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COMMUNICATION ON REGIONAL INTEGRATION FOR DEVELOPMENT IN ACP COUNTRIES

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LIST OF ACRONYMS

ACP	African, Caribbean and Pacific countries
APF	African Peace Facility
APRM	African Peer Review Mechanism
ASEAN	Association of South East Asian Nations
AU	African Union
CACM	Central American Common Market
CARICOM	Caribbean Community and Common Market
CEMAC	Communauté Économique et Monétaire de l'Afrique Centrale
CEPGL	Economic Community of the Great Lakes Countries
CET	Common External Tariff
CFA Franc	Communauté financière d'Afrique / Coopération financière en Afrique centrale Franc (currency)
COMESA	Common Market for Eastern and Southern Africa
CSME	Caribbean Single Market Economy
CSP	Country Strategy Paper
DRC	Democratic Republic of Congo
EAC	East African Community
EC	European Community/ies
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EDF	European Development Fund
EIB	European Investment Bank
EPA	Economic Partnership Agreement
ERDF	European Regional Development Fund
FDI	Foreign direct investment
FTA	Free Trade Area

IfS	Instrument for Stability
IGAD	Intergovernmental Authority on Development
IOC	Indian Ocean Commission
IRCC	Inter-Regional Coordinating Committee
MDG	Millennium Development Goal
MERCOSUR	Mercado Común del Sur
MNC	Multi-National Corporation
NAFTA	North American Free Trade Association
NEPAD	New Partnership for Africa's Development
NIP	National Indicative Programme
OCT	Overseas Countries and Territories
OECS	Organisation of East Caribbean States
PICTA	Pacific Islands Countries Trade Agreement
PIF	Pacific Islands Forum
REC	Regional Economic Community
RIP	Regional Indicative Programme
RISP	Regional Indicative Strategic Development Paper
RSP	Regional Strategy Paper
SACU	Southern African Customs Union
SADC	Southern African Development Community
SME	Small and Medium Enterprises
SOPAC	South Pacific Applied Geosciences Commission
SPBEA	South Pacific Board of Educational Assessment
SPC	Secretariat for the Pacific Countries
SPREP	South Pacific Regional Environmental Programme
SPS	Sanitary and Phytosanitary standards
SPTO	South Pacific Tourism Organisation

TBT	Tariff barriers to trade
UDEAC	Union Douanière et Économique de l’Afrique Centrale
UEMOA	Union économique et monétaire ouest-africaine
UNCTAD	United Nations Conference on Trade and Development
USP	University of the South Pacific

1. THE RELEVANCE OF REGIONAL INTEGRATION IN A GLOBALISED WORLD

1.1. The global context

1.1.1. The global economic context

Over the last decade, the globalisation process has gained further momentum, changing the global economic landscape and bringing the emergence of new economic powers such as China and India. Global trade and investment flows have grown much more rapidly than national economies, bringing about an unprecedented level of economic interdependence.

In an increasingly complex web of economic and political relations, economic interdependence has grown much more rapidly and deeper than the political cobweb. Not all actors – governmental or commercial – have been able to adapt and take advantage of the new course. In this respect, larger and stronger players have a significant advantage as they have retained (or gained) the ability not only to adapt to, but to actually shape, globalisation.

This explains why globalisation has tended to marginalise the smaller and weaker states and companies, thereby increasing inequalities – both within countries and between countries – between winners and losers. In this context, most ACP countries have not been in a position to harness globalisation to achieve their development objectives and, in particular, to accelerate poverty reduction. As shown in table 1 below, their share of world trade and investment has stagnated while developing countries at large have been reaping the benefits of globalisation.

