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Regional Integration, Intra-African Trade and Development of the Services Sector

Christian Kingombe and Dirk Willem te Velde

Introduction: the European Commission Communication and regional integration

Compared with normal European Union (EU) discussions on trade and development, which are often full of references to regional integration, this Communication has relatively little on it. It simply refers to the Agenda for Change Communication, which promises greater support to enhance the business environment, to promote regional integration and to help to harness the opportunities world markets offer, as a driver for inclusive growth and sustainable development. The Communication also argues that the EU has consistently sought to promote regional integration, to make countries more attractive to FDI and to spur economic growth. It points to agreements with Central America and CARIFORUM to suggest the EU has supported regional integration processes. The EU promises to review its approach in supporting regional integration, but does not provide details, as already mentioned by Bilal in Eassy 5 in this volume. The Council Conclusions (the commitment part) are silent on regional Aid for Trade (AfT), although regions are mentioned in relation to trade measures such as Economic Partnership Agreements (EPAs).

The EU should be more specific about support for home-grown regional integration. One of the African Union's (AU) top priorities is the fostering of intra-regional trade. We argue that there are specific gaps in trade development that can be solved through an African approach. This involves a bottom-up process that considers how trade can contribute to development and what measures to promote trade are required (Calì et al., 2008), rather than what has often happened in the past decade, whereby developing countries were asked to think top-down on what they would commit (offers and requests for services) in multilateral trade fora. In addition, following the latest trade ministerial at the World Trade Orgaisation (WTO), the EU can now provide special and differential treatment to services from Least Developed Countries (LDCs).

Regional integration and trade in services

The literature on regional integration dates back to at least the 1950s, when its effects on trade were said to be either trade creating – replacing or complementing domestic production – or trade diverting – when partner country production 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 be better to liberalise globally. The mere reduction or elimination of tariffs on intra-regional trade will have fewer effects if the potential for intra-regional trade is small. For instance, intra-regional trade in Africa covers only a small percentage of total trade, in part because economic and trade (in final products) structures are similar (but perhaps also because of underreporting), so any trade (and hence economic) effect of lower tariffs is likely to be small (te Velde, 2006). Instead, researchers argue that deep integration covering trade rules, trade standards and institutional cooperation would be better for regions.

The literature on deep integration (Meyn and te Velde, 2008; te Velde, 2006) argues that regional integration can be good for growth because: (1) the type and conditions of integration matters; (2) there can be dynamic as well as static effects (e.g. regional integration affects extra-regional Foreign Direct Investment (FDI), see te Velde and Bezemer, 2006), including at micro level (regional exporting is associated with higher productivity, see te Velde, 2011); and (3) there is now more momentum behind actual implementation, for example in the East African Community (EAC). There are also a set of practical examples where intra-African trade facilitation, for example thorough one-stop border posts), leads to lower transportation costs and fewer delays (e.g. Meyn and te Velde, 2008). All in all, it is crucial to promote the right type of regional integration provisions.

Trade in services

Services are increasingly important in development. As countries grow, the share of services in Gross Domestic Product (GDP) also increases. As argued by Kingombe (2012), services are embedded in all parts and sectors of the economy and affect growth development through four (direct and indirect) pathways:

- Directly, by providing many jobs and incomes for the poor (from distribution to tourism);
- Directly, by affecting development through effects on range and quality of services;
- Indirectly, by forming the backbone of the economy; and
- Finally, by offering an opportunity to diversify and enjoy comparative and competitive advantages (from temporary migration to call centres).

The fast-growing sectors are services such as telecommunications, information and communication technology (ICT) and finance, but tourism remains important for several developing countries. Services have contributed relatively more to growth than other sectors. Trade in services takes up an important share in the export sector in countries such as Cape Verde (76%), Mauritius (75%) and the Seychelles (88%), where services exports made up more than two-thirds of GDP in 2009. The development of services faces a pipeline of constraints, ranging from domestic capabilities to domestic regulations to trade restrictions. Some trade restrictions can be better dealt with at regional than multilateral levels.

Supporting a regional approach to services liberalisation

Kingombe (2012) argues that multilateral services fora for Africa and African EPA negotiations have so far hardly covered meaningful services liberalisation. There is a rationale for a continental African regional approach to remove barriers to services trade and to grow and develop on this basis first. Although several regional economic communities, such as the Common Market for Eastern and Southern Africa (COMESA), EAC, the Economic Community of West African States (ECOWAS) and the Southern African Development Community (SADC), are committed to continuing to strive towards a further deepening of their regional integration in services, investment and migration, there are mixed results when it comes to actual implementation of the provisions in the trade protocols.

Here is a role for the new, ambitious AU approach on intra-regional trade and services. An overarching African Union Commission (AUC) process might help in setting targets for services liberalisation and reaping synergies among regions. Any AU process, or the tripartite tripartite Free Trade Agreement (FTA), and support agencies will have to build on what has already been achieved in the regional markets of COMESA, EAC and SADC.

The AUC could be provided with a clear mandate and resources to facilitate and monitor this process of regional trade in services liberalisation towards an African internal market (for services). The AUC could play a coordinating role to ensure harmonisation of regulatory policies for appropriate services sectors and of regimes applicable to service providers, as well as organising the overall framework for cooperation among the regulatory authorities at the regional economic community level. The EU could support this process with grants for regional AfT.

References

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edcsp@odi.org.uk

www.international-development.eu

EDCSP
Overseas Development Institute
111 Westminster Bridge Road, London, SE1 7JD