no hurry to set a common external tariff since forming a customs union is not in its immediate agenda. ECOWAS has postponed the deadline for establishing a CET from 2002 to 2005. COMESA is on the verge of effecting one, while currently it is practicing an interim set of CET with no tariff on capital goods, 5% on raw materials, and 15% on intermediate goods.

Trade Facilitation[15]

Trade facilitation most often implies improving efficiency in administration and procedures, along with improving logistics at ports and customs. A broader definition includes streamlining regulatory environments, deepening harmonization of standards, and conforming to international regulations (Wilson et al, 2003). Facilitating and promoting trade requires simplifying trade and lowering the cost of doing business. In this regard most African RECs have introduced some relevant measures.

COMESA is by far the most successful scheme in implementing extreme trade facilitation and promotion programs. The community has, among many related programs, harmonized road transit changes (since 1991 in at least 10 countries), launched Automated System for Customs Data (ASYCUDA) – a computerized customs data system that records customs declarations, customs accounting procedures, examination controls, warehousing, import and export license permits etc.- ; applied the Yellow Card vehicle insurance system covering 3rd party liability and medical expenses

[15] The official web sites of the RECs (sited earlier) and ECA (2004)

(operational in 12 countries); implemented carrier license and transit plates (operational in 9 countries).

ECOWAS also performed relatively well in facilitating trade. It has introduced the Brown Card insurance scheme (similar to the Yellow Card of COMESA); and the Inter State Road Transit and Transport scheme to ease road transit and transport across borders. The second scheme, however, has not been ratified by all its members. ECOWAS has also adopted ASYCUDA in 1990 and launched the Trade Opportunity Management System in 1998 to facilitate trade via increased information dissemination among economic operators in the community.

SADC has a sub committee responsible for trade facilitation and currently half its members use ASYCUDA. Efforts are being made to eliminate technical barriers to trade to promote quality production and increase cooperation on standardization, quality assurance, accreditation, and metrology. Since 9 members of SADC are also members of COMESA, the community is trying to harmonize its facilitation rules with that of COMESA to avoid confusion.

4.2.5 Performance in Policy Harmonization and Macroeconomic Convergence

Macroeconomic policy harmonization programs are intended to avoid the conflict that could exist among the objectives of these policies nationally and to create a scenario of economic stability in which commercial and economic relations can prosper. The importance of coordinating macroeconomic and trade policies is even greater in the context of regional trading arrangements. An integration system lacking macroeconomic policy harmonization may suffer from heavy setbacks. For example, drastic alterations in the bilateral real exchange rate between two countries have an immediate repercussion on trade flows that have taken years of effort to produce. So far the main focus of regional economic communities has been on trade liberalization issues such as tariff reduction.

In order to harmonize and coordinate different macroeconomic policies of their member states, regional communities usually set some macroeconomic convergence criteria. These criteria are upper or lower bounds for macroeconomic variables such as inflation rate, budgetary deficit, and share of debt to GDP. However, it is only two of the seven RECs under study (ECOWAS and COMESA) that have set macroeconomic convergence criteria and the deadlines to meet them.

ECOWAS aims to establish an economic union among its members by creating a monetary union and adapting common economic, financial and social policies. Since UEMOA, a sub regional bloc within the ECOWAS, have already put in place the process and procedures to achieve policy harmonization, ECOWAS members that are not members of UEMOA agreed to harmonize their monetary and fiscal policies with those of UEMOA. The Fast Track Initiative crafted by Ghana and Nigeria establishing a second monetary zone in the region (West African Monetary Zone –WAMZ) among six states also helps harmonize the macroeconomic policies of the countries so as to have a common currency. A Convergence Council is put in place by the community to unify the two individual zones and form a single monetary zone.

In the mean time ECOWAS has set criteria to be met by its members on some macroeconomic variables. According to the criteria inflation rate is to be kept below 10% and further reduced to 5% in the year 2005. Budgetary deficit should not exceed 5% of GDP. In practice the average inflation rate of the region was 11.3, while budget deficit was kept at -4.9%. Guinea, The Gambia and Burkina Faso managed to register lower inflation rates as opposed to Ghana, Guinea-Bissau and Nigeria who have suffered from high inflation.

Table 4.5: Macroeconomic Convergence in African RECs (Average 1994 – 2001)

REC	Inflation Rate (%)		External debt (% of GDP)		Budget Deficit (% of GDP)	
	Target	Average	Target	Average	Target	Average
CEN-SAD	n.a	10	n.a	80.9	n.a	-3.5
COMESA	≤ 10%	15.4	≤ 50%	100	< 10%	-5.7
ECCAS	n.a	17.5	n.a	172.6	n.a	-6.5
ECOWAS	≤ 10%	11.3	n.a	113.3	≤ 5%	-4.9
IGAD	n.a	14.5	n.a	92.7	n.a	-5
SADC	n.a	16.8	n.a	102.7	n.a	-4.3
UMA	n.a	7.1	n.a	97.4	n.a	0.2

n.a is not applicable

Source: Economic Commission for Africa, 2004

COMESA plans to become a full monetary union by 2024. The target inflation rate of the community's convergence criteria is set at 10%. Only few countries have achieved that level. Djibouti, Seychelles and Ethiopia managed to keep it even below 5%. Zimbabwe, Sudan and Malawi are among the ones that have high inflation rates. The target budget deficit of the community is set at 10% of GDP and performance by the members is satisfactory at a group average of -5.7%. Egypt and Sudan topped the group with low deficit level while Eritrea and Congo, Dem. Rep. performed the worst with deficit level of 19% and 14% respectively.

4.2.6 Outstanding Issues in African Integration Process

Revenue Loss

One most often cited problem of regional integration is the revenue loss resulting from trade liberalization programs of the regional communities. However, this argument is proved unjustified on both theoretical and empirical grounds. Theories of a free trade area (FTA) argue that the concept of loss of revenue arising from a FTA is more of a myth than actual and that elimination of tariffs in a regional grouping is more of an opportunity than a threat since it can be considered as a transfer of revenues from being collected by the government to bolster government expenditure to being collected by the private sector importers and producers. Assuming a complete trade liberalization (i.e. zero tariffs on foreign trade), Teshome (1997) estimated that total tax revenue loss from a full liberalization of inter-regional trade is less than 0.5% of GDP for all African RECs. The figures on table 4.6 below reinforce this finding showing a small amount of revenue loss as a percentage of total government revenue. Taxes on international trade contribute, on average, 20% of total government revenues for the continent as a whole. On those regions where intra-REC trade is relatively higher, so is the amount of revenue lost, and on those regions where intra-bloc trade is lower the corresponding revenue loss is relatively lower.

Table 4.6: Taxes on International Trade and Estimated Government Revenue Losses

REC	Taxes on International Trade as a % of Total Revenue (excluding grants)									Share of Intra-REC trade	Revenue Loss (% of Total Rev.) (Avg.)
	1994	1995	1996	1997	1998	1999	2000	2001	Period Average		
CEN-SAD	30.1	31.8	32.7	26.7	29.4	30.9	28.9	29.1	30.0	13.1	3.9
COMESA	18.0	19.0	20.0	20.0	20.0	20.0	18.0	18.0	19.1	9.4	1.8
ECCAS	22.5	25.0	22.0	20.8	21.8	19.4	19.0	19.6	21.3	1.3	0.3
ECOWAS	20.0	20.0	20.0	24.0	25.0	23.0	20.0	21.0	21.6	20.4	4.4
IGAD	28.7	29.7	32.0	30.7	33.8	30.3	28.7	29.0	30.4	4.5	1.4
SADC	5.0	6.0	7.0	6.0	6.0	7.0	7.0	8.0	6.5	8.7	0.6
UMA	19.3	17.3	14.0	11.8	11.5	10.5	9.8	9.3	12.9	30.7	4.0

Revenue loss is calculated as a product of taxes on international trade and share of intra-REC trade to total trade.
Source: World Bank African Database, 2004 and UNECA

A related study on the subject by Teshome (2003) emphasized that the available evidence points not to revenue gains or losses but rather to the success and failure of implementing trade liberalization programs. Even if revenue loss is a significant problem there are ways to circumvent it. One such remedy is found in the trade agreements of RECs which include provisions relating to the time schedule of tariff elimination as well as "compensation funds" for losses that may arise from implementing intra-REC trade liberalization schemes. An important remark that needs to be made, here, is that revenue loss as a result of trade liberalization could take a higher magnitude than reported above if applied to all foreign trade. What is shown in this section is the one that applies to intra-REC trade only.

