Regional Integration

in

African, Caribbean and Pacific countries

A review of the literature[1]

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EXECUTIVE SUMMARY

Introduction

This review of regional integration in African, Caribbean and Pacific (ACP) countries takes a broad view of regional integration and includes various aspects of regional trade integration such as tariff reduction and covers behind the border dimensions of regional trade integration such as cooperation and harmonisation in standards, services and investment, etc. but also regional policy cooperation in areas such as. infrastructure, agriculture, economic co-operation and political integration.

We discuss regional trade integration, both expected effects and the empirical evidence of regional integration in the ACP and where appropriate elsewhere. We do not argue that multilateral trade liberalisation is not better than regional trade liberalisation; however, we argue that there can be significant benefits from regional integration although there can be costs as well. The benefits of regional tariff liberalisation and behind the border dimensions of regional integration can be read as the costs of non-integration for the ACP. Without closer policy cooperation (in areas ranging from political, economic, social and cultural co-ordination) the ACP remain excluded from the gains of regional integration observed in other developing countries and discussed throughout this report.

This review includes a number of key findings in the area of regional trade integration and policy co-operation (especially at economic and political levels) and as such provides background information on regional integration in the ACP. There are state-of-play tables, several examples and a rich bibliography especially regarding regional trade integration. The review comes up with relatively few examples of the costs and benefits of regional integration in policy co-ordination. This is due to the lack of academic research going beyond the most traditional aspects of regional integration (i.e. free-trade agreements) and the difficulty of reaching uncontroversial results when dealing with poor countries with a largely informal economy and poor statistics. Indeed, in a number of important policy areas (e.g. the provision of regional public goods), the theoretical gains from regional integration are well-understood, yet the empirical evidence is thin. This shows that much more research on less-traditional aspects of regional integration is needed.

Regional trade integration

Most ACP regions have moved a considerable way with respect to regional tariff liberalisation. Many regions are under way or have already removed intra-regional tariffs (though the process is not yet complete). The empirical evidence suggests that intra-regional tariff reduction does lead to increased trade, which in turn sets the conditions for growth. However, the reduction or elimination of tariffs on intra-regional trade will have few effects if the potential for intra-regional trade is small. We also review a number of studies suggesting that regions boost extra-regional FDI and in some cases intra-regional FDI.

Regional integration boosts FDI

One study using the OECD database on FDI stocks covering 60 countries shows that regional integration doubles the stock of FDI, controlling for a number of factors that affect FDI. Another study finds that the real stock of UK and US FDI in around 100 developing countries during 1980-2000 is affected by membership of a region (which includes ACP and non-ACP regions) especially when a country is a member of a region with a sufficient number and level of the trade and investment provisions (e.g. describing treatment of foreign firms, large trade preferences), but different countries in the same region benefit differently.

The process of regional integration is associated with dynamic effects and these are often downplayed or forgotten altogether. Regional integration is likely to increase aggregate growth through the growth effects of increased trade and investment (but apart from this there is no independent effect of regions in the empirical estimates). One of the channels is that exporting firms have higher productivity. Of course, the effects will depend on many factors (type of region, initial level of MFN tariffs, etc) and will vary by country in the region.

Regional integration and growth constraints in Uganda

The lack of regional co-operation leads to increased growth constraints and this non-integration has a cost in terms of foregone growth. For example, key growth constraints in Uganda have a regional dimension and if they are overcome growth would likely increase by 2-4 percentage point. For example, there is at present a severe shortage of electricity-generating capacity in Uganda. This could have been overcome through the use of effective regional electricity grids. There are also regional constraints to rail. Uganda's imports and exports make heavy use of the port in neighbouring Mombassa. The Uganda-Kenya railways operate under a private franchisee which needs more effective regional approaches towards safeguarding a stable investment environment in order to stimulate more investment. The rail link was broken at the time of conflict in Kenya with big effects for Uganda. Finally, road connections are poor including in a regional context and better roads and other transportation would enhance exports to the region.

Whether regional integration initiatives in the ACP have promoted convergence or divergence among the regional members is disputed and there are different paths for different regions. The empirical studies do suggest there are policies that could be put in place to influence the regional dispersion of incomes.

Few ACP regions have achieved meaningful integration in the areas of trade in services, investment and migration. There is progress, especially in the Caribbean, of moving towards services provisions (e.g. EAC), but negotiations are not so well advanced in COMESA and SADC. The same applies to investment. Migration is a sensitive issue and while there have been attempts to free up intra-regional labour flows this has not delivered. There is actually very little evidence on the effects of behind the border dimensions of regional integration on trade, investment and migration flows.

Policy co-operation

Factors that enhance intra-regional cooperation such as better institutions or shared infrastructure may add more value to regional integration than pure trade liberalisation. There are many roles for regional integration beyond trade provisions. First, regions can support the provision of regional governance public goods. Effective international economic governance promotes economic development. Some challenges are best met at the national or multilateral level, but some policy-making occurs at a regional level in parallel with national trade policy-making. Second, regions can support the provision of regional knowledge public goods. Finally, regions can overcome other market and coordination failures and coordinate activities with strong regional externalities.

We review the expected effects and ACP regional experience in the following key dimensions of policy coordination:

Economic cooperation

- Financial market integration and regional stock markets may help liquidity and attract capital, however, the ACP regions are weak on cross-listings at stock markets and forming regional stock markets.
- Monetary integration provides for a common currency which reduces transaction costs. Monetary integration aims to provide financial stability and better economic and financial cooperation and would provide free access to member state capital markets. Within the ACP there are four monetary unions covering SACU, UEMOA, CEMAC in Africa and OECS in the Caribbean.
- There are an increasing number of regional business associations and R&D initiatives in the ACP. Such regional institutions can become important lobbying institutions for more efficient regional provisions.
- Regional infrastructure (transportation, communication, energy and water) is key for development. Effective regional coordination and harmonisation reduces the time and uncertainty of traders, thus reducing the costs and increasing intra-regional trade. Intra-regional infrastructure projects offer the option to benefit from economies of scale, thus, further reducing the costs of transportation. While there are several examples of successful regional projects, overall there is a lack of regional projects.
- The management of land, fisheries and forestry increasingly needs to account for a focus on regional cooperation activities in order to promote the sustainable use of natural resource and combat illegal resource use (such as fisheries and forestry). Enhanced regional cooperation on agriculture not only offers the chance to prevent food crises but also avoids undue taxation of poor consumers.
- There are new challenges for the regional management of communicable diseases when faced with a highly mobile population.
- Regional energy cooperation benefits from economies of scale, a critical mass of consumers and an increase in the reliability of local energy resources. But few regional ACP power grids are fully functional.
- Social cohesion policies in the ACP are less well advanced than social cohesion policies in non-ACP regions especially the EU.

Political cooperation

Political integration is the third pillar of regional integration (beyond trade policy integration and economic policy coordination). Political integration is often a pre-requisite for successful economic integration (e.g. in the EU). In other situations, economic and political integration go hand in hand. There are also cases where economic integration leads to political integration and institution building.

Given that today's trade agreements are often multifaceted dealing not only with trade in goods and services but also competition policy and intellectual property rights, such behind the border dimensions of regional integration may help to pave the way for further cooperation such as in infrastructure cooperation, regional environmental protection or other political integration. There is a positive correlation between countries' engagement on a multilateral level and regional cooperation.

Regional organisations have emerged as conflict managers; for example the West African peacekeeping and intervention force, ECOMOG, and the SADC peacekeeping deployment in the Democratic Republic of Congo have both intervened successfully. The Regional Assistance Mission to the Solomon Islands (RAMSI) was successful in the Pacific region, and CARICOM and the OAS intervened in the Haiti crisis.

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LIST OF ABBREVIATIONS

ACP	African, Caribbean, Pacific
AFTTR	Africa Transport Unit in the Africa Region
AMCOST	African Ministerial Council on Science and Technology
ANDEAN	Andean Community of Nations
APEC	Asia-Pacific Economic Cooperation
APRM	African Peer Review Mechanism
ASCCI	Association of Chambers of Commerce and Industry
ASEAN	Association of Southeast Asian Nations
AU	African Union
BCCB	British Caribbean Currency Board
BIT	Bilateral Investment Treaty
BRVM	Bourse Régionale des Valeurs Mobilières
CAADP	Comprehensive African Agricultural Development Programme
CACM	Central American Common Market
CAP	Common Agricultural Policy
CAR	Central African Republic
CARICOM	Caribbean Community
CARIFORUM	Caribbean Forum of African, Caribbean and Pacific States
CEMAC	Economic and Monetary Community of Central Africa
CEN-SAD	Community of the Sahel Saharan States
CER	Closer Economic Relations
CET	Common External Tariff
CEWARN	Conflict Early Warning and Response Mechanism
CFA	Colonies françaises d'Afrique
CMA	Common Monetary Area
COMESA	Common Market of Eastern and Southern Africa
COSSE	Committee of SADC Stock Exchanges
CSME	Caribbean Single Market Economy
CSSDCA	Conference on Security, Stability, Development and Co-operation in Africa
CU	Customs Union
DBSA	Development Bank of Southern Africa
DRC	Democratic Republic of Congo
EAC	East African Community
EATUC	East African Trade Union Council
EC	European Commission
ECCA	East Caribbean Currency Authority
ECCAS	Economic Community of Central African States
ECCB	Eastern Caribbean Central Bank
ECGLC	Economic Community of the Great Lakes Countries

ECOMOG	Economic Community of West African States Monitoring Group
ECOSOCC	Economic, Social and Cultural Council
ECOWAP	Economic Community of West African States Agricultural Policy
ECOWAS	Economic Community of West African States
EEC	European Economic Community
EFTA	European Free Trade Agreement
EU	European Union
FAO	Food and Agricultural Organization
FDI	Foreign Direct Investment
FTA	Free Trade Area
GATS	General Agreement of Trade in Services
GCC	Cooperation Council for the Arab States of the Gulf
GDP	Gross Domestic Product
GSP	General System of Preferences
ICT	Information and Communication Technology
IDC	Industrial Development Corporation
IGAD	Intergovernmental Authority on Development
IMP	Internal Market Programme
IOC	Indian Ocean Commission
JSE	Johannesburg Securities Exchange
LAIA	Latin American Integration Association
MERCOSUR	Mercado Común del Sur
MFN	Most Favoured Nation
MNE	Multi National Enterprises
MoU	Memorandum of Understanding
MRU	Mano River Union
NAFTA	North American Free Trade Agreement
NBI	Nile Basin Initiative
NEPAD	New Economic Partnership for Africa's Development
NGO	Non-Governmental Organisation
NTB	Non-Tariff Barrier
NT	National Treatment
OECD	Organisation for Economic Co-operation and Development
OECS	Organisation of Eastern Caribbean States
OHADA	Organization for the Harmonization of Business Law in Africa
PATCRA	Papua New Guinea-Australia Trade and Commercial Relations Agreement
PIF	Pacific Island Forum
PPP	Public Private Partnership
PRIDE	Programme Régional Intégré de Dévelopment des Echanges
PSC	Peace and Security Council
PTA	Preferential Trade Agreement

R&D	Research and Development
RI	Regional Integration
RTA	Regional Trade Agreement
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADC-OPDSC	SADC Organ for Politics Defence and Security Co-operation
SAPP	Southern African Power Pool
SARB	South African Reserve Bank
SATUCC	Southern African Trade Union Co-ordination Council
SDI	Spatial Development Initiative
SDT	Special and Differential Treatment
SPARTECA	South Pacific Regional Trade and Economic Cooperation Agreement
SPS	Sanitary and Phytosanitary Standards
SSA	Sub-Saharan Africa
SSATP	Sub-Saharan Africa Transport Policy Program
TRIMS	Trade Related Investment Measures
UDEAC	Union Douanière et Economique de l'Afrique Centrale
UEMOA	West African Economic and Monetary Union
UK	United Kingdom
UNECA	United Nations Economic Commission for Africa
US	United States
UWI	University of West Indies
WACSOF	West African Civil Society Forum
WAHC	West African Health Community
WAMA	West African Monetary Agency
WAMI	West African Monetary Institute
WATH	West Africa Trade Hub
WBCG	Walvis Bay Corridor Group
WBG	World Bank Group
WTO	World Trade Organization

1. INTRODUCTION

This paper provides a literature review of regional integration amongst African, Caribbean and Pacific (ACP) countries. The literature on regional (trade) integration dates back to Viner (1950) who suggested that the effects of regional trade integration can be either *trade creating* when trade replaces or complements domestic production or *trade diverting* when a partner country replaces trade from the rest of the world. If a country becomes a member of a region that "diverts" trade to its members it would have been better to liberalise globally.

This survey takes a broader view on regional integration and focuses also on the various aspects of regional trade integration that go beyond tariff reduction and includes trade integration in behind the border dimensions such as standards, services and investment, etc. but also policy cooperation in the areas of infrastructure, agriculture, environment etc. and political integration.

We do not argue that multilateral trade liberalisation is not better than regional trade liberalisation; however, we argue that there can be significant benefits from regional integration (although there can be costs as well), especially through the potential of behind the border integration and policy co-operation which is sometimes better conducted at the regional level than national (or multilateral) level. Because many regions especially in the ACP are still not properly integrated, the potential benefits of this lack of integration translate into considerable costs of not-integrating. The costs can be economic but also political.

The structure of this report on regional integration is as follows. In section 2 we examine regional tariff liberalisation and discuss expected effects and empirical perspectives with a special focus on the experience of the ACP. Section 3 discusses the behind the border dimensions of regional trade integration, such as regional integration in investment, services and free labour movement. The sections 4 and 5 discuss policy co-operation in economic, political and others areas of regional integration. Section 4 focuses on policy co-ordination and the provision of regional public goods in the following areas: Economic co-operation (among others financial market integration, monetary integration, R&D and joint business promotion); Agriculture and food security; Migration and health; Resource management; and Social cohesion. Section 5 discusses the areas of regional political co-operation, peace and security and institutional development as less traditional aspects of regional integration. Section 6 concludes the review.

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2. REGIONAL TRADE LIBERALISATION

The discussion on regional trade integration discusses first the expected benefits of regional integration followed by the empirical evidence of integration in general and in the ACP in detail. Most ACP have moved some way with respect to tariff liberalisation but only few have achieved meaningful regional integration in behind the border dimensions. The benefits of regional integration can therefore also be read as the costs of non-integration for the ACP. Without closer policy co-ordination in economic, political, cultural and other areas the ACP remain excluded from the gains of regional integration observed in other countries and discussed throughout this report.

2.1 THEORETICAL EFFECTS OF REGIONAL TRADE INTEGRATION

2.1.1 STATIC EFFECTS

Intra-regional tariff reductions will lower the prices of imported goods from the region which will stimulate trade. Viner (1950) suggested that the effects of regional trade integration can be either *trade creating* when trade replaces or complements domestic production or *trade diverting* when a partner country replaces trade from the rest of the world. If a country becomes a member of a region that “diverts” trade to its members it would have been better to liberalise globally. However, this traditional effect is based on a number of assumptions. For instance, when transport costs are include in the modelling regional integration can be seen as more positive. Furthermore, there are also dynamic effects of regional integration.

2.1.2 DYNAMIC EFFECTS

Many authors argue that important effects of RI are dynamic whereby competition as a result of intra-regional trade liberalisation results in increased output and productivity effects (Neary, 2001). The new trade theory emphasises long-run productivity effects of trade (Grossman and Helpman, 1991). Productivity spillovers can occur via importing and exporting (Coe and Helpman, 1995; Coe, Helpman and Hoffmeister, 1997). Not only does a country’s efficiency increase due to allocation effects, trade helps actors to learn from each other and appropriate R&D spillovers. These learning effects can be translated into long-run efficiency gains. For example increased import of capital- and technological intensive goods stimulates further the processing of innovations and new technologies through which labour and capital productivity will increase and economies of scale will be reached.