Table 1: The position of developing countries and ACP countries in world trade and investment

Indicator	**1990**	**2006**
Developing countries' share of world trade *Sub Saharan African countries' share of world trade*	23.2% *2.9%*	34.7% *2.7 %*
South-south share of world trade *Sub Saharan African intra-regional trade as a share of world trade*	7.6% *0.1%*	17.0% *0.2%*
Developing countries' share of FDI flows *Sub Saharan African countries' share of FDI flows*	17.8% *0.8%*	29.1% *0.9%*
Developing countries' share of FDI stock *Sub Saharan African countries' share of FDI stock*	20.5% *2.0%*	26.3% *1.7%*

Source: UNCTAD

This trend is not inevitable, as exemplified by the recent surge of growth rates in Africa. This accelerated growth is, however, based to a large extent on a commodity boom that needs to be translated into long-term development. In any case, at the current pace, ACP countries would need much time to catch up with the most developed economies. It is also widely recognised that additional growth is needed if developing countries are to meet the 2015 targets of the Millennium Development Goals (MDGs). Table 2 below shows clearly that sub-Saharan Africa is currently not on track to achieve any of these goals. Accelerated growth is, in particular, a necessary – if not sufficient – condition for the central objective of poverty reduction is to be achieved.

Table 2: The Millennium Development Goals and selected indicators for Sub-Saharan Africa.

Goal Sub-goal / indicator	**Progress**	
	1990	2004
1. Eradicate extreme poverty and hunger Halve the number of people living on less than $1 per day (1990 – 2015) Halve the proportion of people who suffer from hunger (1990 – 2015) Measured by the number of under 5s under age.	46.8% 33%	41.1% 29%
2. Achieve universal primary education Ensure all boys and girls complete a full primary school course (measured by enrolment rate)	54%	70%
3. Promote gender equality and empower women Measured by the share of women in single or lower houses of parliament	7.2%	16.5%
4. Reduce child mortality Reduce by two thirds the mortality rate under 5	185 per 1000	166 per 1000
5. Improve maternal health Reduce by ¾ the maternal mortality rate	940 per 100 000	920 per 100 000 (2005)
6. Combat AIDS, Malaria and other diseases Halt and reverse the spread of aids (measured by prevalence of AIDS in 15-49 year olds)	2%	6%
7.Ensure environmental stability Reduce by half the proportion of people without access to basic sanitation	68%	63%

Source: United Nations

1.1.2. Increasing attention to regional integration

The recent proliferation in the number of regional integration projects and the focus on their importance can be attributed to the fact that regional integration provides a response to the challenges of globalisation. Smaller states find themselves in a weak position to attract global companies and to exert political influence an international level. Regional integration provides smaller states with recognition and weight and increases their ability to better harness the benefits and negative impacts of globalisation.

The EU itself is a prime example of this kind of response, where the internal market and common policies allow companies based in Europe to build up a strong regional economic base, while enabling Member States to pool their sovereignty to address common challenges in a cooperative manner.

While the concept of regional integration among developing countries has existed since the formation of SACU (Southern Africa Customs Union) in 1910, its rise in popularity began during the 1960s with the formation of organisations such as CACM (Central American Common Market) and ASEAN (Association of South East Asian Nations). More recently, regional integration has become one of the dominant features of international politics. The 1990s saw the emergence of new organisations such as MERCOSUR (Mercado Común del Sur – Southern Common Market) and the unique NAFTA (North American Free Trade

Association), which joins developed countries (Canada and US) with a newly industrialised country (Mexico). Since the beginning of the 21st century, regional organisations have both expanded in membership and broadened co-operation areas.

ACP states did not stay out of this trend towards increased regionalisation. Across the ACP region, there are now some 20 regional integration arrangements and dozens of specialised regional cooperation organisations. Many of the ACP arrangements are focussing in the first place on achieving objectives relating to economic and trade aspects or cooperation

This attraction for regional integration can be easily understood and explained by the **outcomes it is expected to bring in at least three areas** (see also annex 2 for a review of the literature on the benefits of regional integration):

– Through cooperation and institutionalisation of conflict prevention and the peaceful conflict resolution, ***regional cooperation helps stabilisation***. Regional organisations play an increasingly important role in conflict management, peace-keeping and peace-building. They can play an important role in helping to tackle the root causes of conflicts as well as promoting and protecting human rights, building trust and thereby enhancing understanding among societies and cultures leading to reconciliation in post-conflicts situations. By deepening interdependence, regional integration provides disincentives for countries or groups to act aggressively against neighbouring countries and populations.