Overlapping Membership

Almost all African countries are members of more than one regional grouping. Of the 53 countries only 6 maintain membership to only one regional bloc. 26 countries belong to two such groups while 20 are members of three blocs. Democratic Republic of Congo is a member of four regional schemes. There are many Sub regional blocs within every REC as well. UEMOA and MRU coexist within ECOWAS. CEPGL and CEMAC share many of ECCAS's members. EAC, IOC and IGAD have their members participating in COMESA. SACU and SADC have common members with

Table 4.6: Taxes on International Trade and Estimated Government Revenue Losses

REC	Taxes on International Trade as a % of Total Revenue (excluding grants)									Share of Intra-REC trade	Revenue Loss (% of Total Rev.) (Avg.)
	1994	1995	1996	1997	1998	1999	2000	2001	Period Average		
CEN-SAD	30.1	31.8	32.7	26.7	29.4	30.9	28.9	29.1	30.0	13.1	3.9
COMESA	18.0	19.0	20.0	20.0	20.0	20.0	18.0	18.0	19.1	9.4	1.8
ECCAS	22.5	25.0	22.0	20.8	21.8	19.4	19.0	19.6	21.3	1.3	0.3
ECOWAS	20.0	20.0	20.0	24.0	25.0	23.0	20.0	21.0	21.6	20.4	4.4
IGAD	28.7	29.7	32.0	30.7	33.8	30.3	28.7	29.0	30.4	4.5	1.4
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COMESA. All UMA members also belong to CEN-SAD. The issue here is whether simultaneous membership in many regional groupings will foster or impede the continent wide integration intended by AEC.

One argument as to why African countries chose to participate in multiple groupings is the desire by the countries to pursue integration on multiple tracks (ECA, 2004). Members of a larger bloc have the opportunity to proceed at a faster pace in separate smaller groupings since it is relatively easier to manage coordination and harmonization of national policies in smaller blocs than larger blocs. Yet another advantage countries wish to reap from multiple memberships is risk diversification. Countries with weak economies could spread the cost of integration and benefit from gains in each regional scheme.

Multiple memberships, however, is not something which should be applauded. Several regional blocs in Africa advocate similar objectives, aim for the same target and work in a similar fashion. Therefore, belonging to such identical schemes simultaneously could only lead to duplication of efforts (ECA, 2004). The overlap could also tend to lead to counterproductive competition and rivalry among countries. Furthermore, member states will be burdened by the multiple obligations which they should abide. Countries are required to make several commitments such as financial contributions, policy harmonization decisions, customs and other trade related procedures, time schedules and many more obligations.

There are some success stories regarding the challenge posed by overlapping membership. ECOWAS and UEMOA have helped one another in developing a common program of action on trade liberalization and macroeconomic policy harmonization (for example they have common rules of origin, customs declaration forms and compensation mechanisms). Likewise, COMESA and its sub blocs (EAC, IOC and IGAD) have made tremendous improvements in harmonizing their integration efforts.

Private Sector Participation

Efforts in regional integration so far have been dominated by governments and to some extent nongovernmental institutions. The role of the private sector in strengthening regional communities, however, cannot be overstated. State dominated economic activities have a recent history of failure and inefficiency all over the continent. It is time that governments should disengage themselves

from involving in non strategic economic activities and let the private sector participate. Despite its vital role, though, only few regional communities have specific protocols on the private sector.

Some progress has been recorded in this regard. EAC, a sub regional bloc within the COMESA, have done a marvelous job involving the private sector. The Cross Border Initiative, a framework of harmonized policies to facilitate a market driven integration effort, is another example of success involving fourteen Eastern and Southern African nations. Ecobank Transitional Incorporated of the West Africa and Telecel International of South Africa are also outstanding private sector investments made in the finance and communications sectors (ECA, 2004).

4.3 Summing Up

Among the number of proliferating regional groupings that exist in the continent, the African Union has labeled seven of them building blocs of the ultimate continent wide integration, AEC. Progress in the integration process, however, is uneven across RECs, countries and sectors. Most countries have signed and ratified treaties and protocols committing themselves to trade liberalization and policy harmonization schemes, but not one REC has so far succeeded in forming a full free trade area let alone a customs union.

An assessment of Africa's integration process shades light on most of the issues that are still outstanding. The direction of African trade indicates the continent's dependence on trade with partners outside it. Only few RECs have designed and put in place macroeconomic criteria to converge to, and their performance toward achieving it is heavily constrained by differences in national policies and reluctance in subordinating national authority to some supranational body. Overlapping membership of countries is also believed to have wasted the scarce resources of African nations by duplicating efforts and complicating the process of coordination and harmonization. The treaties of most of the RECs do not specifically address the role of the private sector and the ways it involve in their integration efforts.

CHAPTER FIVE

A METHODOLOGICAL APPROACH TO THE STUDY OF THE TRADE EFFECTS OF RECs

5.1 The Gravity Model

The gravity equation is a simple empirical model for analyzing bilateral trade flows between geographical entities. The gravity model for trade is analogous to the Newtonian physics function that describes the force of gravity. The model explains the flow of trade between a pair of countries as being proportional to their economic "mass" (national income) and inversely proportional to the distance between them. The model has a lineage that goes back to Tinbergen (1962) and Poyhonen (1963), who specified the gravity model equation as follows:

$$Trade_{ij} = \frac{\alpha GDP_i . GDP_j}{Distance_{ij}} \qquad (1)$$

Where $Trade_{ij}$ is the value of the bilateral trade between country i and j, GDP_i and GDP_j are country i and j's respective national incomes. $Distance_{ij}$ is a measure of the bilateral distance between the two countries and α is a constant of proportionality.

Taking logarithms of the gravity model equation as in (1) we get the linear form of the model and the corresponding estimable equation as:

$$Log(Trade_{ij}) = \alpha + \beta_1 log(GDP_i . GDP_j) + \beta_2 log(Distance_{ij}) + \mu_{ij} \qquad (2)$$

This baseline model, when estimated, gives relatively good results. However we know that there are other factors that influence trade levels. Most estimates of gravity models add a certain number of dummy variables to (2) that test for specific effects, for example being a member of a trade agreement, sharing a common land border, speaking the same language and so on.

5.1.1 Theoretical Foundations of the Model

Linnemann's Approach (1966)

Trade flow between any pair of countries is determined by a number of factors among which the strongest are: factors that indicate total potential supply of the exporting country on the world market; factors that indicate total potential demand of the importing country on the world market; and factors that represent the "resistance" to a trade flow from potential supplier to potential buyer. The "resistance" factors are cost of transportation, tariff wall, quota, etc. The potential supply of any country to the world market is linked systematically to (i) the size of a country's national or domestic product (simply as a scale factor), and (ii) the size of a country's population. The level of a country's per capita income may also be considered as a third factor though its influence will be very limited, at most. If the third factor indeed had no effect at all, then the factors (i) and (ii) would obviously be completely independent of each other as explanatory variables, on theoretical grounds.

Next question is checking whether the price level has an impact on our model or not. In equilibrium situation, potential supply and potential demand on the world market have to be equal. For this, a prerequisite must be that the exchange rate has been fixed at a level corresponding with the relative scarcity of the country's currency on the world market. Equilibrium on the world market also implies that every country has a moderate price level in the long run. If the price level is too high or too low, there would be a permanent disequilibrium of the balance of payments. Adjustment through a change in the exchange rate will necessarily take place. Therefore, the general price level will not influence a country's potential foreign supply and demand except in the short-run.

Based on these underlying assumptions we can proceed with deriving the gravity equation.

Let Ep = Total potential supply

Mp = Total potential demand

R = Resistance

Apparently the trade flow from country i to country j will depend on Eip and Mjp. We assume a constant elasticity of the size of the trade flow in respect of potential supply and potential demand. Indicating the trade flow from country i to country j by Xij, the trade flow equation would then combine the three determining factors in the following way:

$$X_{ij} = \beta_0 \frac{(E_{ip})^{\beta_1}(M_{jp})^{\beta_2}}{(R_{ij})^{\beta_3}} \qquad (3)$$

In its simplest form, all exponents equal to 1.The above three explanatory factors in (3) should now be replaced by the variables determining them. Therefore we now introduce the following notations.

Y= Gross national product

N= Population size

y = Per capita national income (or product)

D = Geographical distance

P = Preferential trade factor

Ep is a function of Y and N, and possibly of y. Thus we may write

$$E_p = \gamma_0 Y^{\gamma_1} N^{\gamma_2} \qquad (4)$$

In which $\gamma_1 = 1$, and γ_2 is negative. If we include per capita income, in spite of its limited significance, as one of the explanatory variables, we have

$$E_p = \gamma_0 Y^{\gamma_1} N^{\gamma_2} y^{\gamma_3} \qquad (5)$$

However, as y = Y/N, the coefficients of this equation would be dependent. So, per capita income will not be introduced as an individual variable. If its effect is at all significant, that would be incorporated "automatically" in the exponents of the two other variables:

$$E_p = \bar{\gamma}_0 Y^{\bar{\gamma}_1} N^{\bar{\gamma}_2} y^{\bar{\gamma}_3} \qquad (6)$$

The same is true for the potential supply, Mp, which is determined by identical forces.

$$M_p = \bar{\gamma}_4 Y^{\bar{\gamma}_5} N^{\bar{\gamma}_6}$$

We have argued that potential supply and potential demand are, in principle, equal to each other. Therefore, $\bar{\gamma}_0 = \bar{\gamma}_4$, $\bar{\gamma}_1 = \bar{\gamma}_5$ and $\bar{\gamma}_2 = \bar{\gamma}_6$. This obviously has to be realized in an equilibrium situation.