The stimulation of foreign and domestic investment is often quoted as a potential dynamic effect of regional integration due to a larger market leading to higher returns on capital (Grossman and Helpman, 1991; Krugman, 1990). Increased FDI can actually be such a catalyst through spillovers in terms of technology transfer and other linkages with local firms.

The standard theory of economic convergence assumes that poor countries grow faster than rich ones as a result of openness. The income gap between poor and rich economies will close over the time and economic convergence would be reached. This implies that developing countries should open their markets for foreign trade and investment and benefit from imported goods, technology and know-how (Sachs and Warner, 1996).

There are many (dynamic) links between trade rules and FDI. For instance, larger, more integrated markets tend to be associated with higher productivity, lower prices and increased quality. Larger, more integrated markets will attract more FDI, with a positive impact on productivity. On balance RTAs should lead to increased extra-regional FDI, but more ambiguous results for intra-regional FDI. An important reason for the ambiguity of the effects of trade rules is that MNEs are motivated by exploiting firm-specific assets (e.g. firm specific fixed costs) and hence want to enjoy economies of scale and scope, in addition to jumping trade barriers. Both Blomstrom and Kokko (1997) and Dunning (1997) acknowledge that the effects of regional integration (trade rules) and FDI depend on pre-existing rules in the region and the extent to which regional rules will actually change such rules. Countries and industries that are already integrated prior to regional integration due to geographical and historical reasons can expect to see more limited effects than other countries and sectors. A stronger actual change to the investment climate i.e. whether national policies are changed dramatically and locked into a regional framework, will reinforce these effects.

Blomstrom and Kokko (1997) argue that regional integration leads to efficiency gains and higher growth. There can thus be long-lasting effects on growth and productivity in addition to a one-off effect based on a more efficient allocation of resources. Ethier (1998) suggests that smaller and poorer countries may have incentives to form a region in order to attract investment away from other members, particularly extra-regional FDI, so that regional integration can promote convergence.

The costs and benefits of regional integration are often distributed unevenly among member countries. In a comparative static analysis one assumes equal trading partners, given world market price and total elasticity of supply. In this situation, a “win-win-situation” is the more likely the more trade creation is dominating over trade diversion, which again depends on the production structure of trading partners. Furthermore, the member of a CU can benefit with respect to their terms of trade, since their common external tariff (CET) changes the rate at which their exports exchange for their imports. The more members a customs union has and the greater its area is, the more it is likely that the CU improves its terms of trade towards the rest of the world (Viner 1950:55-6).

However, Viner’s considerations of gains and losses of regional integration among consumers and producers of a CU vis-à-vis the rest of the world and within the single countries of a CU does not take all eventualities into account. Thus, a flexible world market price can be assumed for most products since the demand/supply of few big countries and trading blocks influences the world-market prices accordingly. This market power again enables companies from large countries to benefit from over-priced products at the expense of small countries’ companies. For developing countries there are assumptions of Viner’s model, which are not valid. Thus, many ACP countries show neither functional markets nor a functional infrastructure. Intra-regional trade is little and imbalanced with high transfer costs and manifold barriers. As a result, regional integration does not lead to an optimal factor use, absorption and distribution (Balassa 1965a). Furthermore, one assumes that countries are more successful in regional integration, the closer they are in per capita and absolute income level. And, the more unequal trading countries are, the less intra-industrial trade will occur (Balassa and Bauwens, 1988).

The (dynamic) effects of regional integration on growth will ultimately depend on local policies, institutions and economic conditions. Regional integration can set the conditions for investment and trade to take place but domestic policies and institutions can enable a country to make the most of these flows. For instance, the literature on trade, growth and poverty suggests that more flexible labour markets, more developed capital markets, and good quality and appropriate education enable countries to benefit more from integration, and this also applies to regional integration.

2.2 THE EFFECTS OF REGIONAL TRADE INTEGRATION – EMPIRICAL EVIDENCE

2.2.1 INTRA-REGIONAL TRADE AND FDI

The empirical evidence on trade and FDI covers many world regions, including ACP, and it is not easy to separate ACP from non-ACP. Frankel (1997) found that regional integration raised intra-regional trade by 65 per cent in the EC and 150 per cent in Mercosur and Andean. Table 1 contains selected studies on the effect of RTAs on trade, in particular on intra-regional trade. Frankel and Rose (2001) show that RTAs have a big average effect on intra-regional trade. Soloaga and Winters (2001) show that the effects can differ amongst RTAs, with some positive and others negative effects. They show that the new wave of regionalism in the 1990s (new blocks and revamping of old blocks) has not led to further intra-regional trade. Further, they show that only the EU and EFTA may have led to trade diversion and the other blocks to trade creation. Estevadeordal and Robertson (2004) provide new empirical work showing that preferential tariffs do have a large and significant effect on bilateral trade.

The mere reduction or elimination of tariffs on intra-regional trade will have fewer effects if the potential for intra-regional trade is small. Te Velde (2006) argues that intra-regional trade in African regions covers only a small percentage of total trade, in part because of similar trade and production structures (in addition to informal, un-reported trade). It is therefore assumed that the ACP countries will mainly gain when moving towards regional integration that cover behind the border dimensions. The benefits of policy co-ordination in various areas (e.g. economic) as well as of improved political cooperation are discussed elsewhere.

Table 2 reviews a number of studies suggesting that RTAs in most cases boost extra-regional FDI and in some cases intra-regional FDI. Levy *et al.*, (2002) address the issue of regional integration and FDI at a basic level, using dummy variables for regions, applying the analysis to the OECD database covering 60 countries (excluding many developing countries). The regressions control for a number of factors that affect FDI.

Table 1: Regional trade agreements and trade: selected quantitative studies –

Study	Type of equation		RTAs included	Effect RTA on trade
Frankel and Rose (2001)	Gravity equation explaining log of bilateral trade volumes using control variables such as distance, language, currency boards, income and others	Indirect using dummies	EEC/EC; the Canada-US FTA; EFTA; the Australia/New Zealand closer economic relationship; the Israeli/US FTA; ASEAN; CACM; PATCRA; CARICOM; SPARTECA; and the Cartagena Agreement,	Positive and significant effects of RTAs on trade (Coefficient of RTA on trade is 1.1) (Table 1)
Soloaga and Winters (2001)	Gravity equation explaining log of bilateral import values using control variables such as distance, language, income and others	Dummies for RTA trade amongst member states, region imports and region exports	EU, EFTA, ASEAN, Mercosur, CACM, LAIA, ANDEAN, GULFCOOP	Positive and significant effects of RTAs on traed in GULFCOOP, NAFTA, CACM, LAIA, ANDEAN, MERCOSUR. Negative and significant effects for EU, EFTA, ASEAN .
Estevadordal and Robertson (2004)	Gravity equation explaining log of bilateral import values using control variables such as distance, language, income and others	Preferential Tariffs (one aspect of RTA)	LAIA NAFTA And US-Latin America and EU-Latin America under GSP	Significant effect of regional tariff liberalisation on trade: Tariff elasticity significant between -0.8 and -1.7 (table 2)

Jaumotte (2004) used a sample of 71 developing countries during the period 1980-99 confirmed the increasing attraction of regions for FDI. Jaumotte also suggested that FDI was diverted from non-RTA countries to RTA countries. For the Maghreb region it was estimated that the increased market size would stimulate the increase in FDI stocks by 62% for Algeria, 85% for Morocco and 165% for Tunisia.

Te Velde and Bezemer (2006) estimate a model for the real stock of UK and US FDI in developing countries during 1980-2000 and find that membership of a region (which includes ACP and non-ACP regions) as such is not significantly related to inward FDI, but crucially, when a country is a member of a region with a sufficient number and level of the trade and investment provisions (e.g. describing treatment of foreign firms, large trade preferences), this will help to attract more inward FDI to the region. Important for the debate on convergence and divergence within regions, they find that the relative size of a country's economy within a region matters for attracting additional FDI, as does a central location in relation to the largest market. Countries that have larger economies or are geographically closer to other, larger countries within the region can expect a larger increase in FDI as a result of joining than those of countries that have smaller economies or are located in the periphery. Because ACP regions (e.g. COMESA, ECOWAS) are only at the beginning of including investment provisions compared to other regions (e.g. NAFTA and MERCOSUR) the costs of non-integration in terms of attracting FDI can be considerable.

Table 2: Regional trade agreements and FDI, selected quantitative studies

Study	Research question; Region, countries and years; Methodology	Explanatory variables	Findings
Levy, Stein and Daude (2002)	How do RTAs affect the location of FDI? FDI from 20 OECD countries to 60 OECD/non-OECD countries, 1982–98	RTA membership, extended market host, extended market source, capital/worker ratio, distance, market size, bilateral trade, inflation, trade/GDP, privatisation, investment, environment, common border, common language	RTA membership doubles FDI stocks on average FDI increases upon joining a FTA with: more trade/GDP (openness) more similar capital/worker ratios better investment environment larger market
Srinivasan and Mody (1998)	Which factors determine US and Japanese FDI? 35 OECD and non-OECD countries, 1977–92, split out in groups of low-middle, high income countries; and EEC, Latin America, East Asia	Market size, labour costs, capital costs, .previous FDI, infrastructure (telephone, electricity), country risk, openness	When split by periods (1977–81; 1982–86; 1987–92), no evidence that IMP increased US and Japanese FDI (but we should bear in mind that IMP was complete only in 1993)
Brenton *et al.*, (1998)	Does European integration increase FDI? Does it divert FDI? Are trade and FDI substitutes or complements? FDI in and outflows, imports, exports for EU and CEEC countries	Population, distance, trade/FDI agreement dummies, host country economic freedom dummies, CEE dummies, host country EU membership dummy, FDI residual in trade regression	Single European Act (1992) and Iberian enlargement led to more FDI but no observed FDI diversion
Pain and Lansbury (1996)	How has intra- and extra EC FDI by UK and German forms in different sectors changed with the introduction of the Internal Market Programme (IMP)? UK and German outward FDI for seven sectors, 1980/81–92	Sector output, factor costs, currency volatility, corporate finance conditions, non-tariff barriers (1–3 scale), IMP dummy, sector dummies	FDI determinants differ over sectors IMP introduction boosted FDI IMP redirected UK FDI from US to EC

2.2.2 REGIONAL INTEGRATION AND GROWTH

The empirical evidence on the effects of RI on growth remains disputed. There is no consensus whether countries grow because they export or whether are they able to export because they grew (Rodrik, 1999). Henrekson *et al* (1997) use a cross-sectional regression to suggest that European integration leads to growth in members. Brada and Mendez (1988) and De Melo *et al* (1993) fail to find a positive association between RI and growth. Vamvakidis (1998) estimates cross-country and time-series growth regressions over 1970-90. He finds that open economies grow faster and that economies that have open and large neighbours grow faster; but the growth rate of neighbouring economies has no significant impact on a country's growth rate. Countries tend to benefit from being located close to large, developed, and open economies. Vamvakidis examines the impact of ASEAN, the Andean Pact, the CACM, UDEAC, and the EU on the growth in its members. He finds no significant impact for any except the European Union and suggests that South-South agreements among small, closed developing countries are unlikely to lead to faster growth.

However, using more recent data and a larger selection of countries and regional agreements including ACP regions such as COMESA, SADC, UEMOA and CEMAC, Te Velde (2008) suggests that while regional integration itself is not associated with faster growth at the macro level (when accounting for other factors such as trade and investment), there are positive effects through the effects of regional integration on trade and investment. He finds that trade and FDI promotes growth, and because regional integration tends to increase trade and FDI, regional integration will have a positive impact on growth in its members through the effects of increased trade and investment on growth.

Schiff and Wang (2003) find that "there has been no empirical evidence of the dynamic effects of RIAs based on their impact on technology diffusion from partner and non-partner countries". They then show that NAFTA imports has raised productivity (between 5.5-7.5%) in Mexico through imported foreign knowledge stocks, while extra-regional imports did have no effects. These are long-lasting effects that can in the long-run benefit the poor. There can also be long-lasting effects on productivity through learning by-exporting, and such effects may be appropriated particularly when dealing with more developed partners and these tend to be extra-regional.

Te Velde (2008) and Schiff and Wang (2003) both suggest that regional integration can be associated with dynamic growth effects. This applies also to ACP regions, e.g. in small African countries which normally do not stand to gain much from increased static allocative efficiency. Te Velde (2008) examines whether the destination of exports matters for exporters' productivity in the manufacturing sector. Firm level regressions for Benin, Malawi and South Africa indicate that exporting firms show a higher productivity but that regional exports are statistically associated with the same productivity levels as exporters that export mainly to the rest of the world. In the case of South Africa, regional exporters are statistically more productive than world wide exporters. In conclusion, regional integration is likely to increase aggregate growth through the growth effects of increased trade and investment and one supporting piece of evidence is that exporting firms have higher productivity.

Whether regional integration initiatives in the ACP have promoted convergence or divergence among its members is disputed:

- Ghura and Hadjimichael (1996) found a tendency of per capita income convergence growing by 2% when investigating 29 Sub-Saharan African countries belonging to regional integration schemes.
- In case of the old EAC (1960-77), Venables (2003) argues that Kenya moved its production structure in the opposite direction it would have done under free market conditions. Only under the protection of the EAC Kenya was able to expand its manufacturing production – at the expense of the poorer countries, which had to shift their manufacturing imports from RoW towards Kenya. The losing countries, Tanzania and Uganda, could not benefit from trade creation since their limited product range was also produced by Kenyan producers in a more competitive way.

- Using time series McCoskey (2002) found increasing divergence among the members of African regional integration bodies.
- Based on an econometric analysis using data from 46 African countries Hammouda *et a*l (2007) assessed the level and rate of the convergence of income for the members of SADC, COMESA, ECOWAS, CEMAC and UEMOA. They found that the link between regional integration and income convergence is low for which they classified three main reasons. First, the slow growth of output, productivity and accumulation of production factors; second, the low levels of intra-regional trade, the bias towards commodity trade and the low factor mobility; and third, the limited inflow of FDI which further constrained capital accumulation.
- Other studies find conflicting evidence based on time periods and methods used. They have found convergence in SADC over 1960-2000 (Holmes, 2005), no convergence in ECOWAS over 1960-2000 (Holmes, 2005), convergence in ECOWAS over 1960-1990 (Jones, 2002), no convergence in ECOWAS over 1985-2003 (Dufrenor and Sannon, 2005), no convergence in COMESA over 1980-2002 (Carmignani, 2006), convergence in COMESA over 1995-2004 (Mutoti, 2006), Limited convergence across UEMOA, 1990-2003 (Van de Boogaerde and Tsangarides, 2005); and convergence across UEMOA, 1965-2002 (Aziz Wane, 2004).

As with growth effects, there are a number of factors that may condition whether regions are associated with convergence and divergence of incomes amongst its members (and we discuss most of these issues elsewhere in the review):

- Integration of monetary policy, harmonisation policy, different institutions and trading rules (Carmignani);
- The size of the group is not relevant (Holmes, 2005);
- Labour mobility (Van de Boogaerde and Tsangarides, 2005; Konseiga, 2005);
- Macro economic convergence (Rossouw, 2006);
- Presence of a sub-regional development finance institution (Te Velde, 2008); and
- Competitive advantage (Venables, 2003).

2.3 THE LEVEL OF TRADE INTEGRATION IN THE ACP

It is important to consider the actual level of trade integration of ACP. This is because the lower the level of integration, the higher the costs of non-integration, other things being equal. So if the estimated effects of RI are broadly similar amongst regions, a region with a lower level of integration has more to gain, and the costs of nomn-integration are higher.

There are quite a number of regional groupings in the ACP (see Annex III). The formal, trade oriented regions are listed below. As can be seen, multiple, rivalry memberships exist mainly in southern and eastern Africa.