– By building up larger markets, creating harmonised and effective frameworks for economic operators, fostering the exchange of goods and resources, ***regional integration can foster economic development*** through economies of scale and stimulation of investment. From an EU perspective, regional integration is a step towards integration into the global trading system by allowing efficiency gains through enlarged markets and an open regional integration. It is, in particular, a means to foster south-south trade in a context where many developing countries trade more with developed countries than with their neighbours. By being essential for economic growth, regional integration is therefore a vehicle for accelerated poverty reduction.

> ***Box 1: Regional integration and growth***
>
> Literature[1] on regional integration and growth generally does not find a direct link between the two, but rather an indirect association, or so called "dynamic growth effects". Te Velde (2008) completed a study of regional integration and growth in ACP regions, and found positive effects on growth through regional integration in trade and investment. In particular, "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". Schiff and Wang (2003) similarly found that NAFTA imports raised Mexican productivity by between 6.5 and 7.5%.

– Regional cooperation is also the best way to ***provide or protect "regional public goods"*** because it is more effective in addressing challenges with a trans-national dimension. Expected effects of regional cooperation are i) the provision of "regional governance public goods" such as international economic governance and regional institutional development; ii) the provision of "regional knowledge public goods" such as experience learning and information sharing; iii) overcoming "other market and coordination failures

[1] For all references to literature in this document, see Annex 7 and http://ec.europa.eu/development/icenter/repository/Regional-Integration-Report-18-09-2008_en.pdf

and coordinating activities with strong regional externalities" such as competitiveness challenges (ODI 2008). Typically, transmissible diseases and the fight against migratory pests, protection and management of natural resources (e.g. water, land) or migration are cross-border challenges that require cross-border cooperation if they are to be mitigated and if increased economic activity of a regional scale is to be sustainable.

Box 2: Regional public goods

Public goods should be provided at a regional rather than national level if either the underlying problem cannot be tackled at national level, or if regional level intervention is more efficient.[2] Examples of potential regional public goods include: cross-border transport links, peace-keeping operations, fighting human trafficking, the fight against specific crimes (notably fraud and smuggling), infectious disease control, agricultural pests control and specific climate agricultural research (this could include food security).

A natural problem with regional public goods is their source of finance. Countries are less keen to take loans to finance regional public goods with larger spill-over effects to other countries in the region, and multi-country loans are hard to manage in practical terms (Ferroni, 2001).

1.2. The increasing commitment of ACP countries to regional integration

The vulnerability of most ACP economies, their fragmentation and the resulting lack of resources requires action going beyond national borders. This is felt by ACP countries themselves as all belong to at least one form of regional cooperation or organisation. They see this as a remedy to their inadequate economic size with regard to the globalizing economy and an opportunity to adopt a more strategic approach to their development and speed up their socio-economic transformation. It is also a powerful means to stabilize their geo-political environment through fostering peace, reconciliation and stability in their immediate environment.

The importance of regional **political** integration was exemplified in Africa by the establishment in 2002 of the African Union (AU). The AU includes all African countries (except Morocco) with the ultimate aim of forming a "United States of Africa". Currently, it is involved in a variety of chiefly political activities, such as conflict prevention and peace keeping (e.g. Darfur), but economic and monetary union is also part of its agenda and the African Regional Economic Communities (RECs) are regarded as stepping stones to this goal.

In other regions as well, regional integration is seen as key. The Pacific region contains a number of organisations with specific fields of co-operation (e.g. SPBEA and USP for education). In the Caribbean, 12 of the 15 CARICOM members have progressed to a single market.

There have been long-standing efforts to harness regional integration for **economic** development. These efforts have been further stepped up in recent years, with many free-trade areas and customs unions under creation and a number of regions designing plans for ambitious common policies (see Table 3 below and Annex 1).

2 For a more complete definition of regional public goods, see Ferroni (2001), P3 ff. and the original definition of international public goods by Kanbur (2001).