The trade resistance factor R can be replaced by two variables D with a negative exponent and P with a positive exponent. For the latter variable several other variables may be substituted if we want to distinguish between various types of preferential trading areas. Here we disregard this complication for the sake of simplicity of the model. The trade flow equation, then, would run as follows:

$$X_{ij} = \delta_0 \frac{Y_i^{\delta_1} Y_j^{\delta_3} P_{ij}^{\delta_6}}{N_i^{\delta_2} N_j^{\delta_4} D_{ij}^{\delta_5}} \quad (7)$$

Or

$$X_{ij} = \delta_0 Y_i^{\delta_1} N_i^{\delta_2} Y_j^{\delta_3} N_j^{-\delta_4} D_{ij}^{-\delta_5} P_{ij}^{\delta_6} \quad (8)$$

Anderson's Approach (1979)

The gravity equation is ordinarily specified as

$$M_{ijk} = \alpha_k Y_i^{\beta_{1k}} Y_j^{\beta_{2k}} N_i^{\beta_{3k}} N_j^{\beta_{4k}} d_{ij}^{\beta_{5k}} U_{ijk} \quad (9)$$

Where M_{ijk} is the dollar flow of good or factor k from country or region i to country or region j, Y_i and Y_j are incomes in i and j, N_i and N_j are population in i and j, and d_{ij} is the distance between countries (regions) i and j. The U_{ij} is a log normally distributed error term with E (ln U_{ijk}) = 0. Most often the flows are aggregated across goods. Ordinarily the equation is run on cross section data and sometimes on pooled data. Typical estimates observe income elasticity not significantly different from one and significantly different from zero and population elasticity around -.4 usually significantly different from zero.

Assumptions: (1) identical homothetic preferences across regions, (2) products are differentiated by place of origin, (3) pure expenditure system by specifying that the share of national expenditure accounted for by spending on tradeables is a stable unidentified reduced form function of income and population.

The Pure Expenditure System Model: Suppose, each country is completely specialized in the production of its own good. So there is one good for each country. There are no tariffs or transport costs. The fraction of income spent on the production of country i is denoted by ***bi*** and is the same in all countries. This implies identical Cobb-Douglas preferences everywhere. Prices are constant at equilibrium values and units are chosen such that they are all unity with cross-section analysis. Consumption of good i (in value and quantity terms) in country j (imports of good i by country j) is thus

$$M_{ij} = b_i Y_j \quad (10)$$

Where Yj is income in country j.

The requirement that income must equal sales implies that

$$Y_i = b_i\left(\sum_j Y_j\right) \tag{11}$$

Solving (11) for bi and substituting into (10), we get

$$M_{ij} = {Y_i Y_j}\Big/{\sum Y_j} \tag{12}$$

This is the simplest form of "gravity" model.

The Trade-Share-Expenditure System Model: Suppose, all countries produce a traded and a non-traded good. The overall preference function assumed in this formulation is weakly separable with respect to the partition between traded and non-traded goods: U = u(g(traded goods), non traded goods). Then given the level of expenditure on traded goods, individual traded goods demand are determined as if a homothetic utility function in traded goods alone g( ) are maximized subject to a budget constraint involving the level of expenditure on traded goods. The individual traded goods shares of total trade expenditure with homotheticity are functions of traded goods prices only. To make it simple, it is assumed g( ) has the Cobb-Douglas form. Since preferences are identical, expenditure shares for any good are identical across countries within the class of traded goods. So for any consuming country j, θ i is the expenditure in country i's tradable good divided by total expenditure in j on tradables; i.e. θ i is an exponent of g ( ). Let Φ j be the share of expenditure on all traded goods in total expenditure of country j and $\Phi_j = F(Y_j\ N_j)$. Demand for i's tradable good in country j (j's imports of i's good) is

$$M_{ij} = \theta_i \Phi_j Y_j \tag{13}$$

The balance of trade relation for country i implies

$$Y_i \Phi_i = \left(\sum_j Y_j \Phi_j\right)\theta_i \tag{14}$$

The left- hand side of equation (14) implies the value of imports of i plus domestic spending on domestic tradeables. The right-hand of equation (14) implies the value of exports of i plus domestic spending on domestic tradeables.

Solving (14) for θ i and substituting into (13), we have

$$M_{ij} = \frac{\Phi_i Y_i \Phi_j Y_j}{\sum_j \Phi_j Y_j} = \frac{\Phi_i Y_i \Phi_j Y_j}{\sum_i \sum_j M_{ij}} \qquad (15)$$

With $F(Y_i, N_j)$ taking on a log-linear form, equation (15) is the deterministic form of the gravity equation (9) with the distance term suppressed and a scale term added. In fact, if trade imbalance due to long term capital account transactions is a function of (Y_i, N_j), we may write the basic balance $Y_i \Phi_i m_i = (\Sigma Y_j \Phi_j)\theta_i$, with $m_i = m(Y_i, N_j)$, and substitute into (13) and (14). This yields:

$$M_{ij} = \frac{m_i \Phi_i Y_i \Phi_j Y_j}{\sum_i \sum_j M_{ij}} \qquad (16)$$

With log-linear forms for m and F, (16) is again essentially the deterministic gravity equation.

5.2 Econometric Procedures

Until recently Gravity models were only applied to either cross-section data, or to single country time series data, which imposed severe explicit (or implicit) restrictions on the specification of the model. Recent studies (Matyas, 1997 & 1998; Rahman, 2003; Cheng and Wall, 2005), however, have tried to generalize and adapt gravity models to a panel data setting. Panel data analysis is a method of studying a particular subject within multiple sites, periodically observed over a defined time frame. With repeated observations of enough cross-sections, panel analysis permits the researcher to study the dynamics of change with short time series. The combination of time series with cross-sections can enhance the quality and quantity of data in ways that would be impossible to accomplish using only either dimension (Gujarati, 1995).

As applied to the gravity model, panel approach not only increases the degrees of freedom, but it also enables the proper specification of source and target country effects and time effects. Panels allow monitoring unobservable trading partner pairs' individual effects. If these individual effects are correlated with regressors, estimates omitting the individual effects will give a biased result. Standard cross-section estimates of the gravity model yield biased estimates of the volume of bilateral trade because there is no heterogeneity allowed for in the regression equations. With such heterogeneity, a country would export different amounts to two countries, even though the two export markets have

the same GDPs and are equidistant from the exporter. This can be due to historical, cultural, ethnic, political, or geographic factors that affect the level of trade and are correlated with the gravity variables. If so, then estimates that do not account for these factors will suffer from heterogeneity bias. Some studies have, to some extent, tried to control for this by including things such as whether trading partners share a common language, have had a colonial history, or are in military alliance. However, cultural, historical, and political factors are often difficult to observe, let alone quantify (Cheng and Wall, 2005).

This particular study, therefore, used panel data methodology for the empirical gravity model of bilateral trade within Africa. There are several types of panel data analytic models. Among these models are constant coefficients models, fixed effects models, and random effects models. The constant coefficients panel model, sometimes called the pooled regression model, has constant coefficients referring to both intercepts and slopes. The data can be pooled and run using OLS regression in the event that there is neither significant country nor significant temporal effects. The fixed effects model has constant slopes but intercepts that differ according to the cross-sectional unit. In some cases the intercept is cross-section specific and differs from country to country, but may not differ over time. In other types of fixed effects models, however, the slopes remain constant while the intercepts differ according to time having no significant country differences. There are also other types of fixed effects models where the slope coefficients remain constant but the intercept varies over country as well as time; where the intercepts and slopes vary with the country; or where both intercepts and slopes vary with country and time. The random effects model is a regression model with a random constant term (Yafee, 2003).

5.2.1 A Statistical Overview[16]

There are various forms of the gravity model in the literature that have been used to estimate bilateral trade flows. These models are restricted versions of a general gravity model, which has a log-linear specification but places no restrictions on the parameters. In the general model, the volume of trade between countries i and j in year t can be characterized by

$$\ln X_{ijt} = \alpha_0 + \alpha_t + \alpha_{ij} + \beta'_{ijt} Z_{ijt} + \varepsilon_{ijt}, \quad t = 1,\ldots,T \qquad (17)$$

[16] This section follows from Cheng and Wall (2002, 2005) and Matyas (1997, 1998)

Where X_{ijt} *is* exports from country *i* to country *j* in year *t*, and $\mathbf{Z}'_{ijt}$ represents a vector of gravity variables (GDP, per capita GDP, and distance). The intercept term has three parts, the first part is common to all years and country pairs, α_0 ; the other term is specific to year *t* and common to all pairs, α_t ; and the third one is specific to the country pairs and common to all years, α_{ij}. The disturbance term, ε_{ijt}, is assumed to be normally and independently distributed with zero mean and constant variance for all observations, i.e., $\varepsilon_{ijt} \square IN\left(0,\sigma_t^2\right)$, $E\left(\varepsilon_{ijt},\varepsilon_{ij't}\right)=0$ and $E\left(\varepsilon_{ijt},\varepsilon_{ijt-1}\right)=0$. It is also assumed that the disturbances are pair wise uncorrelated.