Table 3: Main regional economic integration bodies in the ACP

Main regional economic integration body	Member States
CARICOM: Caribbean Community and Common Market	Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago
CEMAC: Economic and Monetary Community of Central Africa	Cameroon, Central African Republic, Chad, Congo/Brazzaville, Gabon, and Equatorial Guinea
COMESA: Common Market of Eastern and Southern Africa	Burundi, Comoros, Djibouti, DRC, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe
EAC: East African Community	Burundi, Kenya, Rwanda, Tanzania, Uganda
ECOWAS: Economic Community of West African States	Benin, Burkina Faso, Guinea, Côte d'Ivoire, Cape Verde and Guinea Bissau, Mali, Niger, Senegal,, Togo, Gambia, Ghana, Liberia, Nigeria, and Sierra Leone
PICTA: Pacific Islands Countries Trade Agreement (intergovernmental body: PIF - Pacific Island Forum)	Cook Islands, East Timor, Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, and Tuvalu and Vanuatu
SACU: Southern African Customs Union	Botswana, Lesotho, Namibia, South Africa and Swaziland
SADC: Southern Africa Development Community	Angola, Botswana, DRC, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.
UEMOA: Economic Community of West African States	Benin, Burkina Faso, Guinea, Guinea Bissau, Côte d'Ivoire, Mali, Niger, Senegal, and Togo

Several regions have now begun to reduce or eliminate tariffs as can be seen from Table 4 that measures ACP regional integration on trade and investment rules.

Table 4: Regional Integration Index (trade)

RTA (date of establishment)	1970s	1980s	1990s -
CARICOM (1973)	1 (1973)	2	3 (1997)
SADC (1992)	0	0	1 (1992)
COMESA (1994)	0	0	1 (1994)
EAC	0	0	0
SACU (1969, 1992)	3	3	3
CEMAC (1999)	0	0	2
UEMOA (1994, 2000)	0	0	1

Source: Te Velde (2006); years between parentheses indicate when certain provisions were announced.

Trade Index = 0 if not member of group
= 1 if some trade provisions (e.g. tariff preferences),
= 2 if low MFN tariffs, (close to) zero intra-reg tariffs
= 3 if high MFN tariffs , (close to) zero intra-reg tariffs

There are several stages in the regional economic integration process, ranging from the formation of a trade bloc to the establishment of an economic and monetary union. One important step in the integration process is the formation of a customs union which not only eliminates tariffs and quotas on trade between member countries, but also establishes a common external tariff. In Africa, there are four customs unions, namely the East African Community (EAC), the Economic and Monetary Community of Central Africa (CEMAC), the South African Customs Union (SACU), and the West African Economic and Monetary Union (UEMOA). Almost the half of African countries are a member of a customs union, making these partnerships an important part of the economic and political landscape. The members in UEMOA and in CEMAC share a common currency as do 4 of the 5 SACU members (see Table 5 and Box 2 on monetary integration). The South African Customs Union is the oldest group dating back to 1910, although it has been altered and revised agreements in 1969 and 2002. A recent customs union to form is the EAC in 2005 after the collapse of a similar grouping in 1977.

Table 5: Key characteristics of ACP economic regions

	Members	Level of integration, current and planned	Intra-regional trade (2006) in % of total trade	GDP (bn USD, 2006)
EAC	5	In the process to implement a CU (largely implemented by Kenya, Tanzania and Uganda in 2005; Rwanda and Burundi joined in 2007); FTA to be fully implemented by 2010) Common market planned by 2012	12.8	43..3
CEMAC	6	UDEAC CET in 1994 but lacks implementation. Full FTA, customs union and common market planned	1.9	44.5
UEMOA	9	CU since 2000; FTA not fully implemented	10.7	49.4
COMESA	19	Free trade area for now 11 of 19 members since 2000, CU postponed from 2004 to 2008 (not yet in place)	4.0	331
SADC	14	Free trade area since 2008 (not yet fully implemented), CU planned by 2010	7.7	380
SACU	5	Only fully implemented CU in Africa; dates back to 1889; SACU Agreement 1969 was fully replaced by 2002 SACU Agreement (signed in 2004).		276
CARICOM	15	CU since 1993 (supposed to be fully implemented in 1998) – in 2007 implemented by all but two countries	9.6	62.7
PICTA	14	Aims to establish an FTA by 2010 for developing countries and 2012 for LDCs		

Customs Unions differ greatly in terms of the time they have been in place and their effectiveness. All integration schemes have integrated, though at very different rates, customs-related matters and trade facilitation. The examples of EAC and CSME in Box 1 illustrate that regional trade integration for both Customs Unions has gone a long way but is not yet complete.

Box 1: Implementing a customs union: the experience of EAC and CARIFORUM

Eastern African Community (EAC)

Applied customs tariffs, rules of origin, import prohibitions, and trade remedy regulations have been harmonized through the EAC. EAC common external tariff entered into force in January 2005, with an average applied MFN rate of 12.9%. Tariffs on agricultural goods remain relatively high, with an average of 19.7%. Around 99% of all tariff lines carry rates of 0%, 10%, or 25%; some 58 tariff lines carry higher rates, mainly on dairy goods, wheat, and sugar. The move from national tariffs to the common external tariff has reduced average tariff protection in Kenya and Tanzania, and increased it in Uganda.

The free-trade area component of the customs union has implied the dismantling of tariffs on most intra-EAC trade. In accordance with Article 10 of the Protocol on the Establishment of the EAC Customs Union, members began eliminating tariffs on intra-EAC trade in January 2005. Tariffs were abolished completely on trade between Uganda and Tanzania, and on exports from these two countries to Kenya. However, various goods (the so-called Category B goods) exported from Kenya to Tanzania or Uganda continue to be subject to tariffs. Thus, tariffs remain in place on exports of 880 items from Kenya to Tanzania, and 443 items from Kenya to Uganda, and are to be phased out by 2010. Members are also committed to removing non-tariff barriers on intra-EAC trade. The implementation of the EAC has already showed some successes with intra-regional trade increasing by 53% in the period 2005-07 (IMF DOTS, 2008).

While the EAC has adopted regulations on contingency measures, no anti-dumping, countervailing or safeguard actions have yet been taken. The EAC is increasingly adopting joint standards; by 2005, 566 joint standards had been adopted by the EAC. The EAC has also adopted provisions that allow member states to establish manufacturing under bond schemes, export processing zones, and duty drawback schemes; sales of goods within the customs territory, under any such scheme, is limited to 20% of production. An EAC Competition Law is under consideration.

Caribbean Single Market Economy (CSME)

All CARICOM countries except Bahamas and Haiti are members of the Caribbean Single Market Economy that entered into force in 2006 aiming to establish a Common Market. The signature and ratification of the agreement is however still outstanding for Montserrat (which is waiting entrustment from UK) so that CSME has currently 12 member countries.

The provisions of the Revised Treaty have been largely implemented and intra-regional tariffs have been removed within the Caribbean Single Market Economy. After four years of negotiation, in January 1993, member countries adopted a CET for all goods except agriculture that was supposed to be implemented in four phases by 1998. In the first phase, the initial ceiling of 35 percent was lowered to 20 percent. Agricultural goods continue to command a 40 percent tariff. The second phase of liberalization lasted from January 1, 1995 to December 31, 1996, with a ceiling of 30 percent. In the third phase, during the year 1997, the tariff ceiling was reduced to 25 percent, finally implemented, in the fourth phase, at 20 percent on January 1, 1998.

The CET was not implemented in time. In 2007 all 12 member countries except for St. Kitts and Nevis have completed the implementation of the Fourth Phase of the CET and are now in the process of implementing the revised structure of the CET based on the 2002 Harmonised System (so far only Jamaica and Trinidad and Tobago have reported according action; implementation status for other countries still needs to be reported).

The CARICOM CET is not really common because it offers broad scope for tariff suspensions and reductions as well as for national derogations from the CET. This ‘labyrinth of exceptions and derogations’ does not only complicate external trade negotiations but also increases transaction costs and reduces transparency. Tariff harmonisation and reduction is particularly difficult for the Eastern Caribbean countries which rely heavily on customs revenue as income source. Though the average CARICOM tariff is 10 percent (compared to 20% in 1990) there are high tariffs for food and manufacturing products.

An important element to promote convergence within a RTA is Special and Differential Treatment (SDT) for less well developed members. In the example of SACU, the oldest customs union in the world and until today the only CU in Africa that is fully implemented, the poorer countries are still allowed to keep import restrictions for sensitive products (such as beef, wheat and dairy products) and apply local contents requirements for certain products (such as horticulture in the case of Namibia). These procedures are explicitly legalised by the SACU Treaty (Art. 25 and 29) aiming, together with the Common Revenue Pool, to equalise economic development within the region that is highly dominated by South Africa. Thus, completely free intra-regional trade in an African context is feared because poorer countries fear further divergence and to address this ACP regions have used special and differential treatment in the form of CET exemptions and special financial flows to complement integration.

The CARICOM CET is not really common as it offers scope for tariff suspensions and reductions as well as for national derogrations. Though it can be argued that these exceptions complicate external trade negotiations and transaction costs and compromise efficiency, the lesser developed Eastern Caribbean countries regard such derogations as essential and they rely heavily on customs revenue. CARICOM regards its policy of variable geometries and differentiation as crucial for the Caribbean integration process. The EAC integration agenda does not provide for such corrective measures and it is feared by the lesser developed members that Kenya will benefit on their expense (as it did in the 1960s).

3. BEHIND THE BORDER DIMENSIONS OF REGIONAL INTEGRATION

3.1 THEORETICAL EFFECTS

3.1.1 INVESTMENT

Regional cooperation on investment rules and regulations as well as the non-discriminatory application of investment policies will stimulate intra-regional investment flows. There are three types of provisions in international investment agreements (UNCTAD, 2003; UNCTAD, 2006):

- **Investment promotion and co-operation**: The parties of an investment agreement attempt to stimulate reciprocal investment flows through increased co-operation and harmonisation of certain rules. Such provisions may include: commitment to investment promotion; investment co-operation mechanisms (information exchange, technical assistance, creation of specific institutions) ; harmonisation of rules (simplification and harmonisation of investment rules and administrative practises); investment financing; provision of investment guarantees and insurance; clause foreseeing future liberalisation of investment.

- **Liberalisation and market access:** these provisions seek to reduce or eliminate barriers to entry, establishment and operation of cross-border investment. Provisions within such agreements include: right of entry and establishment for investment in at least certain sectors of the economy; market access for services; provisions that grant transfer of funds; provisions for the entry of foreign personnel in relation to investment; provisions prohibiting the imposition of performance requirements.

- **Investment protection**: this has traditionally been the remit of Bilateral Investment Treaties (BITs), which establish legally binding protection for investments. These include: non-discrimination provisions guaranteeing national treatment or most-favoured nation treatment post-establishment; general protection provisions which guarantee 'fair and equitable treatment' or 'full protection and security'; provisions on expropriation; provisions addressing the protection of intellectual property rights; provisions for settlement disputes

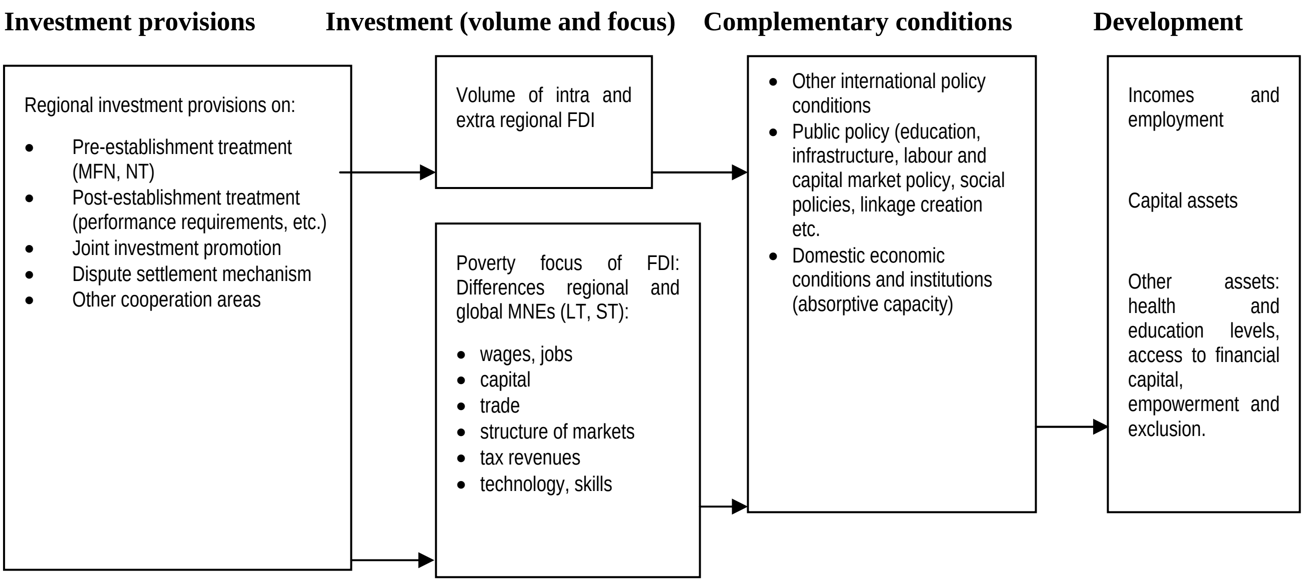
Regional trade agreements (RTAs) encompass various combinations of all three approaches.

There are different theoretical views on the effects of investment rules. No one disputes that national factors are more important in attracting FDI than regional investment. However, the real issue is whether RI can help to attract FDI over and above these factors and at what costs. Those that favour investment provisions within trade agreements argue that they increase FDI for three reasons. First, investment provisions foster an enabling environment, contribute to greater transparency, stability, predictability and security for investment, which helps to reduce investors' risk perceptions. Secondly, regional investment provisions provide for a lock-in effect while undertaking unilateral liberalisation of investment and trade in services, thus, adding credibility to governments' policies. Finally, investment provisions might include provisions aimed specifically at increasing investment promotion activities.

Those that oppose the inclusion of investment provisions remain sceptical about the impact of investment agreement on increased investment flows. Sornarajah (1986), for example, suggests that 'in reality attracting foreign investment depends more on the political and economic climate for its existence rather than on the creation of a legal structure for its protection.' Moreover, investment provisions may lead to a potential loss of control over internal economic activity and policy instruments, thereby 'trading sovereignty for credibility' (Elkins, Guzman and Simmons, 2004). As investment agreements embody an increasingly wide range of policies and activities, they may also preclude policy options otherwise available to national governments, potentially reducing the policy space available for individual policy initiatives and options (UNCTAD, 2006). Chang (2003) argues that the policy instruments needed to promote industrialisation are restricted under investment agreements. Only when industries in developing countries reach a level of development, sophistication and competitiveness would the benefits of non-discrimination and liberalisation outweigh the costs.

Chart 1 suggests how investment provisions in regional integration provisions affect investment and development. There are various types of investment provisions ranging from investment protection, to investment liberalisation and investment promotion. These provisions can affect the volume and type of investment. This FDI will affect poverty depending on several factors. There is indeed an extensive literature on FDI and development (and some of this in the publication below) and the key is that FDI has positive and negative aspects for growth, but that complementary policies, institutions and conditions can ensure the positive effects are maximised.

Chart 1 The potential development character of regional investment provisions



Source: Adapted from Te Velde (2006).

3.1.2 SERVICES

Stephenson and Prieto (2002) define three main components of services agreements in regional (Western Hemispheric) service agreements:

- **Coverage** describes the four modes of supply (as in GATS: cross-border delivery, consumption abroad, commercial presence, and movement of people), and whether the agreements take a negative list approach where all services sectors are included subject to exceptions (called non-conforming measures), or a positive list approach specifying the type of access offered to service suppliers in scheduled sectors.

- **Liberalising principles** include the fundamental principles of National Treatment (NT – no discrimination between foreign and domestic suppliers), Most Favoured Nation (MFN – no discriminations amongst source of foreign suppliers), local presence requirement (is a local presence required to supply the service), quantitative non-discriminatory restrictions (e.g. on number of TV frequencies).