Table 3: Regional Economic Communities in the ACP: State of play of economic integration

REC	**Integration reached** [3]	**Integration planned**[4]
Caribbean		
OECS	Single Market (through CARICOM)	Economic Union (2009
CARICOM	Single Market (2006)	Single Market and Economy (2008)
Central Africa		
CEMAC	Single currency (CFA Franc pegged to the Euro), FTA (1998) and Customs Union (1994)	Full FTA, Customs Union and Common Market (no fixed date)
ECCAS	FTA launched in 2004 and slowly implemented	Customs Union (2011), Common Market (no fixed date)
Eastern Africa		
EAC	Customs Union (2005)	Common Market (2012)
COMESA	FTA (2000)	Customs Union (2008)
Southern Africa		
SADC	FTA (2008)	Customs Union (2010)
West Africa		
UEMOA	Single currency (CFA Franc pegged to the Euro), Customs Union (2000)	Common Market (no fixed date)
ECOWAS	Partial FTA and Customs Union	Full customs union 2007 (delayed) Monetary Union (2009)
Pacific		
PICTA	FTA (2003)	No further step planned

Beyond trade and economic integration, many initiatives aim at pooling efforts and resources of ACP states to tackle **common problems**.

In the Pacific, the Forum Fisheries Agency has developed an integrated approach in the management of fish, a vital economic resource for many countries. The Forum Fisheries Agency has provided state-of-the-art legal and economic advice for the conclusion of fishery agreements, surveillance of fishery activities in members' exclusive economic zones and for the development of a domestic tuna industry. Higher education has also traditionally been

3 Regional economic arrangements are often applied with distortions.

4 REC integration plans are often changing. The proposed integration listed here is based on the most recent, readily available public information.

provided at the regional level in the Pacific as it was recognised as the most effective way for small countries to deliver university education to high standards, as demonstrated by the University of South Pacific (USP), the Fiji School of Medicine, or the University of Papua New Guinea (UPNG) – all with highly-evolved distance education facilities in the non-campus islands.

In Eastern and Southern Africa, the Nile Basin Initiative (NBI) was officially launched in 1998 by the ten riparian states. In a region that is characterised by severe poverty and instability and where the allocation and use of Nile waters have long been a source of serious tension, the participating states agreed on a shared vision to achieve sustained socio-economic development through the equitable utilisation of, and benefit from, the common Nile basin water resources. To convert this vision into action, multi-purpose infrastructure (for water supplies, hydro-electric power, irrigation systems) is being developed jointly to reduce vulnerability to droughts, to manage floods better, to ensure more water, more food and more electricity in a sustainable manner.

In the same region, the COMESA Free Trade Agreement (FTA) has proved beneficial to intra-COMESA trade, with trade growing at an annual average of 9% within COMESA and by 16% among FTA Member States between 2000 and 2007 – much more quickly than overall trade. A World Bank study concluded that the FTA has had a positive impact on growth in the members that joined the FTA, on cross-border investment flows and on the development of intra-industry linkages, with trade on semi-manufactured goods between FTA members overtaking trade of similar products with the rest of the world.

In the Caribbean, although tropical storms and hurricanes are frequent and have a large adverse impact on the fragile economies of the region, the present regional capacity to determine how severe a particular weather condition will be, and the likely effect in a localised area is very limited. CARICOM, the Caribbean Meteorological Organization and the national disaster agencies decided to pool resources in order to promote a reliable warning system and to obtain the advanced technologies that will provide the information needed to improve the preparedness of the authorities and the general public and thus help minimise loss of life and damage to property.

2. THE CHALLENGES FACING REGIONAL INTEGRATION IN ACP COUNTRIES

Despite real progress and clear commitment to enhance regional integration, **a number of critical challenges remain if regional integration is to fulfil its development potential for ACP partners**.

2.1. The economic structure

2.1.1. Dual economies, weak export base and insufficient complementarity

Most ACP countries (especially those with fragmented markets) suffer from ***dual economies***; that is to say small companies operate on a very local level, while larger, predominantly foreign multinational corporations (MNCs) are either present on the larger markets of the country (goods not produced locally; business services) or operate in a de facto off-shore mode (goods produced but not consumed locally – typically raw material). The result is a lack of medium-sized enterprises able to operate on a national, let alone regional, level.