Equation (17) has only one observation and it is not useful for estimation unless restrictions are imposed on the parameters. The standard single-year cross-section model imposes the restrictions that the slopes and intercepts are the same across country pairs; i.e. that $\alpha_{ij} = 0$ and $ß_{ijt} = ß_t$,

$$\ln X_{ijt} = \alpha_0 + \alpha_t + \beta_t' Z_{ijt} + \varepsilon_{ijt}, \quad t = 1, \ldots, T \qquad (18)$$

where α_0 and α_t cannot be separated. Assuming that all the classical disturbance-term assumptions hold, the standard Cross Section model is estimated by ordinary least squares (OLS) for each year.

The other standard estimation method is a pooled cross-section model (PCS), which imposes the further restriction on the general model that the parameter vector is the same for all *t*, $ß_1 = ß_2 = \ldots = ß_T = ß$, although it normally allows the intercepts to differ over time;

$$\ln X_{ijt} = \alpha_0 + \alpha_t + \beta' Z_{ijt} + \varepsilon_{ijt}, \quad t = 1, \ldots, T \qquad (19)$$

This is estimated by OLS using data for all available years.

Until recently, most estimates of the gravity model of trade use either the Cross Section or the Pooled Cross-section models, which, according to new developments in the area, provide biased estimates. The biased estimates arise from the heterogeneity inherent in the standard gravity models. To address this bias, it is recommended to remove the restriction that the country-pair intercept terms equal zero, while still maintaining the restriction that the slope coefficients are constant across country pairs and over time. The model estimated, thus, is called the Fixed Effects model which is specified as:

$$\ln X_{ijt} = \alpha_0 + \alpha_t + \alpha_{ij} + \beta' Z_{ijt} + \varepsilon_{ijt}, \quad t = 1, \ldots, T \qquad (20)$$

Note that the country-pair effects are allowed to differ according to the direction of trade, i.e. $\alpha_{\iota\varphi} \neq \alpha_{\varphi\iota}$. The Fixed Effects model is a two-way model in which the independent variables are assumed to be correlated with α_{ij} , and is a classical regression model that can be estimated using OLS.

Other models tried to handle the country pair heterogeneity using different methods which can be modeled as a restricted version of the Fixed Effects model. One such model imposes the restriction that the country-pair effects are the symmetric, i.e. $\alpha_{ij} = \alpha_{ji}$. Another approach uses the differences in the dependent and independent variables to eliminate the fixed variables, including the country-pair dummies and distance. Mátyás (1997) proposes that the correct specification of the gravity model should be specified as:

$$\ln X_{ijt} = \alpha_0 + \alpha_t + \theta_i + \omega_j + \beta' Z_{ijt} + \varepsilon_{ijt}, \quad t = 1, \ldots, T \qquad (21)$$

where the country-specific effect when a country is an exporter is θ_i, and when it is an importer is ω_j. Note that in this specification, distance, common border, and language are eliminated because they are fixed over time, even though they are not collinear with the country-specific effects. This model is a special case of the Fixed Effects model in that it imposes arbitrary cross country restrictions on the country-pair effects.

In their exhaustive survey of the subject, Cheng and Wall (2005) suggest that the fixed effects model is the best suited model for estimating bilateral trade flow. "To address the problem of heterogeneity we adopt a two-way fixed-effects model in which country-pair and period dummies are used to reflect the bilateral relationship between trading partners. The fixed effects capture those factors such as physical distance, the length of border (or contiguity), history, culture, language, etc., that are constant over the span of the data, and which are correlated with the volume of bilateral trade. We show that alternative fixed-effects models are special cases of our model, and that the restrictions necessary to obtain these special cases are not supported statistically" Cheng and Wall (2005). Also, because these restrictions have little or no economic support, the authors argue that they should not be imposed.

5.2.2 Standard Pooled Cross Section Model

Data

The gravity equation is estimated using data for twenty six African countries covering the period 1994 – 2001. The base year was selected for the very reason that it coincides with the year the African Economic Community was established. In most of the data sources current updated data for all the variables is compiled only up to year 2001 limiting our analysis thereof. Data on the annual US dollar value of exports between the reporting and partner countries is extracted from International Monetary Fund (IMF) Direction of World Trade Statistics (DOTS) CD-ROM (February, 2003). Total GDP and Per capita GDP in current US dollar of both the reporting and the partner countries are obtained from the World Bank African Database-2004 CD-ROM. Distance between the capital cities of the trade partners is based on John Byers' (1999) calculation which is a great circle distance calculated between points on earth given the latitudes and longitudes of the points. The information on the border and language dummies is found in the CIA World Fact Book. The data is a balanced panel data with 650 country pairs making a total of 5200 observations for the eight years studied. The 26 countries are selected merely on the criteria of data availability.

Variable Definition

Bilateral Trade: Export data is used to proxy bilateral trade. Some studies use total trade (sum of imports and exports) to measure bilateral trade, while others use just imports or exports for the same purpose. The results reported in these studies show fairly identical estimates regardless of which method they chose.

GDP and Per capita GDP: A country's absolute trade potential depends on its total economic size as measured by its GDP. The level of economic development of a country can be captured using GDP per capita as a proxy.

Distance: The trade attraction between two nations is affected by the total cost of the transaction which includes transportation cost. The distance between the capital cities of the two trading partners is used as proxy for transport costs. Since this variable is used to proxy all possible costs of trade a negative sign is expected.

Border: sharing a common border can increase trade by facilitating cross border trade and development of common infrastructure such as transport and communication.

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Border: sharing a common border can increase trade by facilitating cross border trade and development of common infrastructure such as transport and communication.

Language: Speaking similar language also facilitates trade by providing better communication.

Per capita GDP differential: The absolute value of the difference in per capita GDP between the two countries capture Linder's hypothesis. The hypothesis states that countries with similar living standards will trade more with each other.

Estimation and Results

In the augmented version of the gravity model, the gravity variables are the countries' GDPs, their per capita GDP, and the distance between them. Thus, the augmented Pooled Cross Section model assumes that in a given year trade flows from exporting country *i* to importing country *j* can be estimated using:

$$\ln X_{ijt} = \alpha_0 + \beta_1 \ln Y_{it} + \beta_2 \ln Y_{jt} + \beta_3 \ln PC_{it} + \beta_4 PC_{jt} + \varphi PCD_{ijt} + \delta_1 \ln D_{ij} + \delta_2 B_{ij} + \lambda L_{ij} + \gamma REC_{ij} + \varepsilon_{ijt}; \quad (22)$$

Where α_0 is the intercept that is common to all years and trading pairs; Y_i and Y_j are the two countries' GDPs; PC_i and PC_j are the countries' per capita GDP; PCD is per capita differential of the trade partners. PCD is inserted in the equation to test support for either the standard Heckscher-Ohlin theory or Linder's hypothesis; D_{ij} is the distance between them; B_{ij} is a dummy variable capturing the effect of sharing a common border; and L_{ij} is a common language dummy. REC represents memberships to the six regional economic communities.

Hypotheses to be tested

Since trade flows are expected to be positively related to the trading pairs' national incomes we expect a positive sign for β_1 and β_2. The sign for β_3 and β_4 is ambiguous in the literature. With a higher per capita income a country may enjoy economies of scale effect in which case the coefficient becomes positive, or due to absorption effect the country may export less. The same analogy holds for importing country's per capita GDP. Distance unambiguously affects trade inversely and we expect $\delta_1$to be negative. Sharing a common border and language are believed to increase trade flows, hence we expect positive signs for both δ_2 and λ. γ is expected to have a positive sign on the assumption that membership to the same regional economic community increases the volume of bilateral trade flow.

Results

Fitting equation (22) with the data explained above, the regression result reported in table 5.1 below is obtained. The coefficients for both trading pairs' GDP, distance, and Border variables all have the correct sign and are statistically significant (except importer country's GDP which is insignificant).

The coefficients for per capita GDP are positive indicating that bilateral trade move along with per capita income; however, the results are statistically insignificant. Language (statistically insignificant) is found to positively affect trade flows. The per capita income differential variable supports the standard Hecksher-Ohlin theory rejecting Linder's hypothesis.