- **Depth of commitments** includes transparency (informing members of existing restrictions on services trade), ceiling binding, freeze or standstill on non-conforming measures (no return to less liberalisation), ratcheting, list or lose (non-conforming measures can be maintained only when they are listed in appendices) and future liberalisation.

Nikomboriak and Stephenson (2001) discuss differences amongst RTAs. In particular they highlight the different approaches taken in ASEAN and those in the Western Hemisphere. The latter are based (mostly) on a negative list approach with commitments being 'GATS-plus'. ASEAN on the other hand is based on a positive list approach and so far with similar commitments as in GATS.

An economic assessment of regional services provisions follows a simple causal-chain analysis as implicit in CGE models. The first step is to identify the trade barriers to services trade, and then assess the economic effects of eliminating these trade barriers. There will be trade and welfare effects and these derive from two main effects:

- *Allocative efficiency*: when a regulatory change allows foreign firms with superior technology and lower costs and prices to supply the domestic market.
- *Dynamic efficiency:* when the removal of barriers to local and foreign investment raises the level of competition.

The effects are expected to lower the prices of services to reflect more closely their marginal product. This will have benefits in the form of lower consumer prices and lower business operation costs which benefits the services and other (e.g. manufacturing) sectors.

Services provisions may have important effects on investment through mode 3 commitments (commercial presence), because, as discussed above,

- countries can offer market access to foreign providers of services,

- the trade rules contained in a region provides for a transparent framework conducive to private sector services activities, reducing uncertainty and encouraging investment. Uncertainty may have negative effects on investment, when investment involves large sunk and irreversible costs coupled with the option to delay the decision to make the investment until further information becomes available.

- countries that make regional services provisions can signal their willingness to seriously consider development of the services sectors in a regional context.

In order to understand whether *services* liberalisation at regional level provides better outcomes than liberalisation at world level, Stephenson (2002) defines four different categories of services

1. Infrastructure-type services: financial, telecom, energy and transport
2. Business-type services: distribution, professional services, other business services, tourism, construction and engineering services, and environmental services
3. Social services: educational and health services
4. Other services: recreational, cultural

Regional service liberalisation is particularly appropriate for some categories, whilst for others multilateral service liberalisation seems the preferred route. For instance, if an objective is to attract the most efficient service provider in the capital intensive category 1, it would make sense to liberalise multilaterally as this increases the change of achieving the objective. World-wide service providers are likely to have better access to capital than services providers from a southern region. For category 2, tourism is a relatively liberalised sector (although GATS often includes qualified commitments such as subject to national approval); construction and engineering services and professional services on the other hand depend on qualifications and national standards, so that regional service liberalisation may play a useful stepping stone in order to facilitate recognition across borders (within the region first, and then multilaterally). The third category includes services sensitive to national concerns and it could be politically easier to liberalise these sectors amongst countries with similar levels of development, language, culture, etc. RTAs could act as a catalyst. The fourth category is mixed.

3.1.3 Free movement of labour

The World Bank's Global Economic Prospects 2004 discusses mode 4 issues in broad terms and distinguish between four types of regions depending on the degree of labour mobility:

- Full labour mobility (EU, EFTA, CER)
- Market access for certain groups (e.g. CARICOM, NAFTA, Europe Agreements, US-Chile)
- Based on GATS mode 4, with additional provisions (ASEAN, EU Med agreements, EU-Mexico, EU-Chile and MERCOSUR)
- No effective market access provisions (APEC, COMESA)

Provisions in regions with respect to temporary movement of natural persons thus range from full mobility of labour (as in the EU-15) to non-existent. Migration provisions will affect volumes of migration when barriers are a constraint to such movements (often capacity and facilitation issues hamper migration).

The static gains of migration can be shown on the basis of a variation of the 2 by 2 Heckscher Ohlin model. If both trade in goods and capital flows are not permitted, labour flows would also achieve factor price equalisation in a situation where labour is optimally allocated. Apart from increasing the allocative efficiency, migration affects development there are various channels through which regional migration affects development in sending countries: domestic capacity; remittances; labour markets; human capital formation; trade and FDI; and return migration. It is likely that remittances in southern regions will be lower than in the context of south-north migration.

3.1.4 STANDARDS

Gasiorek and Holmes (2008) discuss the costs and benefits of harmonising standards amongst countries in a region. Exporting firms that can meet higher standards are likely to maintain or gain market access because common standards facilitates repeat buys and such firm become part of integrated value chains which may lead to increased trade, greater long term stability of trade which can lead to higher levels of investment, and might lead to positive productivity spillovers either directly via technology or via improved managerial practices and know-how. Upgrading standards might also be costly especially for domestic firms that do not traded. The ACP have not yet harmonised their trading and product standards, coordinated their competition policies, provisions on anti-dumping/countervailing duties, or provisions on subsidies. We have been unable to find relevant papers on this area.

3.2 *EMPIRICAL EVIDENCE*

3.2.1 INVESTMENT

The empirical research on the effects of regional investment provisions shows that there are positive effects on FDI (see table 6 for a summary).

Table 6: Empirical Studies on the Impact of RTAs on FDI

Study	Methodology	Findings
Dee and Gali (2003)	Gravity model of trade and investment between pairs of countries from 1988-1997. Uses a large panel of OECD data on stocks of outward foreign direct investment (FDI).	Study suggests that foreign direct investment responds significantly to the non-trade provisions of preferential trade agreements (PTAs). Further, for most of those agreements where non-trade provisions have affected FDI, the result has been net investment creation rather than diversion.
Adam et al (2003)	Version of the gravity model to analyse whether certain RTAs are associated with net investment creation or diversion	Study finds that non-trade provisions significantly impact investment flows. Instead, it finds evidence of net investment creation in response to the 'new age' non-trade provisions of PTAs.
Te Velde and Bezemer (2004)	The real stock of UK and US FDI in developing countries, covering 68 (UK) and 97 (US) developing countries from 1980-2001	Regions with more investment provisions provide United States and UK investors with positive signals about how countries will treat their investors (coefficient on the variable measuring regional investment provisions is positive and significant). While membership of a regional group can lead to further extra regional FDI inflows, the type of regional grouping matters for attracting FDI – i.e. whether or not RTA include certain trade and investment provisions. Moreover, the position of countries within a regional grouping also matters – smaller countries and countries located further away from the largest country in the region benefit less from being part of a regional grouping than larger countries and those close to the core of the region.
OECD (2006)	Analyse the economic consequences of investment provisions in RTAs by creating an index of the extensiveness of investment provisions in RTAs and then using that index in a gravity model framework of trade and investment. Uses data on bilateral outward FDI flows for the period from 1990-2004.	Analysis suggests that investment provisions in RTAs are positively associated with both trade and investment flows. Moreover, the coefficients indicate that they matter more for FDI flows than trade flows. This dual positive effect indicates that investment may be more efficiency seeking than market-seeking, thus acting more as a complement to, rather than a substitute for, trade in the context of RTAs

Empirical studies on the impact of RTAs on FDI capture the effects of liberalisation measures implicitly. In general, these empirical studies tend to suggest that RTAs encourage extra-regional FDI flows and for some regions intra-regional FDI, though it is not always clear whether this is because of trade or investment agreements. They also show that different countries within a region experience different effects. This difference reflects variations in the relative size of the industrial sectors among member countries, but also the degree to which economic integration, directly or indirectly, increases the locational advantage of a country relative to other member countries (Pain and Lansbury 1996; Blomstrom 1998; Dunning 1997; Brenton *et al* 1998; Levy 2002; Jaumotte 2004).

Dee and Gali (2003), Te Velde and Bezemer (2006) and the OECD (2006) provide more details on the relevance of different types of regional investment provisions. Dee and Gali's study suggests that FDI responds significantly to the non-trade provisions of RTAs. Similarly, Te Velde and Bezemer (2006) find that regions with more investment provisions provide US and UK investors with positive signals. Moreover, while membership in a regional grouping can lead to further regional FDI inflows, the type of regional grouping matters for attracting FDI (i.e. whether or not RTA include certain trade and investment provisions). In line with this conclusion, OECD (2006) suggests that investment provisions in RTAs are positively associated with both trade and investment flows, and that they matter more for FDI flows than for trade flows.

3.2.2 Services

The empirical evidence on regional service liberalisation is not directly for *regional* services provisions. Indirectly, Te Velde and Nair (2006) find that multilateral (GATS) mode 3 provisions have helped Caribbean countries attract FDI in the tourism sector. Te Velde and Bezemer (2006) find that Regional Investment Provisions in RTAs have helped to attract FDI from outside the region. Liberalisation in financial services and telecommunication services can have a positive effect on economic growth (Mattoo, *et al*, 2001). Any effect of mode 4 should be found on the basis of CARICOM as it allows for the free movement of skilled workers.

3.2.3 Free movement of labour

There are various strands of thought in the debate on free movement of labour, but most relates to South – North, nor within a region. There are some who have emphasised negative aspects of migration for sending countries such as brain drain effects, and those that are unambiguously in favour of migration because of the importance of remittances. Cali and Te Velde (2008) argue that neither perspective is helpful on its own. The most informative view is to acknowledge that there are various channels through which migration affects development, some of which are positive, and some of which are negative, each of these can be affected by policy measures. Hence, the negative effects can be minimised and positive effects can be maximised.

There are empirical studies in many impact areas, but none of them really confine themselves to migration in a regional context. Simulations using general equilibrium models, based on many assumptions, provide estimates of the static gains of global migration. If developed countries permitted movement of labour up to 3 percent of the total labour force, world incomes would rise by $156 billion (Winters, 2002). Developing countries would be the main gainers and the net welfare for the home region Africa would be $14 billion. While most of such gains are related to developed – developing migration there may also be some (but obviously lower) benefits for developing country regions.

One possible recent example to understand the effects of regional integration on migration flows is the EU as some old member states granted new members access to the labour market (this is not the same as granting access to temporary services providers, but it does given an indication of the supply responses and other effects). Already in 2005 a year after granting access, a study by the UK Department of Work and Pensions (Portes and French, 2005) found that 176,000 accession country migrants had registered under the Worker Registration Scheme for migrants from the EU, with more than half of them arriving in the UK since accession. This is around 0.25% of the working age population in the UK, and 2.5% of the entire working age migration population. The effects on flows increased in the years after that. The assessment of the effects on the UK was also broadly positive.

The APEC business travel card is an example of a voluntary business travel card in the developed and developing country members. Business people can visit APEC economies with passports and the ABTC, without the need for visa. Seventeen countries participate in the ABTC Scheme. Business travellers (for trade and investment activities) in the region, who are not convicted of a criminal offence and are passport holders of a participating country are eligible for the card. The card is issued by government /authorities in each country issues ABTC and is valid for three years. Card holders can use special processing lanes at the airports. Uptake has been relatively low, despite being implemented for some years. In 2004, Australia recorded the largest number of ABTC issuances (1,461). Hong Kong 440, Taiwan 288, Philippines 158, Malaysia 149 while Chile, New Zealand and Japan issued less than 100 cards so far. Brunei has yet to implement the scheme. The relatively low number of ABTC issuances suggests that knowledge about ABTC is lacking amongst the business community and senior government officials.

As detailed below, migration provisions in the ACP are most advanced in the CARICOM. As a result, the stock of Caribbean migrant workers within the region increased by 18% between 1990 – 2000 And CARICOM nationals account for over one-half of all flows within the region (52%). During the period 2001-2005 work permits issued by Trinidad and Tobago increased significantly from 684 in 2001 to 4,434 in 2005, By 2007, approximately 2000 CARICOM Nationals had applied to the Ministry of Foreign Affairs of Trinidad and Tobago for certification to allow them to move freely for work and business in the country. Intra-regional migration has responded well to a relaxation in migration provisions in the Caribbean.

3.2.4 Standards

Barrell and Te Velde (2002) find that the standards as part of the Internal Market Programme in the EU stimulate imports in the case of 10 EU members (both from within and outside the region).

There is far fewer evidence on the role of standards in regional integration amongst developing countries. Most examples relate to trade between members of north-south regions (and this review does not deal with this). The EU-Egypt agreement is one example of the cost of non-integration (foregone trade), i.e. lack of standards, which could be addressed under regional integration. Ghoneim (2008) reviews the performance of Egyptian exports to the EU as part of this regional integration, especially items such as potatoes and oranges which are subject to EU standards and suggests that market access is impeded by lack of regional integration in the area of standards. For instance, the result of EU measures was a 20% drop in Egyptian potato exports between 1995 and 1997. If regional integration had addressed common standards would have facilitated regional trade.

3.3 *THE STATE OF REGIONAL INTEGRATION IN BEHIND THE BORDER DIMENSIONS*

3.3.1 INVESTMENT

Table 7 provides an overview of investment provisions in regions including ACP regions. ACP regions are behind other regions with respect to investment provisions. Though several ACP regions have drafted common investment codes foreseeing the application of transparent policies, the harmonisation and stabilisation of laws, regulations and administrative practises as well as non-discriminatory treatments among its members, regional investors are largely discriminated towards national investors.

Table 7: Regional Integration Index (investment)

	Investment provisions		
RTA (date of establishment)	1970s	1980s	1990s -
CARICOM (1973)	0	1 (1982)	2 (1997)
SADC (1992)	0	0	1 (1992)
COMESA (1994)	0	0	1 (1994)
EAC	0	0	0
SACU (1969, 1992)	0	0	0
CEMAC (1999)	0	0	1 (1999)
UEMOA (1994, 2000)	0	0	0

Source: Te Velde (2006); years between parentheses indicate when certain provisions were announced.

Investment Index = 0 if not member of group
= 1 if some investment provisions in region (as in COMESA, SADC),
= 2 if advanced investment provisions in region (e.g. improved investor protection in ASEAN)
= 3 if complete investment provisions in region (e.g. Chapter XI of NAFTA)

For example, within ECOWAS many countries still impose differential restrictions on investment, either by prohibiting foreign investment below a certain size or by requesting prior approval or licensing for foreign investors. This is particularly the case for sectors suited for domestic companies such as small-scale manufacturing and mining and the service sector (particularly financial services). ECOWAS countries have drafted a Common Investment Code foreseeing which is currently under review and shall be implemented from mid-2008 on (Addy and Samb, 2008).

3.3.2 SERVICES

RTAs differ with respect to services provisions for various reasons. The Latin American RTAs are most liberalised, followed by ASEAN in Asia while African RTAs have only just started to consider or implement provisions on services in regions as a whole. They may have protocols but most African RTAs have not included a trade in services agreement. The Caribbean are relatively advanced and have lifted barriers to trade in services as part of the CMSE..

Table 8: Coverage of services in ACP regions, illustrative examples

Region	**Coverage of services**
ECOWAS	Article 27 of 1975 Treaty on Community Citizenship Protocol on Free Movement of Persons and the Right of Residence and Establishment (1979) 1992 revised ECOWAS treaty affirmed right of entry, residence and settlement
SADC	Sectoral protocols (1996) on • Energy • Tourism • Transport, communications and meteorology SADC Draft Annex on Trade in services under discussion SADC Finance and Investment Protocol has been ratified
EAC	Chapter 15 of 2001 EAC Treaty on co-operation in infrastructure and services
COMESA	Chapter 11 of 1993 COMESA Treaty on cooperation in the development of transport and communications Chapter 28, article 164, is on free movement of persons, labour, services, right of establishment and residence
CARICOM	CSME foresees • Free movement of services, labour and capital • Harmonisation laws affecting commerce including intellectual property, competition and corporate taxation. • Establishment of common services with particular reference to customs services and data information services.
PICTA/PIF	Negotiations to include services into PICTA are underway since 2004. The regional trade in service agreement shall cover temporary movement of natural persons, investments and other related disciplines.