Firstly, this is an issue as medium-sized enterprises are essential for growth and competitiveness. Secondly, the dual economy causes ACP countries to have ***a weak export base*** as demonstrated by the ratios of sectoral import and exports between the ACP and EU shown in Table 4 below. While the ACP region runs a trade surplus with the EU, it clearly exports primary goods (78.8% of their exports) and imports manufactured goods (74% of their imports).

Table 4: EU / ACP trade by sector 2006 (excluding South Africa).

Sector *(Sub-sectors)*	ACP Exports to EU	ACP Imports from EU
Primary Products	78.8	23.9
Agriculture	*25.4*	*13.1*
Energy	*43.5*	*9.1*
Manufactured Products	20.4	74
Machinery	*0.8*	*28.9*
Transport	*4.9*	*15.7*
Chemicals	*1.5*	*10.8*

Source: European Commission

The combined effect of this duality and weak export base is ***a poor complementarity of national economies*** within a region, as economies find themselves producing and exporting a narrow range of similar products. As a result, trade integration is very limited in ACP regions and, as shown in Table 5 below, trade with the EU is generally larger than with regional neighbours. CEMAC countries, for instance, conduct 1% of their trade between themselves and about 45% with the EU. In a number of cases, however, significant trade barriers still persist and reduce the trade potential or trigger informal trade flows which do not appear in official statistics. *Table 5: ACP regions import and export shares for 2004*

Region	Exports			Imports		
	Within region	Other ACP	EU	Within region	Other ACP	EU
ECOWAS	9.3%	1.2%	31.9%	10.5%	1.3%	37.0%
CEMAC	0.8%	3.2%	37.8%	1.4%	8.2%	53.5%
COMESA	9.2%	4.8%	29.9%	6.4%	2.7%	22.4%
SADC	2.1%	4.5%	32.6%	2.5%	4.3%	23.3%
Caribbean	8.9%	0.8%	20.0%	5.8%	1.4%	18.1%
Pacific	0.6%	0.5%	15.4%	1.3%	0.8%	8.8%

Source: CEPII

Where conditions for effective and credible integration are strengthened, trade stands a chance to take off. This is the case in EAC where Kenya's traditional exports to neighbouring countries exceed its traditionally dominant exports to Europe.

The lack of diversification and complementarity is not only due to the aforementioned factors, but also to the continued existence of many regulatory, administrative and physical trade obstacles between countries in the same region and to the narrowness of the national markets (itself an effect of limited purchasing power). As a consequence, contrary to developed economies, the potential gains and prospects of regional integration in ACP countries lie more in longer-term prospects than in the rationalisation of existing production structures.

2.1.2. Vulnerability to economic and financial shocks

ACP countries are vulnerable due ***trade shocks*** due to their reliance on a small group of products, exported to a limited number of export markets (as mentioned above). Fluctuations in commodity prices are a cause of instability for people's income, fiscal revenues and macroeconomic stability. One striking example occurred in Ethiopia between 1986 and 87. A fall in the world price of coffee caused a 40% decrease in Ethiopia's terms of trade, ultimately resulting in a 6% decline in Ethiopia's real income. Foreign capital inflows, most of which are short-term, make many ACP countries vulnerable to ***financial shocks***[5]. As financial shocks can also affect exchange rates, they can also prove disruptive for regional trade.

2.2. The need for (more effective) regional policies beyond trade

From European experience, regional integration requires more than elimination of trade barriers to be effective and beneficial for all (business, consumers, workers, citizens). Regional integration should serve the objective of sustainable development and poverty reduction, and therefore be able to develop co-operation and address common challenges.

These ***common challenges*** may include negative externalities, in particular the environmental and social impacts of increased regional economic flows. Such challenges can often be tackled at a regional level through the provision of appropriate ***regional public goods***.