To summarize the estimation results:

- An increase in the reporting country's GDP will lead to less than proportionate increase in its exports to the trading partner (exports tend to increase by 0.20% for a 1% increase in GDP); an increase in the partner country's GDP affects trade likewise but at a much lower magnitude;
- The reporting country exports 52% less to a distant country and 39% more to a country which it shares a common border with.
- The integration dummies give a mixed result. UMA, SADC, IGAD and ECOWAS are found to affect intraregional trade positively and significantly while the obtained value for COMESA is insignificant. The dummy variable for ECCAS is not included in the regression equation to avoid collinearity.

Table 5.1 Regression results for the Standard Pooled Cross Section Model

Variable	Coefficient	Std. Error	t-Statistic
Exporter GDP	0.206317*	0.030887	6.679843
Importer GDP	0.045208	0.030991	1.458750
Exporter PC GDP	0.006469	0.044365	0.145802
Importer PC GDP	0.010285	0.044758	0.229801
PCGDP Diff.	0.151130*	0.028562	5.291253
Distance	-0.518486*	0.040663	-12.75065
Border	0.394061*	0.067701	5.820571
Language	0.016571	0.036127	0.458693
COMESA	0.006192	0.045718	0.135450
ECOWAS	0.505382*	0.052568	9.613845
IGAD	0.629061**	0.274224	2.293970
SADC	0.314473*	0.079942	3.933752
UMA	0.935083*	0.123681	7.560454
R^2	0.434084	Log likelihood	-7600.422
Adjusted R^2	0.432081	Sum squared resid.	5663.380
Akaike info criterion	2.928239	F-statistic	66.93235

* And ** represent significance at 1% and 5% confidence interval.

To test for heteroscadasticity in the model a separate regression is made and the herteoscadasticity corrected results are reported in annex 2. The results are fairly identical to the pooled cross section model in terms of both sign and significance. The gravity model has been applauded for its empirical success and same is manifested in this particular study fitting the Standard Pooled Cross Section model. Cheng and Wall (2002, 2005), however, strongly recommend that one should not take these attractive figures for granted for they may give a biased result. According to the authors the results do not account for country pair heterogeneity and may tend to under or over predict bilateral trade flows. To remedy this problem they suggested fitting a Fixed Effects model which captures country and time specific variations.

5.2.3 Fixed Effects Model Controlling for Country-pair Heterogeneity

Estimates of standard pooled cross section models fail to give a clear account as to why a country trades more with one country and less with the other while both trading partners are equally distant and similar in economic size. The reasons for such heterogeneity could be historical, cultural and political ties which are difficult to observe and quantify. What is more, it still is quite difficult to single out which particular factor influences the trade flow between the trading pairs. The fixed effects model tries to control these factors by assuming that there are fixed country pair specific factors that may be correlated with levels of bilateral trade flows and/or the explanatory variables of bilateral trade.

The Model

The fixed effects model is specified as:

$$\ln X_{ijt} = \alpha_{ij} + \alpha_t + \beta_1 \ln Y_{it} + \beta_2 \ln Y_{jt} + \beta_3 \ln PC_{it} + \beta_4 \ln PC_{jt} + \delta \ln PCD_{ijt} + \varepsilon_{ijt}; \quad (23)$$

where α_{ij} is the specific country pair effect between the trading partners and is allowed to differ for each direction of trade ($\alpha_{ij} \neq \alpha_{ji}$).

A problem always faced with Fixed Effects model is that one cannot directly estimate variables that do not change over time because the inherent transformation wipes out such variables. However, these variables can be easily estimated in a second step, running another regression with the

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A problem always faced with Fixed Effects model is that one cannot directly estimate variables that do not change over time because the inherent transformation wipes out such variables. However, these variables can be easily estimated in a second step, running another regression with the

individual effects as the dependent variable and distance and dummies as explanatory variables (Cheng and Wall, 2002; Rahman, 2003; Martinez-Zarzoso and Nowak-Lehman, 2003).

Hypotheses to be tested

The hypotheses to be tested in this sub section are fairly the same to that of the previous regression equation except that the fixed effects model does not include all the dummy variables and distance since these variables are time invariant and tend to be collinear with the constant term which we allow to capture individual and time specific factors. The GDP variables for both trading pairs is expected to have a positive sign while the coefficient for per capita GDP may still have either sign depending on the reasons explained above. Similarly the per capita income differential variable may also have either signs supporting one of the two international trade theories (i.e., Heckscher-Ohlin theory and Linder's hypothesis).

Results

As explained above the fixed effects model does not include time invariant variables as they will be cancelled out by the time and cross section specific individual effects which are allowed in the model. As in the case of the standard pooled cross section model the regression of the fixed effects model provides statistically significant positive coefficients for both reporting and partner countries' GDP. Once again the per capita income variable is found to be insignificant for exporter country, and it has a negative sign here. The per capita income differential variable still supports the standard Heckscher-Ohlin theory, though the value is not significantly different from zero.

Table 5.2 Regression results for the Fixed Effects Model

Variable	Coefficient	Std. Error	t-Statistic
Constant	-7.773571*	1.642716	-4.732145
Exporter GDP	1.611750*	0.520565	3.096153
Importer GDP	2.699369*	1.073345	2.514912
Exporter PC GDP	-0.635319	0.488745	-1.299898
Importer PC GDP	-2.596319**	1.122324	-2.313341
PCGDP Diff.	0.046077	0.057183	0.805784
R-squared	0.614659	Akaike info criterion	2.368194
Adjusted R-squared	0.558531	F-statistic	70.95097
Sum squared resid	2520.256	Log likelihood	-5495.306

* And ** represent significance at 1% and 5% confidence interval.

The coefficients of the country specific and time specific variables are not included here for space considerations. The results, however, show that there is a consistent decline in the time specific variable with a possible indication that intra REC and intra Continent trade has been declining in the sample period. To capture the effects of time invariant independent variables on bilateral trade flows, a separate regression equation is fitted following the works of Cheng and Wall (2002, 2005), Matyas (1997, 1998), Rahman (2003), and Martinez-Zarzoso and Nowak-Lehman (2003). The coefficients of the country specific effects obtained from the fixed effects model regression output are regressed against these time invariant variables as specified in equation (24).

$$IE = \alpha_0 + \beta_1 \ln D_{ij} + \beta_2 B_{ij} + \beta_3 L_{ij} + \beta_4 REC_{ij} \qquad (24)$$

The results of this regression (see table 5.3) indicate that distance affects trade negatively while border has a positive impact. The magnitude of the two effects is much lower than what has been reported in the standard pooled regression model. The Language dummy is found to be insignificant and with a surprising negative sign. One possible explanation for the negative sign of the language dummy may be the nature of the data. The data used is a formal recorded data of international trade and language has little impact on such trade. The importance of language in determining international trade is stronger in unrecorded border trade. The REC dummies are significant with the correct expected sign in the cases of ECCAS, ECOWAS, and SADC. The coefficient for COMESA is negative while those of IGDA and UMA are positive but insignificant.

Table 5.3 Regression results of time invariant variables of the fixed effects model

Variable	Coefficient	Std. Error	t-Statistic
Distance	-0.0282**	0.013396	-2.10521
Border	0.49538**	0.207040	2.392665
Language	-0.117024	0.129831	-0.901354
COMESA	-0.387997*	0.122509	-3.16709
ECCAS	0.802506*	0.291042	2.757355
ECOWAS	0.840399*	0.134707	6.238741
IGAD	0.458716	0.732211	0.62648
SADC	0.700192*	0.209971	3.334715
UMA	0.472469	0.315665	1.496742
R-squared	0.201506		
Adjusted R-squared	0.191709		
Sum squared resid	630.4306		
Log likelihood	-912.375		
Akaike info criterion	2.831923		

* And ** represent significance at 1% and 5% confidence interval.

CHAPTER SIX

CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusions

Regional integration has been a part of Africa's development strategy for the past three to four decades. The first attempts of integration even date back to the turn of the twentieth century. The advantages of regionalism in Africa were recognized long before the current wave of globalization. This fact is manifested in the actions of the Heads of States of the continent when they sit together and create the Organization of African Unity (OAU) in 1964. The OAU charter and the Constitutive Act establishing the African Union define regional integration as one of the foundations of African Union. The Lagos Plan of Action and the Abuja Treaty establishing the African Economic Community (AEC) spell out the economic, political, and institutional mechanisms for attaining this ideal.

This enthusiasm, however, does not reflect on progress on African integration. There are substantial gaps between the goals and achievements of most regional economic communities. The progress towards harmonized and integrated regional markets has been below expectations. No REC has yet to establish a full fledged free trade area, let alone achieve a customs union and common market. Intra community trade is limited; and trade with third countries (especially Europe and Asia) still dominates the continent's foreign transactions. Macroeconomic policy harmonization is another focus area where little progress has been registered. Few RECs have set macroeconomic convergence criteria. Differences in economic and political agenda, and sustained conflicts (both internal and external) made it difficult to achieve convergence even in these few RECs. There are also evidences of policy reversals impeding the progress towards macroeconomic policy harmonization.