3.3.3 Free movement of labour

ACP regions have also begun to include services provisions on temporary migration, but are generally even less advanced in terms of implementation, except in the Caribbean. Most Regional Trade Agreements have provisions on the free movement of labour, and continent wide initiatives such as NEPAD also refer to free movement of persons. COMESA provides for free movement of labour by 2025. ECOWAS has been formulating policy on migration within West Africa since 1979, SADC in Southern Africa since 1998 (with a current draft text available). Most contested are rights to establishment. Practice, however, can differ from provisions in regional agreements. Migration issues tend to be politically contested (Adepoju 2005)

ECOWAS explicitly included the free movement of persons, besides free movement of goods and capital (Preamble). The treaty of 1975 also provides for a community citizenship (Art. 27). Consequently, in 1979, a Protocol on Free Movement of Persons and the Right of Residence and Establishment built on free labour mobility. The first part of the Protocol (covering free movement of persons) was ratified and put into effect in 1980. Citizens of West African states are thus entitled to free entry without a visa for 90 days. The ratification of the protocol, however, went along with fears from smaller countries of domination by the demographic giant Nigeria, while Nigeria feared the inverse influx of a large number of people from neighbouring ECOWAS countries. The economic and political decline in Nigeria led to the revocation of the protocol; the Nigerian government subsequently expelled around 1 million foreigners, mostly Ghanaians, in 1983. Other parts of the protocol concerning the right of residence came into force in 1986. This coincided with at second wave of expelling around 200,000 illegal aliens and negatively impacted on the credibility of regional integration. However, in 2000, further steps towards regional integration were undertaken, e.g. the establishment of a joint entry visa for ECOWAS – along the lines of the EU Schengen Agreement – and the abolition of residency permits for ECOWAS citizens with immediate effect. Nevertheless, tensions still remain within societies with regard to migration from neighbouring countries (not least in Cote d'Ivoire). The right of residence and establishment, albeit reconfirmed and explicitly recognised in the 1992 revision of the ECOWAS treaty, is still not implemented – 'in many cases, national political exigencies supersede Community interests' (Adepoju 2005).

Within *SADC*, the free movement of persons and the right to establishment are also very contested issues. A first protocol on the topic of free movement was rejected by South Africa, Botswana, and Namibia, i.e. potential receiving countries, which are concerned about a sharp increase in immigration. The subsequent redraft of a less ambitious protocol on the Facilitation of Movement of People (1997) was shelved by the SADC council of ministers in 2000. The discussion about free movement of persons and rights to establishment was revived only in 2003 and is ongoing.

Similar efforts are ongoing in CEMAC. A December 2001 summit announced that CEMAC aimed to introduce a CEMAC passport, whose modalities are still to be announced. The EAC treaty signed in 1999 and launched in 2001 includes Chapter Seventeen 'Free Movement of Persons, Labour, Services, Right of Establishment And Residence'. COMESA has also mentioned services provisions, but seems less advanced in terms of implementation and thinking (a comparison between COMESA and SADC is contained in Appendix E.). Chapter 28, Art. 164 of the COMESA Treaty, on free movement of persons, labour, services, right of establishment and residence, stipulates that:

- Member states agree to conclude a protocol on the free movement of persons, labour, services, right of establishment and right of residence.
- Member states agree that the protocol on the gradual relaxation and eventual elimination of visa requirements within the RTA adopted under the treaty shall remain in force until such time that a protocol on the free movement of persons, labour, service, right of establishment and residence enters into force.

While there has been considerable progress in the gradual removal of visa requirements following the holding of the meeting of the COMESA Chief Immigration Officers in October 1998, the Council is yet to consider and adopt the details for implementation of the programmes under Article 9 (movement of labour), Article 11 (right of establishment) and Article 12 (right of residence).

The CSME / CARICOM has gone furthest with respect to labour mobility. The Free Movement of Skilled Persons provisions of the Caribbean Single Market and Economy (CSME) agreement arise from the original Protocol II of the Revised Treaty of Chaguaramas, originally signed in 2001 and revised in 2006. The CARICOM Free Movement of Persons Act is now enacted legislation in all the CSME Member States. It currently provides for the free movement of certain categories of skilled labour, but there should be free movement of all persons by 2009. Under this legislation, persons within this skilled category can qualify for Skills Certificates (which allow for the free movement across the region). It has taken 15 years from the Grand Anse Declaration to the current situation of free movement of skilled nationals, 10 of which were needed to enact legislation.

4. REGIONAL INTEGRATION: POLICY CO-OPERATION

We discuss the expected benefits of regional policy co-operation in (4.1), and then provide an overview of the evidence and experience in an ACP context (4.2) where we also refer to some non-ACP examples.

4.1 THEORETICAL EFFECTS OF POLICY CO-OPERATION

Factors that enhance intra-regional cooperation such as better institutions or shared infrastructure may add more value to regional integration than pure trade liberalisation. There are many other roles for regional integration beyond trade provisions.

First, regions can support the provision of regional governance public goods. Effective international economic governance promotes economic development. Some challenges are best met at the national or multilateral level, but some policy-making occurs at a regional level in parallel with national trade policy-making. There has been an increase in regional policy-making and in the number of regional trade agreements over the past decades. As these evolve to consider deeper regional integration, particularly the liberalization of sensitive service sectors or the provision of social projects (which often make sense in a regional context - Te Velde, 2006), there is a need for regional institutional development and regional governance.

Second, regions can support the provision of regional knowledge public goods. A regional approach facilitates learning and sharing of information related to trade development and trade policy or other areas of policy co-operation such as agriculture and food security, environmental (e.g. water) and health (communicable diseases) governance.

Finally, regions can overcome other market and coordination failures and coordinate activities with strong regional externalities. Many competitiveness challenges are regional in nature; for instance, a landlocked country is dependent on appropriate infrastructure in other countries for trade in goods. Some externalities are not geographically limited to a region, but others relate to neighbouring states only. National development programmes will not normally consider activities with strong international externalities as benefits cannot be fully appropriated nationally.

Regional goods are often of a mixed nature; i.e. they are not necessarily public goods that are equally shared by the countries in the region but combine national and transnational benefits. They may not be completely non-excludable and non-rivalry in character. The character of regional goods is very broad including regional infrastructure, health policies, environmental and labour standards, and the enforcement of law. The sharing of regional goods can help to stabilise peace, to alleviate poverty and to improve the management of the region’s physical environment.

This section discusses the following key functions and public goods in a regional context:

- Economic policy cooperation
    - Financial market integration
    - Monetary integration
    - Joint business cooperation and R&D
    - Trade facilitation
- Infrastructure (transportation, communication, energy and water)
- Agriculture and food security;
- Health
- Resource management: energy and water
- Social cohesion.

4.1.1 ECONOMIC POLICY CO-OPERATION

4.1.1.1 FINANCIAL MARKET INTEGRATION

The integration of financial sectors can help developing countries to reduce the costs and risks for banks and financial firms and to prevent crises (Ferroni, 2001:9). The integration of stock markets would help to overcome the lack of liquidity due to small size of countries and so would increase intra-regional capital flows, contributing to economic growth. However, the integration of stock exchanges is an ambitious task which implies substantial institutional and financial costs. A certain level of technical and institutional capacities and liquidity are requirements for merging stock markets, and this is insufficient in many African countries. Further preconditions for successful regional approaches of stock market integration are free intra-regional trade, harmonised trading laws, rules and standards (Yartey and Adjasi, 2007).

4.1.1.2 MONETARY INTEGRATION

Monetary integration provides for a common currency. Monetary integration aims to provide financial stability and better economic and financial cooperation and provides free access to member state capital markets. A number of benefits are highlighted:

- Price transparency
- Increased efficiency and reduced transaction costs and risks
- No need to have foreign currency reserves and operations in separate central banks
- Exchange rate stability
- Reduced interest rates
- Increased policy credibility because some monetary policies are excluded

The theory of optimum currency area has been developed by Mundell (1961). All the benefits above will apply but a question is what combination of countries is optimal. An optimum current area depends on a number of factors (see Nnanna, 2006 for a brief discussion):

- Price and wage flexibility,
- Financial market integration;
- Factor market integration;
- Goods market integration; and
- Co-ordination amongst national monetary authorities.

4.1.1.3 JOINT BUSINESS OPERATION AND R&D

The private sector needs to respond to the changed regional and international trading environment through increased competitiveness and innovation. This will require improved human resources and focused research, including appropriate support via government institutions. Public and private sector alliances are necessary to develop joint strategies identifying, developing and marketing the competitive advantage of the region. Private sector support institutions (such as Chambers of Commerce) could help to facilitate cooperation by government institutions.

Enhanced regional cooperation in R&D can assist with trade and consumer protection and also help in the areas of food security, healthcare and environmental sustainability, by pooling resources and exploiting economies of scale. Regional R&D partnerships can further assist with the commercialisation and business capacity of national R&D policies and induce positive spillover effects for businesses.

Some regions (ANDEAN, ASEAN, MERCOSUR) have industrial co-operation schemes which aim to establish regional enterprises by promoting joint ventures. For example, the ASEAN Industrial Cooperation scheme (AICO Scheme) seeks to promote joint manufacturing industrial activities between ASEAN-based companies. More than 100 projects have been selected for special tax and tariff incentives. The initiation of these schemes may also help to foster the regional integration process as opposed to being the result of regional integration.

Cuervo-Cazurra and Un (2007) found that a country’s entry in an RTA creates two competing influences on the company’s R&D policy. First, increased competition could stimulate investment and enhanced efforts to improve a company’s technological competitiveness. Second, better access to inputs might promote outsourcing activities. The empirical analysis shows that the impact on R&D investment after having joined a RTA is driven by product markets rather than by factor markets. Thus, regional integration promotes increased investment in companies’ internal R&D as well as increased purchase of external R&D.

Singh (2006) found a positive effect of cross-regional knowledge integration on innovation and R&D quality. Using data on over half a million patents from 1,127 firms, he found that having geographically distributed R&D per se does not improve the quality of a firm’s innovations. Potential gains from access to diverse ideas and expertise from different locations were mainly offset by difficulty in achieving integration of knowledge across multiple locations. Cross-fertilization of ideas is best achieved if knowledge sourcing has cross-regional ties.

Trade facilitation is a trade issues (and discussed at the WTO) but we can also treat it as a regional co-operation issue. Trade facilitation, such as enhanced and harmonised border controls, aims to promote intra-regional trade. Addressing coordination and capacity failures on a regional level, trade facilitation can produce the full scale of positive externalities and address countries' reforms in a complementary way. Different to multilateral actors, regional integration bodies have the local knowledge when addressing complex regulatory liberalisation and harmonisation.

However, to date, the implementation of trade facilitation reforms in regional integration agreements has not been able to exploit these potential benefits. Regional is not far enough in order to improve *both* the coordination and the capacity of providing regional public goods. Customs unions are potentially best equipped to push through trade facilitation reforms since member countries are more willing to cooperate on a regional level and have built-up regional institutions (Maur, 2008).

4.1.2 Infrastructure

High transportation costs hamper intra-regional trade especially amongst small countries. The problems range from high transit times and border delays over inadequate infrastructure and customs skills to the lack of enforcement of harmonised regulations and controls. Effective regional coordination and harmonisation would reduce the time and uncertainty of traders, thus reducing the costs and increasing intra-regional trade.

Intra-regional infrastructure projects offer the option to benefit from economies of scale, thus, further reducing the costs of transportation (WB, 2008a). Harmonised standards for infrastructure products and processes can also increase the confidence of investors and trading partners. Moreover, countries can benefit from best practice and learning effects and avoid the duplication of programmes. Another role of regional integration frameworks is the facilitation of transportation prioritisation and collective 'branding' (Consilium, 2003). Regional cooperation is also crucial to enable telecommunication and data transmission (Ferroni, 2001:7-8).

Landlocked countries will be particularly interested in regional co-operation on infrastructure. Malawi depends on good infrastructure investment in Mozambique in order to get products exported. Uganda depends on Kenyan ports.

4.1.3 Agriculture and food security

The relevance of the regional and continental level of agricultural development is highlighted in the EC Communication on "Advancing African Agriculture" (2007). Region- and continental-wide cooperation in Africa will complement national efforts and help to reap the full benefits of agriculture growth and poverty alleviation potential. The Comprehensive African Agriculture Development Programme (CAADP), launched by AU and NEPAD, aims to align and harmonise agricultural strategies on a regional and continent-wide level by formulating guidelines, strengthening capacities, promoting public private partnerships and increasing the regional impact of agriculture research and knowledge systems. The management of land, fisheries and forestry should increasingly focus on regional cooperation activities to promote the sustainable use of natural resource and combat illegal resource use (such as fisheries and forestry).

4.1.4 Health

Migration has become much faster and is available to many more people from different places than before. This implies new challenges for the regional management of migration but also for the regional management of the communicable diseases when faced with a highly mobile population. Thus, increased population mobility is likely to increase infection ratios for 'new' diseases (such as HIV and SARS) and contributes to the re-emergence of 'old' diseases (such as TB).

4.1.5 Resource management: energy and water

Regional energy cooperation benefits from economies of scale, a critical mass of consumers and an increase in the reliability of local energy resources. Regional energy power pools aim to increase the reliability of services. It needs, however, to be considered that regional energy supply involves multiple sectors, actors and administrations. Thus, every country has several actors involved in energy supply (national providers of electricity and fuel but also administrations dealing with the import of energy transformation equipment); diverse energy-using sectors; and several national and local administrations involved in production, planning, and investing. To build sufficient capacity to manage multiple actors and complex processes efficiently on a national basis is essential. At the same time, the integration of energy into national development plans can be facilitated by the existence of a regional energy policy (UNDP, 2007).

4.1.6 Social cohesion

Social cohesion is a well known concept of political science and political economy. The EU has also used the term and differentiates between economic cohesion and social cohesion, with the overarching aim reduce development gaps amongst regions. The focus of the EU cohesion policy has been in a number of areas:

- To reduce imbalances between regions;
- To prevent unemployment, develop human resources and promote integration into the labour market;
- To provide market support and promote structural adjustments in agriculture;
- To adapt and modernize the fisheries sector.

To reduce unequal development within regions and the risk of a race-to-the bottom of wages and labour conditions, some regions aim to establish regional agreements on social protection and integration, which could include:

- Promotion of social dialogue and agreeing on social rights;
- Harmonisation of labour standards and social and health regulations;
- Regional cross-border investments in the areas of social policy
- Regional coordination of development policies;
- Regional redistribution.

In other regions, social cohesion is also encouraged by trade measures, e.g. special and differential treatment for the poorest members. This is a less efficient measures compared by using social policies.

4.2 *POLICY CO-OPERATION IN THE ACP*

We have collected a considerable amount of data on the state of regional policy co-operation in the ACP. Annex I summarises policy co-operation for 10 key regional groupings in ACP cover the following areas:

- Agriculture and Food Security;
- Infrastructure: transport, energy and communication;
- Water and Public Goods Management; and
- Migration and Health.

With the exception of IGAD and OECS, all integration schemes have programmes for all four fields of policy integration mentioned above though at different stages of planning, implementation and functionality. The main policy focus for a*griculture and food security* is on the harmonisation of agricultural policies, harmonised standards and SPS; and joint research activities aimed to expand production and raise productivity levels. The COMESA agricultural plan also emphasise on social aspects of regional agricultural management, namely the eradication of hunger and rural infrastructure improvements. There are several cooperation activities in the areas of *transport, energy and communication* focussing on the creation/improvement of physical infrastructure (roads, pipelines, communication networks) as well on the creation of institutional and regulatory frameworks to improve the intra-regional management of infrastructure projects. SADC and ECOWAS have created regional power pools aimed to crate a unified regional electricity market.

All RTAs except for COMESA and IGAD have regional programmes *managing their water resources and coping with droughts*. Furthermore, the regions have programmes in place that monitor environmental derogation, especially desertification, and aim to improve educational standards. Most of the regional organisations have programmes designed to ease the fight against diseases like HIV/AIDS and malaria by cooperating regionally. Also, there are attempts of creating regional bodies (like the West African Health Organisation) to supervise the harmonisation of policies and standards in healthcare provision. Regional cooperation on migration is on the agenda of most ACP integration bodies and focuses on labour migration. However, some bodies, such as ECOWAS, EAC and UEMOA also aim to create common regional passports. Overall, SADC and ECOWAS appear to have the greatest variety of programmes on policy cooperation.