Agriculture is one example area; it remains the economic base for the majority of the poor in Africa and accounts for about a third of Africa’s GDP plus the bulk of its employment. In view of this, the AU and NEPAD have launched the Comprehensive Africa Agriculture Development Programme (CAADP) to foster agricultural development. In its communication "Advancing African agriculture", the European Commission, while recognising that the national level is where the most intense cooperation will continue to take place, expressed its view that in many areas (such as research, knowledge dissemination, trade facilitation, harmonisation of norm and standards, management of cross-border resources), action at continental and regional levels can contribute to agricultural development.

Regional integration can also make an important contribution to food security. Most ACP regions have put in place regional food security strategies to exploit the potential benefits of enhanced integration, notably in terms of trade (lowering the cost of inputs), infrastructure (sharing the costs of irrigation projects; improving road and lowering the cost of transport),

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5 It is worth noting, however, that commodity-related FDI inflows into some countries have increased in recent years.

market management (stocks, improved market information, regional exchanges) and control of animal and pest diseases.

Migration is a further area which can be addressed with policies at regional level. Growing mobility and migration leads may have destabilizing effects in countries characterised by weak governance and lack of social safety nets; for example, more rapid spread of communicable diseases across borders or xenophobic reactions. This challenge can best be met by regional cooperation and cross-border actions in support of national responses.

Regional economic integration between poor and poorer countries may also lead to a **concentration of wealth** in the lead economic area (regional power house) to the detriment of the poorest regions (Venables, 2000). In particular, integration will lead to increased FDI at a regional level, but this new investment may be focussed specifically within richer areas of the regional powerhouses, thus challenging the objective of poverty reduction for the region as a whole. This theory is backed up by empirical work on US and UK FDI in developing countries; it was found that countries with a larger market, or those countries closer to the larger market, received more FDI (ODI, 2006). Policies that aim to cushion potential losers are even more necessary in the case of "open" regional integration, where increased competitive pressure comes not only from the "powerhouse" in each region, but also from third parties.

A further area which can benefit from wider regional policies is that of ***industry competitiveness and the business climate***. Well-functioning integrated regional markets benefiting from reduced transaction costs will increase trade, strengthen competition, encourage innovation and provide new and better quality goods and services to more people. This is particularly important for fledgling SMEs that need incentives to trade across borders. By contrast, the lack of business support services (inefficiency of financial markets, segmentation of services markets, etc) and of industrial strategies with a clear regional perspective are limitations to the creation of new businesses and the diversification of economic structures.

However, for SMEs to fully benefit, it is necessary to ensure that the relevant financing systems, which provide SMEs with access to borrowing, are in place. The improvement of regulatory framework and business climate will also contribute to attract foreign direct investments (FDI) in a context of local financial systems that fail to channel local savings to local investments. FDI is particularly valuable as/when it brings not only growth but also much-needed productive capacities (skills, technology, externalities, productivity). Furthermore, the need for increased R&D is being recognised by most leaders in developing countries as imperative for the diversification and upgrading of their economies. However, many of the results of R&D investment are only visible in the medium- to long-term while national budgets are hard-pressed to tackle other development urgencies. This makes the case for regional instruments in R&D particularly appealing.

Regional integration should also ensure ***macro-economic convergence and stability***. ACP countries differ highly with respect to their macroeconomic indicators and policies. Strengthening the regional coordination of macroeconomic policies and structural reforms will help build stronger regional markets and macro-economic stability, including low inflation, less volatile exchange rates, sound fiscal policies and sustainable levels of public debt. Economic governance plays also an important role e.g. in the management of natural resources, fight against corruption, modernizing and reforming public finance. Regional coordination in these areas contributes to securing stability and the smooth economic adjustment needed for growth and poverty reduction.