Trade liberalization has not progressed as it should. Elimination of tariffs has begun long ago in all the RECs but trade liberalization has not been fully implemented in all countries. Deadlines and schedules are rarely met by any of the RECs. Non tariff barriers still exist in greater magnitudes,

even though it is difficult to verify the actual performance of members of RECs given the wide range of trade retarding non tariff barriers.

In free trade areas where member states are allowed to maintain an independent commercial policy with respect to non members, the issue of "rules of origin" comes into force to avoid the problem of free riding and cheating. By definition the rules should be simple and trade promoting. In practice, though, the rules are defined very tightly and ambiguously. The rules fall short of WTO Trade Related investment Support measure requirements on local context restrictions, but they are allowed to promote use of domestic inputs and reduce dependence on imported raw materials. Trade facilitation and promotion techniques have been introduced in the RECs, though the degree of application varies across them.

Outstanding issues such as revenue loss resulting from trade liberalization, overlapping membership, and lack of private sector participation are not yet addressed sufficiently. The issue of revenue loss as a result of tariff elimination is proved unjustified on the basis of the magnitude of importance that tariff revenues have on the countries' total tax revenue. Overlapping membership is viewed as wasting efforts and scarce resources. Having multiple regional groups only adds complications to the work of harmonization and coordination.

Changes in the world trading regime constitute a major factor driving Africa's regional integration agenda. The WTO is in force requiring countries to undergo significant tariff reductions and non tariff barriers removal. Developed countries are pursuing bilateral trade liberalization with African countries (for example AGOA, EU-ACP, EU-EBA). The world is integrating through increased communications exchange, cultural diffusion and easier travel having an impact in driving Africa's regional integration impetus.

The Gravity model fitted in the study finds national income (as measured by GDP and per capita GDP), distance between trading partners, sharing the same border, and speaking identical languages affect bilateral trade flows in the continent. Membership to the same regional economic community is also another determinant of trade between two pairs. The study also found out that fitting the gravity model with panel data and controlling for country pair heterogeneity will give more robust results. Following this approach it is possible to explain why a country trades more with one partner

and less with another while both partners are similar in all other respects (similar income level, equidistant).

6.2 Recommendations and Policy Issues

The general consensus regarding African regional integration process is that the process is one of the most credible strategies for tackling the development challenges of the continent given the small and fragmented economies of individual countries. One fact, however, should be underlined in bold. Regional integration is just one instrument for advancing African economies in the direction of the long awaited development. To succeed in this attempt integration must be a part and parcel of an overall development strategy. RECs should be rationalized to address the issues at which they are best suited. The success of regional integration attempts depends on the commitments of member states.

The ultimate goal of all African RECs is to converge to one economic union, the African Economic Community. Having too many regional groupings does not make this ultimate goal any easier to achieve. The presence of overlapping membership complicates the overall integration process, and drains the scarce resources of the continent which should be preserved at any cost. It is generally believed that rationalizing of RECs is a task that should be accomplished as soon as possible. For the rationalization process to bear fruit, the existing RECs should follow a well articulated framework and common guiding principles. Suggested such principles are sharing the same vision; strengthening the efficiency of the RECs; ensuring geographical viability, economic interdependence, commonality of language and culture, and resource endowments of the communities; broadening the economic and market size for investment; designing realistic and participatory approach etc.

A strange trend in the integration history of Africa is that contrary to their repeated and long lived experience with regionalism, many countries are reluctant to sign and ratify protocols designed by the RECs. Protocols are needed to put treaties into effect and failing to ratify them slows the pace of integration. Enforcement mechanisms should be designed and put to force both by individual RECs and the African Union.

Having spent too much time in the command economy system most African countries are still behind in letting the private sector participate in developmental sectors. This reluctance is also reflected in the conventions and treaties of the RECs which failed to explicitly include the role of the private sector in identifying, formulating and implementing integration policies and programmes. The private sector is an important source of financial and human capital.

Regional integration can indeed help Africa attain the anticipated development and economic prosperity. This can be achieved by creating opportunities for increased investment and making use of the unexploited resources of the continent through coordinated, self sustained and autonomous development strategies. Such development strategies should be able to transform the continent's production structures. The way things are unfolding at the moment it is not clear whether the existing African RECs are able to help the continent achieve these goals.

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Annex 1: Trade data of African RECs before and after their respective establishments

CEN-SAD

Country	Exports							
	average 1995 - 1998	1995	1996	1997	1998	1999	2000	2001
Benin	31.4225	25.75	34.26	24.3	41.38	13.64	17.93	20.37
Burkina Faso	9.28	9.05	12.5	8.46	7.11	5.33	9.4	15.61
Central African Rep.	1.175	1.21	1.29	0.51	1.69	0.69	0.76	1.37
Chad	7.1975	4.35	4.55	13.78	6.11	5.69	8.35	11.23
Djibouti	55.285	44.57	52.62	57.89	66.06	69.71	80.18	88.51
Egypt	121.2325	123.3	108.38	130.73	122.52	108.36	143.28	140.79
Eritrea	0	0	0	0	0	0	0	0
Gambia, The	2.18	6.73	0.56	0.62	0.81	0.56	0.18	0.21
Libya	541.0325	515.9	645.61	553.96	448.66	322.2	398.5	414.97
Mali	12.885	11.26	11.65	14.26	14.37	6.82	9.16	9.46
Morocco	207.9125	243.16	228.69	216.43	143.37	167.3	207.58	195.65
Niger	42.26	24.83	53.47	41.13	49.61	55.35	85.04	60.64
Nigeria	279.87	205.39	346.28	346.9	220.91	233.49	421.45	357.04
Senegal	96.87	100.88	98.23	84.14	104.23	100.3	96.63	105.93
Somalia	0.6375	0.62	0.73	0.48	0.72	1.07	2.3	0.86
Sudan	23.89	14.54	30.77	31.8	18.45	39.09	43.52	64.95
Togo	19.755	18.46	19.44	18.03	23.09	29.6	32.82	79.9
Tunisia	283.495	251.77	270.99	318.46	292.76	353.68	342.3	357.91

Country	Imports							
	average 1995 - 1998	1995	1996	1997	1998	1999	2000	2001
Benin	30.89	27.5	33.14	32.68	30.24	90	53.84	67.01
Burkina Faso	39.6025	41.78	41.26	34.33	41.04	38.74	44.2	75.19
Central African Rep.	3.4625	4.3	2.81	4.03	2.71	3.49	4.48	4.48
Chad	17.4225	13.66	15.7	17.85	22.48	18.14	21.77	25.07
Djibouti	2.3125	0.97	1.26	2.11	4.91	4.35	5.51	8.88
Egypt	127.395	120.23	135.34	128.74	125.27	120.67	162.05	144.11
Eritrea	0	0	0	0	0	0	0	0
Gambia, The	9.925	4.49	8.85	5.98	20.38	5.24	33.98	42.02
Libya	436.735	453.41	416.77	477.69	399.07	423.18	464.82	387.74
Mali	59.8675	60.26	65.45	57.45	56.31	55.29	57.45	78.76
Morocco	261.6675	220.89	402.53	330.27	92.98	158.27	166.74	190.08
Niger	46.59	45.39	41.03	44.26	55.68	48.82	55.45	63.34
Nigeria	76.54	68.36	86.32	59.44	92.04	79.37	115.95	111.67
Senegal	94.4	85.29	83.77	97.64	110.9	140.76	320.24	353.96
Somalia	61.13	49.77	57.98	64.06	72.71	77.09	88.5	97.15
Sudan	201.99	245.83	263.5	295.53	3.1	31.22	31.34	40.35
Togo	25.24	24.4	22.04	26.25	28.27	16.5	12.68	19.54
Tunisia	316.6325	280.32	338.86	343.47	303.88	360.48	432.2	457.23