4.2.1 ECONOMIC POLICY CO-OPERATION

4.2.1.1 FINANCIAL MARKET INTEGRATION

An early example of a regional exchange rate in Africa is the BRVM in Cote d’Ivoire (established in 1998) which covers the UEMOA countries. The common standards adopted by the countries follow their common colonial past. The majority of the stock market is owned by the private sector while member states own 13.4% of the capital. Three days a week the 15 brokerage firms within UEMOA can transmit orders to the

BRVM via a satellite system. The exchange is dominated by Ivorian companies while the other countries have not yet fully embraced the exchange (Asea, 2004).

Southern and eastern African countries also aim to integrate their stock exchanges.

- The Committee of SADC Stock Exchanges (COSSE) aims to develop an integrated real-time network of security markets. Since 2000, all SADC exchanges have harmonized listing requirements in accordance with the Johannesburg Securities Exchange (JSE system).
- A number of Memorandum of Understandings (MoUs) on collaborative programmes had been signed between the JSE and non-SADC stock exchanges. Among others it is foreseen to enable qualifying companies to simultaneously list on all member exchanges.
- Within EAC the Nairobi Stock Exchange and the Kenya Capital Markets Authority promote harmonised rules and regulations. Uganda has already harmonised its listing with that of the Nairobi Stock Exchange (Irving, 2005).

Irving (2005) concludes that, while regional integration could improve the liquidity, efficiency and competitiveness of African countries, it needs to be carried out at the right pace and in a pragmatic way. National financial markets must be developed before starting to integrate them. African financial markets could, however, benefit from closer cooperation including cross-border listings and enhanced exchange of information and technology. There is still a long way to go.

4.2.1.2 Monetary Integration

Most ACP countries differ highly with respect to their macroeconomic indicators and policies. However, a deepening economic integration is a requirement to move towards converging levels of macroeconomic stability, including low inflation, sustainable external debt rates, realistic exchange rates and a stable fiscal and monetary management.

Within ACP there are four monetary unions covering a) four of the five countries of the Southern African Customs Union (SACU); b) the economic and monetary unions in West and Central Africa that tied their common currency towards the Euro; and c) the OECS in the Caribbean that tied their currency towards the US Dollar (and previously the British Pound) (see Box 2).

Box 2: Monetary integration in Africa

There are three regional monetary areas in Africa, one in West, Central and southern Africa, and on in the Caribbean. While the first two are part of the CFA Franc zone, the latter forms a currency board led by the South African Rand.

The Economic and Monetary Community of Central Africa (CEMAC) covers Cameroon, Central African Republic, Chad, Congo/Brazzaville, Gabon, and Equatorial Guinea. The Francophone ECOWAS countries plus Guinea Bissau are members of the West African Economic and Monetary Union (UEMOA). Both, CEMAC and UEMOA are the continuation of previous regional arrangements where member countries have possessed a common currency, the CFA Franc. The West African CFA Franc and the Central African CFA Franc are tied to the Euro (formerly the French Franc) and share the same exchange rate which is guaranteed by the French Treasury (WBG, 2006; Claeys and Sindzingre, 2003).

Within the SACU, South Africa, Lesotho, Namibia and Swaziland form the “Common Monetary Area” (CMA), which can be classified a currency board with parity exchange, supposed to reduce transactions and information costs. The CMA aims to achieve monetary stability and better economic and financial cooperation in the SACU region by providing for the free flow of member countries' funds and free access to the South African capital market. The national currencies of Lesotho, Namibia and Swaziland (LNS) are fixed towards the South African Rand and are freely convertible within the CMA. LNS Central Banks have the task to regulate credits and can set up interest rates independently. However, since funds move freely in the CMA, the interest rates differentiate only little. The monetary policy of the LNS Central Banks focuses therefore on short-term interest policy and follows in general developments in South Africa and actions of the SARB (Nowak and Ebrill 2003:10, GoN 2003:15). CMA is working to become a monetary union. Since 2003 CMA is administered by a commission, that comprises a representative and appointed advisers of each member country and meets a least once a year, where decisions are made by consensus (WTO 2003:12).

Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines form the monetary area of the Organisation of the Eastern Caribbean States (OECS). The Eastern Caribbean Central Bank (ECCB) was established in 1983 but dates back to the 1950 British Caribbean Currency Board (BCCB) that served the OECS countries and Trinidad and Tobago, British Guiana, and Barbados (that later left the currency arrangement to create their own central banks). Similar to the predecessors of CEMAC and UEMOA the original function of the BCCB was to back the local currency (the East Caribbean Dollar) by deposit of the equivalent in British Pound. In 1965, when British Guyana and Trinidad and Tobago left the currency arrangement, the East Caribbean Currency Authority (ECCA) was established that reduced the foreign exchange cover for the EC dollar to 70 per cent (and to 60% in 1975). In 1976, link of the EC Dollar moved from the British Pound to the US Dollar (ECCB, 2008).

Box 2 shows that all functioning monetary arrangements in the ACP date back to colonial times. However, SADC, ECOWAS, EAC, COMESA and CARICOM also aim to establish monetary unions. All regions have agreed on monetary harmonisation programmes (see Annex IV). The overarching objective is to implement a monetary union and a single currency in Africa by 2021 as agreed by the AU. Regional integration agreements are regarded as stepping stones towards a common currency for the continent.

To date member countries have not moved towards greater macroeconomic convergence and have failed to reach their ambitious goals. Non-functioning capital markets, insufficient capital supply and limited convertible currencies have remained problems (ECA, 2004; 2006; Khandelwal, 2004). In ECOWAS, where the alignment of the UEMOA zone with the non-UEMOA members was originally envisaged by 2005, the persistent economic downturn in member states has seriously constrained their ability to pursue consistent macro-economic policies. Another problem is the non-convertibility of currencies (except the CFA Franc) which hinders financial settlements.

The CMA and UEMOA/CEMAC/OECS models all have their specific characteristics. The CMA is not a monetary union but a currency board with the South African Rand as anchor currency. No other African country appears to have the monetary stability and economic strength to establish a regional lead currency towards which the other currencies of the region are fixed. It might, however, be possible to expand the CMA selectively. Potential candidates named by Aziakpono et al. (2007) include Seychelles, Zambia and Botswana but emphasised that such expansion would require more policy coordination and nominal convergence within SADC.

The UEMOA/CEMAC/OECS monetary unions could be seen as continuation of past arrangements rather than deliberate efforts to begin monetary integration. The monetary policy of UEMOA and CEMAC is linked to the European Central Bank. There are different assessments about the benefits of tying the currencies of UEMOA and CEMAC towards the Euro. While most agree that it monetary integration imposes monetary and fiscal discipline resulting in improved macroeconomic performance when compared to other African states (e.g. Cobham and Robson, 2006 and Anyanwu, 2003), there are also costs for the UEMOA/CEMAC countries.

Guillaume and Stasavage (2000) compared the CFA zone with other African monetary unions and concluded that membership in such common currency areas offered comparable benefits. For example, members of the Rand Monetary Area experienced high levels of growth and investment as well as low inflation rates in the period 1974-1993. Anyanwu (2003) used panel data from UEMOA and other ECOWAS countries to determine whether monetary union has led to price, output, fiscal and trade stabilisation during 1990-2001. The results suggested that economic growth and stability was greater in the WAEMU countries than in the non- WAEMU countries, but the reverse was the true for inflation.

Kohnert (2005) found that it increased the dependency of Francophone African countries on (overpriced) French imports and contributed to increased polarisation among members.

Assessing the macroeconomic indicators within the ACP most authors do not find convincing evidence of increasing convergence of basic macroeconomic indicators; a prerequisite to move towards a monetary union:

- For SADC, Jefferis (2007) found that – except the countries of the CMA and Botswana – SADC countries do not converge with respect to key economic and monetary variables such as inflation, interest rates and exchange rates;
- Aziakpono *et al*. (2007) examine banking market integration within SADC and found that integration is concentrated on the CMA and highly dominated by South Africa.
- Knedlik and Povel (2007) found that SADC countries converge towards South Africa in terms of inflation rates, nominal and real exchange rates, current account balance, terms of trade and GDP per capita growth. However, GDP per capita disparities remain considerable within SADC.
- Hadjimicheal and Galy (1997) suggested that the CFA franc zone does not meet the conventional criteria of an optimum currency area, even after some 50 years of existence.
- The Caribbean Centre for Monetary Studies (CCMS) prepares semi-annual reports on the performance and convergence of CARICOM countries, analysing economic growth, labour markets, financial systems, fiscal balance, external accounts, foreign reserves and external debts. The reports are reviewed by the Committee of Central Bank Governors and the Council of Finance and Planning (responsible for economic policy coordination and monetary integration) but do not result in binding commitments in case of underperformance. The Inter-American Development Bank (2005) concludes that, except OECS, CARIFORUM countries have not yet shown increasing convergence of major macroeconomic indicators and failed to coordinate their macro-economic policies effectively.

4.2.1.3 Joint business co-operation and R&D

UNIDO helped to develop the UEMOA Industrial Common Policy (PIC) and now implements a programme (EU funding Euro 10 million) with consideration of quality, standards, certification and accreditation issues.

SADC has established the Association of Chambers of Commerce and Industry (ASCCI) in 1992, which is the only private sector representative body that is officially accredited by the SADC Secretariat. The evaluation of ASCCI's performance in 2004 suggested that the institution failed to come up with viable, private sector-friendly alternatives or recommendations for a regional policy. It was not able to achieve its goals (financial strength and independence), and had not developed a regional culture of private sector support to counterbalance the national focus of its members. According to Meyn (2004a and b). The private sector within SADC is highly fragmented and the chambers or private sector support institutions of the 14 SADC states are unable or unwilling to support ASCCI. Most of the chambers lack human capital, management capability, finance, equipment and technical resources. In 2006 ASCCI decided to allow corporate members to affiliate directly with ASCCI. This opportunity was apparently taken by a number of SADC Corporates.

The ACP regions have also instituted a regional business voice to help with negotiations. The East African Business Association helps the EAC. In the Caribbean, the Caribbean Tourism Organisation and Caribbean Hotel Association are good examples of how business affects trade negotiations.

African countries established the African Ministerial Council on Science and Technology (AMCOST) which aims to develop an African biotechnology strategy being implemented through the continent's RTAs by 2026. Regional Innovation Communities and Local Innovation Areas shall cluster expertise, share knowledge, institutions and personnel and help to mobilise financial and resources and physical infrastructure for R&D. It is envisaged to cluster around priority areas. R&D on health biotechnology is concentrated in southern Africa; North Africa is established in bio-pharmaceuticals; animal biotechnology has strong roots in eastern Africa and West and Central Africa work on crop and forest biotechnology respectively. Regional Innovation Communities in Africa do not only need to enhance intra-regional cooperation activities but also their collaboration with the North to benefit from knowledge and technology transfer (Juma and Serageidin 2008).

4.2.2 Infrastructure

Some regional initiatives on infrastructure depend on regional institutions, others not. Two of the most successful regional corridors in Africa, the Maputo Development Corridor and the Walvis Bay Corridor work relatively independently from SADC (see Box 3. Though the SADC Protocol on Transport, Communications and Meteorology prohibits any form of discrimination, the region has not yet harmonised its rules with respect to market entry regimes, road user charges etc. (Raballand et al., 2008).

Box 3: The Walvis Bay Corridor Group: A Public-Private Partnership connects SADC

The Walvis Bay Corridor Group (WBCG) constitutes a Public Private Partnership (PPP) of Namibian transport stakeholders, who work towards developing the various Corridor routes through the Namibian harbour of Walvis Bay. Namibia invested heavily to upgrade its deepwater harbour in accordance to international standards and increase the trans-shipment of goods. As a result, the port of Walvis Bay was ranked as most efficient African harbour in 2000 (World Economic Forum 2001).

Still, landlocked African countries like Botswana, Zambia and Zimbabwe, but also coastal countries like Namibia, Angola and Mozambique export and import the majority of their goods via South African ports. The bottleneck of delivering goods via South African ports instead of Walvis Bay should be overcome by the work of the WBCG. The WBCG aims to extend and modernise the Walvis Bay Corridor and has created four regional corridors connecting Namibia with its SADC neighbours Botswana, South Africa, Zimbabwe, Zambia (Lusaka and Ndola), Angola (Lubango), and DR Congo (Lubumbashi). Having grown by 150% in 2007 and landing currently 50,000 tons the WBCG sees high growth potential in expanding Walvis Bay as regional harbour. Thus, trade with Europe goes via the West African route and landing the goods destined for Botswana or Zambia in Walvis Bay would save two days compared to Cape Town or Durban.

The WBCG does not make use of existing regional trade facilitation instruments but uses bilateral or trilateral Memorandums of Understanding between Governments. In this way, it has been achieved to reduce the average SADC customs clearance time of 48 hours significantly for selected SADC countries. Thus, in case of Namibia and Zambia customs clearance takes only 2 hours.

The general positive effect of infrastructure provision on trade and growth has been confirmed by research (see Box 4). However, although regional integration frameworks have undertaken noteworthy reforms to improve their transportation system and intra-regional cooperation, the actual impact of regional transport corridors are only beginning to be measured (Consilium, 2003). The lack of capacity to ensure sufficient implementation of reform has often been an obstructing factor in quantification.

Box 4 The effects of infrastructure provision on trade in Africa

A few studies have quantified the effects of infrastructure provision on trade and growth; all find a positive correlation. Francois and Manchin (2007) estimate a large panel of bilateral trade flows over the period 1988-2002 for many countries and focus on the effects of communications and transport infrastructure. They estimate an increase of one standard deviation (from the mean) in the communications infrastructure raises the volume of trade by roughly 11 percent, compared to a 7 percent effect on transport infrastructure and a 2 percent effect on trade for tariffs. They do not have specific results for Africa, but for least developed countries (LDCs), a category containing most SSA countries, transport is more important than communications. The effects of communications infrastructure on trade grows as a country reaches the middle income range.

Buys et al. (2006) find that upgrading a primary road network connecting the major 83 urban areas in SSA would expand overland trade within SSA by around US$250 billion over 15 years.

Other studies have quantified the positive relation between infrastructure and growth, although they have been unable to properly address the problem of causality (e.g. Canning et al., 1994; Canning, 1998).

The World Bank's AFTTR programme (Africa Transport Unit in the Africa Region, WBG, 2008a and b) found that it is not the cost of transportation that is a problem but the lack of competition in transport services resulting in high prices that is detrimental for intra-regional trade. AFTTR undertook a comprehensive study of the continent's four regional transport corridors carrying about 75% of Africa's trade in order to identify, quantify and explain the factors behind Africa's high international transport costs. They used regression analysis supplemented by qualitative interviews and stakeholder workshops. They found a strong disconnect between transport costs and prices indicating a strong seller's market and strong market regulation that hinders efficiency. Thus, although transport costs are 'only' 20-50% higher in international comparison, the charged transport prices are up to 200% higher. Access restrictions in the transport sector result in low efficiency and high prices, mainly in West and Central Africa. Deregulation and opening-up of the transportation sector would reduce transportation prices and enhance intra-regional trade. Simplified transit procedures and regional agreements that enforce the freedom of transit would also be useful.

The case of two East and Central African corridors shows that economic impact of improved regional transportation (through donor support). In the case of the Kenya-Uganda transit corridor (linking Mombasa with Kampala) the average transit time had been reduced by 10 days to 15 days. In Central Africa (linking Chad, Central African Republic and Cameroon by improved road and rail networks) the reduced transport costs are expected to account for US$ 86.2 million p.a. (WBG, 2008b).

As a result of regional liberalisation, truck utilisation in southern Africa has almost similar ratios as European haulers (8,000 to 12,000 km/month). In Central and West Africa, on the other hand, the utilisation is as low as 2,000 km/month. This illustrates the importance of regional liberalisation in order to reduce costs and to improve the efficiency and quality of transport services (Raballand *et al.*, 2008:24). For Zambia Raballand *et al.* (2008) found that the regional liberalisation of trucking services has reduced transportation costs, increased foreign (mainly South African) investment in the trucking industry, and increased the overall competitiveness of trucking services. Similar gains are expected for landlocked Francophone countries if pursuing the liberalisation of regional transport services.

The Sub-Saharan Africa Transport Policy Program (SSATP)[2] evaluated the Northern Corridor (covering Kenya, Uganda, Rwanda, Burundi, North Tanzania, South Sudan and Eastern DRC) performance considering the quality of physical infrastructure and the quality of services (transport time).

Delayed deliveries due to slow procedures at ports and borders increase the costs for African companies. As result of delayed deliveries, African countries tend to increase their inventory holding. Firm surveys among 9 African countries found that firms hold, on average, the equivalent of three months of input needs (Fafchamps, 2004). In case intra-regional frameworks build-up effective transportation networks, the cost for stockholding could be decreased, which, in turn, would contribute positively to an improved business climate.

[2] SSATP covers 35 African countries forming 8 economic communities headed by UNECA, AU/NEPAD and AfDB. It is funded by 10 donors including the EC, single EU member states and the World Bank. SSATP has implemented its Long-Term Development Plan (LTDP) 2004-07 and is now in the process to implement its second LTDP (2008-11). The overarching theme is the creation of responsive transport strategies including road management and finance, transport services and regional transportation. The LTDP aims further to take cross cutting issues such as road safety, employment and environmental impact into account.

It is also clear that the lack of regional co-operation leads to increased growth constraints and this non-integration has a cost in terms of foregone growth. The World Bank's country economic memorandum (World Bank, 2007: 126) undertakes a growth diagnostic for Uganda. It concludes the following:

- Under-investment in infrastructure is the binding constraint to growth in Uganda;
- Electricity is the number one priority – with major investments needed in towns outside of Kampala to expand job creation;
- Trunk roads and main roads around Kampala need to be better maintained and expanded at key bottlenecks;
- The costs of power and fuel are too high;
- Financial intermediation is a future constraint that could quickly bind if infrastructure constraints are removed; and
- Coordination gaps are leading to inefficiencies in infrastructure, and seemingly skills training.

Most of these key growth constraints have a regional dimension and if they are overcome growth would likely increase by 2-4 percentage point. There have been various studies examining the economic rates of return on infrastructure projects concluding that these rates tend to be high – but a regional policy co-ordination approach is often needed to materialize the gains. For example, there is at present a severe shortage of electricity-generating capacity in Uganda. This could have been overcome through the use of effective regional electricity grids. There are also regional constraints to rail. Uganda's imports and exports make heavy use of the port in neighbouring Mombassa. The Uganda-Kenya railways operate under a private franchisee which needs more effective regional approaches towards safeguarding a stable investment environment in order to stimulate more investment. The rail link was broken at the time of conflict in Kenya with big effects for Uganda. Finally, road connections are poor including in a regional context. Selassie (2008) suggests that better roads and other transportation would enhance exports to the region.

In case of Mozambique higher road user charges due to the country's non-membership of COMESA have resulted in reducing the frequency of the Beira Corridor for Zambian transit goods. Due to non-implementation of the COMESA Yellow Card Insurance Scheme transport costs in the Beira Corridor are 5-10% higher than in other corridors of the region (Raballand et al., 2008).

4.2.3 Agriculture and food security

While trade integration is likely to contribute positively to higher regional output of agricultural production, these gains are not necessarily equally distributed. Many ACP countries show dualistic agricultural structures (with few large commercial farms and many small-scale farmers) and intra-regional trade liberalisation is likely to benefit the well-integrated large farmers which can respond immediate to increased demand. To ensure that producers of less developed member countries benefit from trade creation, i.e. are able to take advantage of market opportunities and cope with increased competition, targeted intervention such as training measures and investment are needed (Matthews, 2003).

The common agricultural policy of the 15 West African countries (ECOWAP) aims to achieve food sovereignty by enhanced regional cooperation (and protection against the rest of the world). This is policy objective is criticised by the FAO as being unrealistic and unnecessary, promoting protectionism and producer inefficiencies. It is rather recommended to strengthen the comparative advantages of the region's agricultural products and to increase production by fulfilling the 2003 articulated commitment to invest at least 10% of GDP in agriculture (IRIN, 2008).

Food security remains a major concern in many ACP countries. Enhanced regional cooperation can help to improve the food security in ACP as highlighted in the Commission's publication on "Integration of food security objectives within a poverty reduction framework" (2000). Promoting regional PPPs and research networks to address food security issues by managing regional resources and internal and external supply shocks more effectively is a key area of regional cooperation on food security. Enhanced intra- regional trade for basis crops such as maize meal and wheat could improve the collective supply of the region, reduce prices and benefit poor consumers. For land-locked countries the management of grain reserves is likely to be more cost-effective on a regional basis than national stock holding (Matthews, 2003).

With the support of FAO 4 ACP regions (CARICOM, PIF, UEMOA, CEN-SAD) are in the process of formulating and implementing regional food and agricultural trade strategies and policies. The projects are aimed at strengthening the policy framework for food security by improving regional coordination of macroeconomic, trade, agricultural, rural development health and nutrition policies. Strong regional players, like Nigeria in West Africa, which produces almost 60% of the region's grains are asked to support production and invest in smaller states. This requires leaders to stress regional interests over state interest which remains challenging (FAO, 2008).

Enhanced regional cooperation on agriculture offers the ACP not only the chance to prevent food crises but also to avoid undue taxation of poor consumers. Thus, enhanced intra-regional trade and cooperation could avoid using emergency protective measures, such as export bans, and stabilise prices. While the consumer benefits of trade liberalisation are well-known there is also evidence that intra-regional trade liberalisation does not necessarily harm small-scale agricultural producers. For Senegal, Brüntrup (2006:61-3) found that higher tariffs have not resulted in higher prices for farmers but were absorbed by rent-seeking behaviour traders and parastatals. Consequently, enhanced intra-regional trade would not reduce the prices for farmers but rather increase the demand for their products.

Regional integration is also likely to reduce the amount of informal agricultural trade which is estimated to account for well above 20% of total Sub-Saharan African trade (Brüntup, 2006; Little, 2005 Hashim and Meagher,1999). Most informal trade is carried out to exploit the differences between national prices and international/regional prices and would be largely obsolete by free intra-regional trade and a regionally harmonised agricultural policy. Reduced prices in turn, are likely to stimulate the demand of poor consumers, thus inducing positive growth effect. From the Government's point of view the incorporation of informal trade into registered trade flows is also desirable.

4.2.4 Health

Improved regional disease management is likely to increase the investment and growth prospects of African countries. This requires effective regional management, which has been effective practised in case of River Blindness in West Africa (see Box 5). Motus (2006) points out that managing migration and health does not only refer to disease control but includes the physical, mental and social well-being of migrants. While healthy, integrated migrants can be a valuable resource to the host country many African countries have severe difficulties to manage immigration flows and to provide basic infrastructure to their new population.

Box 5 The River Blindness Control Programme in West Africa

The River Blindness Control Programme in West Africa has been in place since 1974. The Programme, which provided capacity building and training at a national and regional level, was formed by an effective coalition of national governments, local communities, international organisations and donors and NGOs. Such a coalition was possible because all actors have shared the strong sense of purpose and agreed on the leadership and the according contributions of the single actors. Because of its successful peer character, the programme has been extended to other African countries (Ferroni, 2001:10).

It currently serves more than 40 million people with regular medical treatment and has managed to expand its service to isolated communities that have been previously neglected. In 2006, the Declaration on Onchocerciasis (River Blindness) Control in Africa pledged to continue the efforts with a view eradicating the disease.

Source: Amazigo and Boatin, 2006.

4.2.5 Resource management: energy and water

Regional cooperation can improve the supply of power in a region. South Africa exports about 5% of its electricity to neighbouring countries (mainly Botswana, Lesotho, Namibia, Swaziland and Zimbabwe) that import at least half of their electricity needs from South Africa. As a result of the South African power shortages the countries were also affected by blackouts (IMF, 2008:77).

However, there is no alternative to regional cooperation for African countries when it comes to energy supply. The continent's energy resources are concentrated in few countries where weak infrastructure and political conflicts make it difficult to access the resource. DRC and Ethiopia are accounting for about 60% of Sub-Saharan Africa's hydroelectric potential but need to link to the economic centres of their region to attract investment enabling them exploiting their resource. Moreover, most African energy markets are too small to take advantages of economies of scale and efficiency gains. Thus, the threshold of 400 MW, which is regarded as necessary for effective thermal power generation, is only met by 14 countries in Sub-Saharan Africa. Increased cross border trade and cooperation would mainly benefit African landlocked countries which could switch from their predominantly dies-based power systems to hydro-based systems saving as much as US$ 0.20/kwh (IMF, 2008:78-9).

All regions in Africa are in various stage of regional power pools, but many are yet fully implemented. The stages of development are different among the regions, both with respect to their technical and institutional capabilities. The West African and

South African Power Pools are most advanced when it comes to facilitated regional power exchange. The South African Power Pool offers some of the cheapest power in the world (at less than US$ 0.05/kwh), followed by the East African Power Pool (about US$ 0.12kwh) and the West African one (about US$ 0.15). The Central African Power Pool has not yet significantly reduced the power costs and operates at about US$ 0.45/kwh. Scaling-up the generating capacity and improving the effectiveness and governance of utilities are regarded as top priorities (IMF, 2008:79-80 and 90).

Water is a scarce source in many ACP countries, and it is increasingly leading to conflicts. Effective regional management of water resources will therefore help to prevent conflicts. Cooperative development of water resources offers great opportunities to unlock economic growth and promote regional integration (World Bank, 2008c). On shared river systems the use of water in a country can profoundly affect the quality and quantify of available in downstream riparian countries. Riparian countries must search for sustainable solution can allow the equitable sharing of the scarce resource.

The International Consortium for Cooperation on the Nile aims to regionally manage the Nile river basin (see Box 6). However, though the project is supposed to benefit all countries involved resulting in a “win-win situation” for the region, it is challenging to build-up joint funding, management and development structures between states that deeply mistrust each other. The project tries to guarantee an equal sharing of benefits for all stakeholders involved by adopting an all-inclusive approach, including the development of capacities in order to enable all regional stakeholders to take part in the dialogue and sharing of information and technology.

Box 6: The Nile Basin Initiative (NBI)

The Nile river basin is shared by 10 countries, from Egypt to Uganda, seven of which suffer conflicts and four of which are the poorest in the world. Collectively the Nile countries have a population of 300 million people which is likely to double by 2025. To manage the water resource more effectively, to cope with floods and droughts, and to reach a more equalised share of the Nile waters the NBI was established in 1999 by Burundi, DRC, Egypt, Eritrea, Ethiopia, Kenya, Rwanda, Sudan, Tanzania and Uganda. The primary objective of the NBI was to build trust, capacity and institutions among the participatory countries. The NBI Secretariat in Uganda agreed on the creation of sub-basin organisations in Ethiopia and Rwanda and jointly the institutions have moved to major joint investment for the Eastern Nile (power generation and transmission, irrigation, flood control, watershed management) and the Nile Equatorial Lakes (transboundary investments in the areas of irrigation, fisheries and power generation). It is expected that these investments will reduce power shortages, increase food production and promote intra-regional trade and stability.

The NBI includes 17 bilateral and multilateral donors. The multi-donor trust fund administered by the World Bank covers currently US$ 100 million (World Bank, 2008c).

Though the project offers important development opportunities, such as improved irrigation system, creation of hydropower plants and environmental protection it also implies development challenges. For example, it has been necessary to improve farmers' knowledge and capacity in order to benefit from irrigation systems. To avoid social exclusion as a negative externality of environmental protection the NBI management has further improved its dialogue with civil society actors (Nicol, 2003)

4.2.6 Social cohesion

ACP regions have not put in place extensive social cohesion policies (such as those seen in the EU), although there are exceptions and policies are being developed. Several social initiatives have been undertaken by the EAC with important effects on development. Due to unforeseen circumstances in the regional organisations in Africa, many of the social programmes set by many RIAs were never followed by the member states, posing the challenge of lack of credibility (Musonda, 2004:61). However, Kweka and Mboya (2006) argue that the East African Development Bank is an example of a successful project, which mobilises resources to finance various social economic projects in the region. The East African Development Bank has strengthened trade and investment relations between the EAC member states and has played an important role in long-term lending for productive sectors of the economy such as manufacturing, agriculture and energy development. This was particularly important for Tanzania where commercial lending in the rural sector is severely absent.

ACP regions however do use trade measures to deal with social issues. To limit the negative effects of revenue losses, trade diversion and polarised development apparent in many South-South integration schemes, a common revenue pool as well as investment incentives that aim to channel investment into underdeveloped areas are foreseen in all African integration schemes. However, except SACU and UEMOA these pools are underfinanced and/or not operational (Walkenhorst, 2006).[3]

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[3] Insufficient finance is also a problem for the function of regional integration bodies. In CEMAC and COMESA for instance, only 50% of assessed contributions were collected in the period 1995-98, covering about 14% of their financial needs (ECA, 2004:44). As a result, regional integration bodies

Box 7: Social cohesion policies in ACP regions

The ***CARICOM*** region recognizes fundamental labour rights since 1997 when the Charter of Civil Society was established. It is foreseen to harmonise labour rights, and health and safety regulations under consultations of labour unions. However, the Charter does not foresee any sanctions in case member states violate the agreed provisions on labour rights. CARICOM has also agreed on the free movement of labour by introducing a CARICOM Passport in 2005 which, however, is not yet implemented (UNU-CRIS, 2008:21).

ECOWAS created a Social and Cultural Affairs Commission supposed to act a consultation forum for workers and employers in the regional integration process. However, the ECOWAS Treaty does not specify how the social partners would be formally consulted (Robert, 2004). The region agreed further on a Protocol of Democracy and Good Governance in 2001 emphasising the importance to promote the dialogue of employers and workers association to prevent social conflict. In 2003, the West African Civil Society Forum (WACSOF) was created to act as advisory body of ECOWAS states, e.g. during EPA negotiations. However, due to financial constraints, WACSOF's agenda in 2006 was restricted to democracy and good governance, and peace and security.

CEMAC is in the process of creating a tripartite social commission suppose to reinforce the social dialogue in the region and to promote fundamental workers rights.

In ***SADC***, the Southern African Trade Union Co-ordination Council (SATUCC), aims to influence SADC policies from a trade union's perspective. SATUCC's role in SADC's integration process is, however, limited since the decision-making power within SADC is exclusively done by nation states. SATUCC's main achievement is therefore the creation of a Social Charter of Fundamental Rights of Workers in Southern Africa which is ratified (but not implemented) by most SADC states.

EAC established the East African Trade Union Council (EATUC), which promotes labour issues, such as labour law harmonisation and the adoption of international labour standards.

Source: UNU-CRIS: 2008: 26-9.

Some progress has been made with respect to institutionalising social dialogues. The AU aims to promote social cohesion through its regional bodies and has established the Economic, Social and Cultural Council (ECOSOCC) and the Labour and Social Affairs Commission which aim to be the principal fora for discussion and partnership between national Governments, social partners and civil society. Regional bodies can play a role to promote decent working conditions by implementing AU policies on labour and social standards. To what extent the implementation of these policies has been successful on the regional levels is supposed to be evaluated from 2009 on (UNU-CRIS, 2008:26). To date, concrete steps for the implementation of agreed policies are still missing in most cases (see Box 7). Social policies in non-ACP regions are more advanced.

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largely depend on funding from donors, show institutional weaknesses, and have only limited human resources.

Box 8: Social cohesion policies outside the ACP

Regional groupings of countries would achieve a higher degree of regional integration and stability if they provided a) for the free movement of peoples within the region and b) polices to increase a sense of social solidarity within the region (Deacon *et al*, 2006). A number of regional groupings have considerable experience in developing regional social polices, e.g. the ASEAN Social Charter, the Social and Economic Council of MERCOSUR, the Integral Plan for Social Development of the Andean Community and the SAARC Poverty Alleviation Fund. However, there is less attention to the social dimension in the ACP regional groupings.