COMESA

Country	Exports								
	average 1988 - 1993	1994	1995	1996	1997	1998	1999	2000	2001
Angola	0.13	8.48	10.18	0.01	0.02	0.47	0.17	0.03	0.05
Burundi	11.42	10.58	8.57	5.29	0.73	1.80	1.09	8.17	5.82
Comoros	0.16	0.01	0.09	0.01	0.49	0.43	0.05	0.02	0.03
Congo, DR	25.88	7.06	13.30	19.26	7.80	5.59	6.32	13.29	94.67
Djibouti	21.59	40.68	25.81	27.02	5.63	5.19	5.60	7.15	7.43
Egypt	37.65	34.32	31.85	27.81	36.02	10.42	38.75	50.22	67.12
Eritrea	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ethiopia	22.14	33.67	42.83	40.37	69.96	55.47	65.46	73.24	68.45
Kenya	239.32	415.86	517.50	557.30	543.79	562.54	564.07	642.50	702.24
Madagascar	10.73	8.82	21.74	14.33	12.16	16.80	10.26	16.17	17.72
Malawi	17.69	22.01	15.97	47.78	34.20	35.92	18.07	18.93	32.77
Mauritius	17.11	44.21	54.87	72.99	83.55	93.80	91.66	96.01	109.20
Namibia	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Rwanda	1.45	0.84	1.23	0.98	4.25	2.21	2.96	2.01	1.75
Seychelles	0.40	0.34	0.23	1.41	0.20	0.34	0.67	0.90	1.00
Sudan	20.51	3.16	3.32	19.34	26.28	16.82	37.02	42.71	62.92
Swaziland	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Uganda	5.28	5.05	10.24	7.32	9.77	3.07	3.32	3.56	6.19
Zambia	56.33	64.11	75.33	176.26	91.51	90.63	86.03	96.72	127.43
Zimbabwe	150.23	229.29	193.68	217.35	270.71	244.55	190.60	199.87	53.90

Country	Imports								
	average 1988 - 1993	1994	1995	1996	1997	1998	1999	2000	2001
Angola	8.49	12.59	14.58	10.17	10.34	6.28	7.53	5.83	2.44
Burundi	20.83	25.89	25.2	11.84	16.12	24.51	18	18.42	15.6
Comoros	5.67	7.97	9.85	6.97	5.14	4.91	5.32	6.06	6.62
Congo, DR	26.11	84.97	86.02	91.11	84.32	45.05	45.16	53.52	50.49
Djibouti	24.54	39.01	44.75	42.83	53.84	55.09	57.57	66.19	68.49
Egypt	91.49	84	138.98	131.42	137.05	124.44	139.69	173.68	235.67
Ethiopia	44.75	77.64	70.42	74.96	28.79	35.94	28.13	32.85	36.74
Kenya	40.36	50.59	37.15	14.59	42.71	29.64	26.01	42.97	44.9
Madagascar	8.18	3.77	4.06	7.67	8.74	10.08	7.21	14.75	17.62
Malawi	69.19	96.37	49.54	131.66	118.15	127.57	154.24	124.17	88.84
Mauritius	28.42	41.59	54.3	52.94	55.58	55.92	46.99	56.83	55.36
Rwanda	50.63	36.25	45.22	52.27	75.21	72.18	62.94	74.21	81.84
Seychelles	5.35	8.09	9.78	9	14.27	12.07	14.98	10.77	11.09
Sudan	53.59	66.34	52.46	50.75	68.01	52.23	80	90.85	103.06
Uganda	115.20	237.88	314.7	341.73	312.23	323.11	346.2	394.02	430.82
Zambia	94.22	64.58	75.29	117.57	78.99	128.9	83.16	87.02	31.89
Zimbabwe	54.09	38.57	39.65	82.16	93.87	69.53	60.58	67.71	143.58

ECCAS

Country	Exports						
	average 1980 - 1983	aerage 1984 - 1988	average 1989 - 1993	average 1994 - 1998	1999	2000	2001
Angola	0.03	1.32	0.75	5.45	10.62	5.77	7.19
Burundi	3.31	5.26	4.91	2.22	1.00	2.05	2.46
Cameroon	63.67	85.20	96.73	100.94	103.50	102.46	103.07
Central African Rep.	0.92	1.57	1.97	5.68	2.64	3.00	3.27
Chad	6.99	2.36	0.59	1.55	1.75	4.19	2.30
Congo, Dem. Rep. of	14.37	22.86	10.16	6.78	8.01	9.18	9.94
Congo, Republic of	7.01	8.99	10.46	15.44	18.77	29.38	27.92
Equatorial Guinea	0.06	0.03	0.01	21.44	12.21	19.65	36.44
Gabon	6.02	2.86	2.22	14.09	17.74	22.83	24.76
Rwanda	1.14	0.70	0.78	1.26	2.82	1.85	1.57
São Tomé & Príncipe	-	-	-	0.01	0.01	0.01	0.01

Country	Imports						
	average 1980 - 1983	aerage 1984 - 1988	average 1989 - 1993	average 1994 - 1998	1999	2000	2001
Angola	6.57	7.96	7.61	10.83	10.43	35.84	29.38
Burundi	1.91	2.60	2.07	1.93	2.77	1.58	1.21
Cameroon	44.78	8.46	3.06	28.82	22.72	34.36	50.01
Central African Rep.	5.16	9.67	23.30	20.25	24.48	14.85	14.25
Chad	15.88	18.16	6.84	14.45	23.31	11.45	13.02
Congo, Dem. Rep. of	0.82	0.49	8.14	22.21	23.82	52.20	56.82
Congo, Republic of	17.84	6.33	2.81	21.10	32.32	36.86	37.47
Equatorial Guinea	0.45	7.36	24.48	26.03	16.88	9.92	12.79
Gabon	0.27	35.86	33.48	30.13	36.99	18.98	19.75
Rwanda	3.70	5.99	4.91	5.74	6.42	8.40	9.24
São Tomé & Príncipe	-	0.11	0.08	0.52	0.90	1.12	1.21

ECOWAS

Country	Exports								
	average 1981 - 1985	average 1986 - 1990	average 1991 - 1995	1996	1997	1998	1999	2000	2001
Benin	5.73	16.80	10.36	12.76	10.42	30.25	10.67	12.32	12.56
Burkina Faso	17.07	24.95	28.88	38.83	35.02	13.64	12.50	17.70	21.76
Cape Verde	0.14	0.08	0.44	0.66	0.02	0.00	0.01	0.07	0.08
Côte d'Ivoire	318.24	475.10	650.55	809.65	838.82	982.62	900.73	912.63	897.04
Gambia, The	12.37	6.03	9.30	1.58	1.11	2.79	1.36	0.79	0.74
Ghana	34.09	23.66	129.70	91.84	97.07	106.79	111.46	127.93	134.59
Guinea	2.32	3.03	5.52	4.39	11.73	10.22	4.25	2.14	4.44
Guinea-Bissau	0.97	0.49	1.25	0.36	0.26	2.31	0.53	0.54	1.53
Liberia	10.09	2.30	1.93	1.72	1.58	3.06	5.22	5.86	5.38
Mali	37.72	33.92	8.91	8.56	7.13	8.82	5.81	9.43	8.20
Niger	48.89	24.24	56.33	74.25	54.62	65.03	69.78	94.07	64.05
Nigeria	376.36	367.88	718.17	1,024.95	977.16	888.66	967.81	1,486.57	1,369.27
Senegal	93.83	90.35	88.05	134.74	130.32	148.52	152.62	146.81	153.99
Sierra Leone	1.64	-	-	-	-	-	-	3.13	0.16
Togo	27.42	24.41	36.46	18.84	18.72	26.92	42.27	64.72	128.30

Country	Imports								
	average 1981 - 1985	average 1986 - 1990	average 1991 - 1995	1996	1997	1998	1999	2000	2001
Benin	28.51	47.16	23.99	71.25	71.51	69.51	190.56	116.10	124.00
Burkina Faso	85.18	106.81	122.21	144.87	124.45	204.26	235.11	174.91	195.36
Cape Verde	0.98	2.44	9.32	6.18	4.69	4.22	4.12	2.77	3.03
Côte d'Ivoire	155.04	340.84	427.33	576.74	463.22	364.11	434.68	697.36	525.68
Gambia, The	5.10	10.92	28.09	30.26	16.50	35.25	13.80	47.28	50.81
Ghana	245.63	170.21	344.34	582.08	661.26	788.16	667.47	800.42	899.00
Guinea	7.10	29.67	104.63	120.90	49.82	59.43	49.84	105.56	92.75
Guinea-Bissau	3.99	7.44	7.42	10.94	10.01	10.41	13.57	14.18	15.58
Liberia	21.58	5.89	15.81	17.16	21.38	28.36	31.23	56.51	47.71
Mali	106.82	126.22	180.55	258.66	269.13	286.40	275.00	283.73	286.21
Niger	96.57	97.30	81.48	72.58	77.75	95.36	96.60	98.63	111.10
Nigeria	51.66	27.04	169.45	205.85	158.65	228.23	180.57	263.43	216.49
Senegal	80.32	127.88	122.38	107.79	120.74	134.48	167.34	340.19	401.80
Sierra Leone	52.31	48.20	36.86	40.15	39.46	18.18	19.13	29.56	44.16
Togo	24.51	41.27	118.44	53.68	57.94	64.37	50.39	57.24	43.36