Regional social policies in the EU have been implemented gradually since the 1980s, including the European Social Funds, structural policies and the mutual recognition of qualifications and core labour standards. MERCOSUR adopted a new social agenda by creating a Social Institute and a Fund for Structural Convergence in 2007. The fund, which works similar to the European Structural Fund aims to benefit the small member countries Uruguay and Paraguay (UNU-CRIS, 2008:21).

In ASEAN where regional integration is primarily carried through the ASEAN FTA (and more recently through the ASEAN Investment and Service Agreements) it was realised that trade and investment liberalisation is not sufficient when moving towards deeper economic integration. South East Asia regional integration has been unequal, with the richer countries (Singapore, Taiwan and Hong Kong benefiting to a larger extent from intra-regional trade and investment). The poorer countries, such as the Philippines, have suffered from regional trade creation effects at the expense of national producers. On the other hand, migration to more developed East Asian countries has helped the poor countries to lower the pressure on the labour market and to increase the income of the poor by remittances (Borras, 2005). In 2005, South East Asian countries established a regionally integrated social protection and social risk management system focussing on regional dialogue, regional labour rights and harmonised regional rules on investment behaviour and labour rights.

5. REGIONAL INTEGRATION: POLITICAL CO-OPERATION

5.1 THEORETICAL EFFECTS OF REGIONAL POLITICAL CO-OPERATION

Political integration is the third pillar of regional integration. Political integration is often a pre-requisite for successful economic integration (e.g. in the EU). In other situations, economic and political integration go hand in hand. There are also cases where economic integration leads to political integration and institution building.

Mansfield (1993) observed a "civilising" influence of higher income obtained from economic integration promoting the understanding between countries. This would create an interdependent relationship between political and economic gains from regional integration, assuming that trust among member countries promotes deeper integration, thus leading to the maximisation of welfare (Schiff and Winters, 1998).

Another political aspect of joining a regional integration agreement is the advanced relevance of bundling of interests into one voice in bilateral and multilateral trade negotiations. Contractual trading agreement may also increase the economic and political reputation of the respective country since trade reforms are "locked in", which increases the security for traders and investors and lowers transaction costs (Padoan 2001, Collier and Gunning 2000).

Regional integration on political grounds requires economic integration. Konings and Meilink (1999:136) suggest that political gains from regional integration are uncertain and often distributed unevenly among member countries. Mansfield *et al*. (2008) analyse the factors influencing the type of integration arrangement chosen by a country. They argue that democratic leaders have a stronger incentive to join regional integration arrangements and to move towards deeper integration than leaders in autocracies since economic integration is likely to increase economic growth which in turn would benefit the median voter.[4] The development of common democratic values and institutions is in turn regarded as crucial for regional integration. Stronger convergence in the electoral infrastructure of a region may enhance the quality of elections and promote democratisation (Kerstings, 2007).

While regime theorists argue that strong international institutions are essential for deeper regional integration ensuring that states comply with their obligations, the experience of the East African Court of Justice shows that a strong dispute resolution body can also endanger regional integration. The establishment of a dispute resolution mechanism to which individuals have access may result in decisions that do not please the governments concerned. Some suggest that the reaction of East African governments to the complaints of individuals calls into question EAC government's commitment to the integration project (Mutai, 2007).

In the case that regional integration leads to the inclusion of hostile neighbouring states, regional integration might promote political stabilisation (AfDB 2000). Padoan (2001) argues, however, that a country's political instability might have negative regional spill-over effects, resulting in uncertainty and deterring potential investors.

[4] The authors' argument is supported by their statistical results based on an analysis of all pairs of countries from 1950 to 2000. Thus, the probability to form an FTA is 15 times higher in democracies than in autocracies and for economic unions it is almost 50 times higher.

5.2 EMPIRICAL EVIDENCE ON REGIONAL POLITICAL CO-OPERATION

Estevadeordal and Suominen (2008) analyse the dynamic relationship between trade agreements and other international cooperation agreements arguing that countries that cooperate most extensively with each other on trade are also each others favoured partner for non-trade related cooperation. Given the today's trade agreements are often multifaceted dealing not only with trade in goods and services but also competition policy and intellectual property rights it is argued that such integration paves the way for further cooperation agreements such as infrastructure cooperation, regional environmental protection or other political integration.

To examine how agreements between countries are related and sequenced the authors analysed 13,562 international agreements covering 251 states between 1875 and 2006. They found evidence for the argument that the multilateral trading system has enabled poor and distant states to cooperate among each other and within the multilateral system – resulting in more heterogeneous partnerships than before. The authors found further a positive correlation between countries' engagement on a multilateral level and regional cooperation, focussing mainly on bilateral trade relations.

Peace, security and development are interlinked with regional integration and cooperation (Slocum-Bradley and Felicio, 2006). Regional integration in Europe was initiated after World War II as an effort to prevent in future such conflict. Formal cooperation began in 1951 as part of the European Coal and Steel Community (ECSC) and the Maastricht Treaty on European Union established a Common Foreign and Security Policy (CFSP) only in 1993.

Assuming that peacekeeping operations' spending has the potential to kickstart local economies at the time when it is most needed, thus restoring peace and stability Carnahan *et al*. (2006) aimed to quantify the economic impact of regional and international peacekeeping operations. Using a standard macroeconomic approach, the project calculated a "multiplier effect" for mission spending estimating how many times mission expenditures may have circulated in the economy. They found that in most missions less than 10% of overall spending went directly into the local economy. However, even such low fraction boosted the economy in very low income countries such as Sierra Leone or East Timor (though the economic impact was highly concentrated on the capitals). The study found further that, while missions can also contribute to shortages and inflation, there is little inflationary flow-on effect into the broader economy

5.3 POLITICAL CO-OPERATION AND PEACE BUILDING IN THE ACP

Annex II summarises political cooperation in the ACP in the areas of (a) democracy, democratic institutions and human rights; (b) peacekeeping; and (c) social cohesion (though we cover the discussion of social cohesion as part of policy cooperation.

All African regions (but not the Caribbean or the Pacific) have a regional Court of Justice/Regional Tribunal. While the SADC, EAC, UEMOA and COMESA Organ aims to ensure the adherence to law in the interpretation of the Treaty, the ECOWAS Court of Justice goes further and also allows individuals to bring suits against member states. PIF and OECS have programmes and policies for institutional strengthening and good governance as well as for legal and judicial reform.

Bodies for security cooperation exist in most African regions and in the Pacific. While all regions foresee the intervention by peacekeeping forces this is a priority areas for ECOWAS, IGAD and PIF which have already intervened in several regional conflicts.

Security components are increasingly included into regional integration programmes. For example, COMESA was originally established merely as a common market, but it has expanded its vision and strategy to include peace and security issues. Regional groupings have also aimed to build the foundations for durable peace, long-term stability, economic growth, sustainable development and democratic consolidation. Regional early warning and early response mechanisms have been established, such as the ECOWAS Early Warning Mechanism and the IGAD Conflict Early Warning and Early Response Mechanism, CEWARN.

Regional peacekeeping forces are often seen as constructive forces to settle national conflicts due to greater credibility (Starman, 2007; Francis, 2006). The UN peace keeping operations have build-up partnerships with selected regional institutions in Africa (ECOWAS, SADC, and IGAD and NEPAD on the pan-African level). The costs for UN peacekeeping operations accounted for about US$ 7 billion (2007-08); a US$1.4 billion increase to 2006-07. Operations run in 17 countries involving more than 70,000 soldiers and 10,000 police mean. Seven of the current missions account for almost 90% of the budget; six of which are in ACP countries, namely DRC, southern Sudan, Darfur, Liberia, Haiti and Côte d'Ivoire. Ghana and Nigeria are the only African countries that contribute significantly to regional peacekeeping in Africa providing currently more than 2,000 peacekeepers per country (Renner, 2008). An evaluation of peacekeeping efforts shows that those cases were most successful where regional conflict complexes were sufficiently considered and several actors were involved in the peace negotiations (Wallenstein and Sollenberg, 1998; Pugh and Cooper, 2004).

However, as pointed out by Francis (2006) regional security in Africa cannot be separated from national and international security issues. National state and non-state actors, inter-state relations and inter-regional interactions have also to be taken into account when discussing regional security strategies. Thus, a 'peace-security-development' nexus would need to be developed by regional and international institutions and agencies. Whether regional 'lead-nations' such as Nigeria or South Africa facilitate or complicate regional peacekeeping missions is disputed. While these countries have comparably strong financial, personnel and institutional means to lead peace missions their hegemony can also raise fear among weaker member countries. Given the capacity limits of many African states it is argued that realistic targets have to be set of what can be achieved through capacity building so that emergency responses can be met (Malan, 2004).

Regional organisations have emerged as conflict managers; for example the West African peacekeeping and intervention force, ECOMOG, and the SADC peacekeeping deployment in the Democratic Republic of Congo have both intervened successfully (see Box 9) The Regional Assistance Mission to the Solomon Islands (RAMSI) was successful in the Pacific region, and CARICOM and the OAS intervened in the Haiti crisis.

Box 9 Regional peace facilities in Africa

There are three regional peace facilities in Africa covering most states in western, southern and eastern Africa, namely the Economic Community of West African States Monitoring Group (ECOMOG); the Southern African Development Community Organ for Politics Defence and Security Co-operation (SADC OPDSC); and the Intergovernmental Authority on Development (IGAD). The conceptual framework of all three regional organs are inextricably linked with the pan-African concepts to secure peace and security on the continent, namely the AU Protocol establishing the Peace and Security Council (PSC), the Conference on Security, Stability, Development and Co-operation in Africa (CSSDCA) and the principles of the African Peer Review Mechanism (APRM) as set out in the New Partnership for Africa's Development (NEPAD). It is the objective of all bodies to prevent and manage conflicts and to create common security systems.

6. CONCLUSIONS

This review of regional integration in African, Caribbean and Pacific (ACP) states has taken a broad view of regional integration and included various aspects of regional trade integration such as tariff reduction and covers behind the border dimensions of regional trade integration such as cooperation and harmonisation in standards, services and investment, etc. but also regional policy cooperation in areas such as. infrastructure, agriculture, economic co-operation and political integration.

We discussed regional trade integration, both expected benefits and the empirical evidence of regional integration in the ACP and where appropriate elsewhere. The benefits of regional tariff liberalisation and behind the border dimensions of regional integration can be read as the costs of non-integration for the ACP. Without closer policy cooperation (in areas ranging from political, economic, social and cultural co-ordination) the ACP remain excluded from the gains of regional integration observed in other developing countries and discussed throughout this report.

This review included a number of key findings in the area of regional trade integration and policy co-operation (especially at economic and political levels) and as such provides background information on regional integration in the ACP. There are state-of-play tables, several examples and a rich bibliography especially regarding regional trade integration. The review has come up with relatively few examples of the costs and benefits of regional integration in policy co-ordination. This is due to the lack of academic research going beyond the most traditional aspects of regional integration (i.e. free-trade agreements) and the difficulty of reaching conclusions when dealing with poor countries with a largely informal economy and poor statistics. Indeed, in a number of important policy areas (e.g. the provision of regional public goods), the theoretical gains from regional integration are well-understood, yet the empirical evidence is thin. This shows that much more research on less-traditional aspects of regional integration is needed.

Regional trade integration

Most ACP regions have moved a considerable way with respect to regional tariff liberalisation. Many regions are under way or have already removed intra-regional tariffs (though the process is not yet complete). The empirical evidence suggests that intra-regional tariff reduction does lead to increased trade, which in turn sets the conditions for growth. However, the reduction or elimination of tariffs on intra-regional trade will have few effects if the potential for intra-regional trade is small. We also review a number of studies suggesting that regions boost extra-regional FDI and in some cases intra-regional FDI.

The process of regional integration is associated with dynamic effects and these are often down played or forgotten altogether. Regional integration is likely to increase aggregate growth through the growth effects of increased trade and investment (but apart from this there is no independent effect of regions in the empirical estimates). One of the channels is that exporting firms have higher productivity. Of course, the effects will depend on many factors (type of region, initial level of MFN tariffs, etc) and will vary by country in the region.

Whether regional integration initiatives in the ACP have promoted convergence or divergence among the regional members is disputed and there are different paths for different regions. The empirical studies do suggest there are policies that could be put in place to influence the regional dispersion of incomes.

Few ACP regions have achieved meaningful integration in the areas of trade in services, investment and migration. There is progress, especially in the Caribbean, of moving towards services provisions (e.g. EAC), but negotiations are not so well advanced in COMESA and SADC. The same applies to investment. Migration is a sensitive issue and while there have been attempts to free up intra-regional labour flows this has not delivered. There is actually very little evidence on the effects of behind the border dimensions of regional integration on trade, investment and migration flows.

Policy co-operation

Factors that enhance intra-regional cooperation such as better institutions or shared infrastructure may add more value to regional integration than pure trade liberalisation. There are many roles for regional integration beyond trade provisions. First, regions can support the provision of regional governance public goods. Effective international economic governance promotes economic development. Some challenges are best met at the national or multilateral level, but some policy-making occurs at a regional level in parallel with national trade policy-making. Second, regions can support the provision of regional knowledge public goods. Finally, regions can overcome other market and coordination failures and coordinate activities with strong regional externalities.

We review the expected effects and ACP regional experience in the following key dimensions of policy coordination:

Economic cooperation

- Financial market integration and regional stock markets may help liquidity and attract capital, however, the ACP regions are weak on cross-listings at stock markets and forming regional stock markets.
- Monetary integration provides for a common currency which reduces transaction costs. Monetary integration aims to provide financial stability and better economic and financial cooperation and would provide free access to member state capital markets. Within the ACP there are four monetary unions covering SACU, UEMOA, CEMAC in Africa and OECS in the Caribbean.
- There are an increasing number of regional business associations and R&D initiatives in the ACP. Such regional institutions can become important lobbying institutions for more efficient regional provisions.
- Regional infrastructure (transportation, communication, energy and water) is key for development. Effective regional coordination and harmonisation reduces the time and uncertainty of traders, thus reducing the costs and increasing intra-regional trade. Intra-regional infrastructure projects offer the

option to benefit from economies of scale, thus, further reducing the costs of transportation. While there are several examples of successful regional projects, overall there is a lack of regional projects.

- The management of land, fisheries and forestry increasingly needs to account for a focus on regional cooperation activities in order to promote the sustainable use of natural resource and combat illegal resource use (such as fisheries and forestry). Enhanced regional cooperation on agriculture not only offers the chance to prevent food crises but also avoids undue taxation of poor consumers.
- There are new challenges for the regional management of communicable diseases when faced with a highly mobile population.
- Regional energy cooperation benefits from economies of scale, a critical mass of consumers and an increase in the reliability of local energy resources. But few regional ACP power grids are fully functional.
- Social cohesion policies in the ACP are less well advanced than social cohesion policies in non-ACP regions.

Political cooperation

Political integration is the third pillar of regional integration (beyond trade policy integration and economic policy coordination). Political integration is often a pre-requisite for successful economic integration (e.g. in the EU). In other situations, economic and political integration go hand in hand. There are also cases where economic integration leads to political integration and institution building.

Given that today's trade agreements are often multifaceted dealing not only with trade in goods and services but also competition policy and intellectual property rights, such behind the border dimensions of regional integration may help to pave the way for further cooperation such as in infrastructure cooperation, regional environmental protection or other political integration. There is a positive correlation between countries' engagement on a multilateral level and regional cooperation.

Regional organisations have emerged as conflict managers; for example the West African peacekeeping and intervention force, ECOMOG, and the SADC peacekeeping deployment in the Democratic Republic of Congo have both intervened successfully. The Regional Assistance Mission to the Solomon Islands (RAMSI) was successful in the Pacific region, and CARICOM and the OAS intervened in the Haiti crisis.

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