ECOWAS

Country	Exports								
	average 1981 - 1985	average 1986 - 1990	average 1991 - 1995	1996	1997	1998	1999	2000	2001
Benin	5.73	16.80	10.36	12.76	10.42	30.25	10.67	12.32	12.56
Burkina Faso	17.07	24.95	28.88	38.83	35.02	13.64	12.50	17.70	21.76
Cape Verde	0.14	0.08	0.44	0.66	0.02	0.00	0.01	0.07	0.08
Côte d'Ivoire	318.24	475.10	650.55	809.65	838.82	982.62	900.73	912.63	897.04
Gambia, The	12.37	6.03	9.30	1.58	1.11	2.79	1.36	0.79	0.74
Ghana	34.09	23.66	129.70	91.84	97.07	106.79	111.46	127.93	134.59
Guinea	2.32	3.03	5.52	4.39	11.73	10.22	4.25	2.14	4.44
Guinea-Bissau	0.97	0.49	1.25	0.36	0.26	2.31	0.53	0.54	1.53
Liberia	10.09	2.30	1.93	1.72	1.58	3.06	5.22	5.86	5.38
Mali	37.72	33.92	8.91	8.56	7.13	8.82	5.81	9.43	8.20
Niger	48.89	24.24	56.33	74.25	54.62	65.03	69.78	94.07	64.05
Nigeria	376.36	367.88	718.17	1,024.95	977.16	888.66	967.81	1,486.57	1,369.27
Senegal	93.83	90.35	88.05	134.74	130.32	148.52	152.62	146.81	153.99
Sierra Leone	1.64	-	-	-	-	-	-	3.13	0.16
Togo	27.42	24.41	36.46	18.84	18.72	26.92	42.27	64.72	128.30

Country	Imports								
	average 1981 - 1985	average 1986 - 1990	average 1991 - 1995	1996	1997	1998	1999	2000	2001
Benin	28.51	47.16	23.99	71.25	71.51	69.51	190.56	116.10	124.00
Burkina Faso	85.18	106.81	122.21	144.87	124.45	204.26	235.11	174.91	195.36
Cape Verde	0.98	2.44	9.32	6.18	4.69	4.22	4.12	2.77	3.03
Côte d'Ivoire	155.04	340.84	427.33	576.74	463.22	364.11	434.68	697.36	525.68
Gambia, The	5.10	10.92	28.09	30.26	16.50	35.25	13.80	47.28	50.81
Ghana	245.63	170.21	344.34	582.08	661.26	788.16	667.47	800.42	899.00
Guinea	7.10	29.67	104.63	120.90	49.82	59.43	49.84	105.56	92.75
Guinea-Bissau	3.99	7.44	7.42	10.94	10.01	10.41	13.57	14.18	15.58
Liberia	21.58	5.89	15.81	17.16	21.38	28.36	31.23	56.51	47.71
Mali	106.82	126.22	180.55	258.66	269.13	286.40	275.00	283.73	286.21
Niger	96.57	97.30	81.48	72.58	77.75	95.36	96.60	98.63	111.10
Nigeria	51.66	27.04	169.45	205.85	158.65	228.23	180.57	263.43	216.49
Senegal	80.32	127.88	122.38	107.79	120.74	134.48	167.34	340.19	401.80
Sierra Leone	52.31	48.20	36.86	40.15	39.46	18.18	19.13	29.56	44.16
Togo	24.51	41.27	118.44	53.68	57.94	64.37	50.39	57.24	43.36

IGAD

Country	Exports						
	average 1991 - 1995	1996	1997	1998	1999	2000	2001
Djibouti	63.84	79.50	63.39	71.13	75.18	86.46	95.43
Eritrea	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ethiopia	23.29	37.07	61.12	47.92	50.65	58.24	64.30
Kenya	227.55	413.20	381.82	391.79	414.11	476.22	525.75
Somalia	0.45	0.62	0.60	0.72	0.76	0.88	0.97
Sudan	1.04	0.87	6.15	3.95	4.18	4.80	5.29
Uganda	3.35	0.63	7.46	1.16	1.23	1.41	1.56

Country	Imports						
	average 1991 - 1995	1996	1997	1998	1999	2000	2001
Djibouti	30.01	42.05	53.06	51.36	54.29	62.43	68.92
Eritrea	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Ethiopia	60.79	63.06	28.03	25.12	26.55	30.53	33.59
Kenya	4.13	0.83	24.27	4.79	5.06	5.82	6.41
Somalia	68.64	102.21	99.05	105.36	111.36	128.07	141.03
Sudan	25.25	26.06	35.29	48.50	51.26	58.95	65.08
Uganda	158.41	337.33	308.09	317.23	335.30	385.60	424.16

SADC

Country	Exports					
	average 1990 - 1992	average 1993 - 1997	1998	1999	2000	2001
Angola	0.02	21.65	3.26	32.03	9.79	1.35
Congo, Dem. Rep. of	34.01	102.76	5.33	3.78	8.22	90.09
Malawi	54.36	84.63	101.16	90.78	52.93	47.27
Mauritius	16.98	21.15	24.99	21.50	25.29	38.89
Mozambique	21.92	49.31	95.20	116.40	129.50	157.37
Seychelles	0.78	1.16	1.33	1.33	4.52	4.93
South Africa	0.00	0.00	2803.04	3192.83	3255.74	2939.21
Tanzania	12.16	23.80	32.81	51.96	51.13	38.07
Zambia	49.62	111.83	198.47	172.05	292.54	151.88
Zimbabwe	314.24	522.79	476.00	449.57	463.66	156.39

Country	Imports					
	average 1990 - 1992	average 1993 - 1997	1998	1999	2000	2001
Angola	56.33	194.21	222.35	218.40	346.42	337.91
Congo, Dem. Rep. of	70.08	221.83	230.43	169.01	160.45	132.99
Malawi	278.63	311.46	375.60	421.96	400.98	347.54
Mauritius	185.02	256.39	241.97	257.05	323.03	272.94
Mozambique	143.61	418.01	339.10	326.70	529.43	399.27
Seychelles	28.77	41.31	57.37	56.60	42.56	35.30
South Africa	0.00	0.00	410.63	602.61	336.07	339.82
Tanzania	15.02	131.62	169.80	190.79	186.72	208.67
Zambia	262.82	336.44	556.21	475.53	742.29	679.19
Zimbabwe	542.76	1019.51	1039.28	906.85	782.07	1020.56

UMA

Country	Exports							
	average 1985 - 1989	average 1990 - 1995	1996	1997	1998	1999	2000	2001
Algeria	117.08	216.07	209.71	206.10	125.51	174.49	221.57	274.29
Libya	39.93	171.56	342.11	226.27	324.11	251.95	315.39	359.07
Mauritania	7.59	1.05	4.32	1.97	0.96	2.95	1.96	4.16
Morocco	106.52	270.65	229.00	183.75	154.10	149.74	189.76	135.78
Tunisia	116.88	317.79	330.13	306.11	276.41	339.38	347.68	366.45

Country	Imports							
	average 1985 - 1989	average 1990 - 1995	1996	1997	1998	1999	2000	2001
Algeria	100.76	201.34	124.43	24.03	24.05	35.80	80.13	96.63
Libya	124.43	344.10	355.48	396.78	275.44	376.55	406.79	337.97
Mauritania	15.24	32.28	11.15	70.12	34.39	21.01	25.80	43.86
Morocco	56.97	210.77	243.28	186.49	101.72	172.00	187.92	306.64
Tunisia	128.81	238.62	422.91	334.93	295.66	353.52	467.03	474.48

Annex 2: Heterosckedasticity Consistent PCS model

Dependent Variable: exports
Method: Pooled Least Squares
Sample: 1994 2001
Included observations: 8
Cross-sections included: 650
Total pool (balanced) observations: 5200

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Exporter GDP	0.206317	0.030473	6.770422	0.0000
Importer GDP	0.045208	0.030094	1.502191	0.1331
Exporter PCGDP	0.006469	0.042605	0.151827	0.8793
Importer PCGDP	0.010285	0.043166	0.238276	0.8117
PCGDP Diff.	0.151130	0.027759	5.444340	0.0000
Distance	-0.518486	0.041925	-12.36708	0.0000
Border	0.394061	0.064916	6.070322	0.0000
Language	0.016571	0.036721	0.451271	0.6518
COMESA	0.006192	0.049108	0.126099	0.8997
ECOWAS	0.505382	0.058546	8.632193	0.0000
IGAD	0.629061	0.250828	2.507934	0.0122
SADC	0.314473	0.075065	4.189366	0.0000
UMA	0.935083	0.100753	9.280955	0.0000

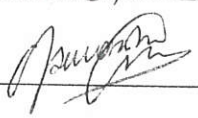
R-squared	0.434084	**Akaike info criterion**	2.928239
Adjusted R-squared	0.432081	**F-statistic**	66.93235
Sum squared resid	5663.380	**Prob(F-statistic)**	0.000000
Log likelihood	-7600.422		

Declaration

I, the undersigned, declare that this thesis is my original work and has not been presented for a degree in any other university, and that all source of materials used for the thesis have been duly acknowledged.

Declared by:

Name: Liyousew G/Medhin

Signature: 

Date: 16/06/05

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Date: 16 June, 2005

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