Box 3: The challenges of monetary integration

There are four monetary unions in ACP, covering a) four of the five countries of the Southern African Customs Union (SACU); b) the two economic and monetary unions in West and Central Africa that tied their common currency, the CFA franc, to the euro; and c) the OECS in the Caribbean that tied their currency towards the US dollar (and previously the British pound). SADC, ECOWAS, EAC, COMESA and CARICOM also aim to establish monetary unions. All regions have agreed on programmes of macroeconomic policy coordination and convergence. In Africa, the overarching objective is to implement a monetary union and a single currency 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 mixed results of macroeconomic convergence and therefore failed to reach their ambitious calendars for monetary integration. Incomplete trade integration, a weak business environment and underdeveloped financial sectors have remained problems. In ECOWAS, where the alignment of the UEMOA zone with the non-UEMOA members was originally envisaged by 2005, the heterogeneous economic structures of member states, notably of oil producer Nigeria as the biggest economy, and country-specific political and economic problems seriously constrained their ability to pursue consistent macro-economic policies. Another problem is the non-convertibility of currencies (except the CFA Franc) which hinders cross-border financial settlements (ODI, 2008).

2.3. Inefficient and/or incomplete infrastructure networks

The benefits of trade integration are hampered by weak trade facilitation infrastructure and systems, while natural handicaps (insular economies, landlocked countries) can be offset by regional cooperation.

In its Communication on the EU-Africa Partnership on Infrastructure[6], the European Commission has explained the need to secure the interconnectivity of the African continent and its different regions. Despite slow improvement, transport costs remain high, much higher than in other developing regions, averaging 14% of the value of all exports compared with 8.6% for all developing countries, and higher still for many landlocked countries – Malawi (56%), Chad (52%) and Rwanda (48%). This imposes a huge burden on cross-border trade and economic development at large.

While the lack of energy remains a strong constraint on growth, there is a wide convergence that energy resources can be optimally exploited from a regional platform. Energy pooling and interconnectivity are addressing the problem of unreliable and costly services. Increased cross-border energy cooperation and trade is essential for improving reliability, affordability and access. The potential of regional integration and cooperation is particularly large when, as is the case in Africa, energy resources are substantial but require massive investment to be used.

6 Interconnecting Africa: the EU-Africa Partnership on Infrastructure, 13 July 2006, COM(2006)376 final

2.4. Weak regional governance

There are three main causes of weak regional governance. Firstly, ***regional institutional capacities are not sufficient***. The agendas for regional integration of most ACP regions are fairly ambitious and/or precise, but implementation is weak and hampered by the coordination ability of regional organisations and/or national governments. For example, the CEMAC Commission employs only 39 employees and 61 execution agents for, yet the ambitious integration agenda proposes to unite 35m people across 6 countries. While improving capacity should be a primary objective, it is also important that ACP states design the most appropriate regional integration agendas with a realistic degree of ambition that will work best in the specific regional ACP context.

Secondly, ***a wealth of regional organisations*** exists (see Annex 1). The RECs often have overlapping agendas, mandates and memberships and / or too weak structures and political weight. In Africa, a rationalisation exercise of the RECs is being undertaken by the African Union and NEPAD and the long-term aim is continental integration (e.g. a continental free-trade area in Africa).

However, the question remains as to how far this rationalisation process can actually go and what progress can be achieved in the short term given the differences in focus that sometimes exist between the AU formally recognised organisations and the actual capacities and mandates to deliver on an active economic and functional cooperation (see Table below).Table 6: Overview of African regional organisations

	Focus			**EC-ACP co-operation**			**AU recognised**
	Eco.	Fun.	Pol.	Eco.	Fun.	Pol.	
West Africa							
UEMOA (Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger Senegal, Togo)	**X**			O			
ECOWAS (UEMOA + Cape Verde, Gambia, Ghana, Guinea, Liberia, Nigeria, Sierra Leone)	**X**		**X**	O		O	O
CILSS (Burkina Faso, Cape Verde, Chad, Gambia, Guinea Bissau, Mali, Mauritania, Niger, Senegal)		**X**			*		
Central Africa							
CEMAC (Cameroon, Central African Republic, Gabon, Equatorial Guinea, Rep. Congo, Chad)	**X**	X		O			
ECCAS (CEMAC + Angola, Burundi, DCR, Sao Tome)	X	X	**X**	O	*	O	O
ESA							
IGAD (Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan, Uganda)		X	X		O		O
EAC (Burundi, Kenya, Rwanda, Tanzania, Uganda)	**X**		X	O	Cap		O
IOC (Comoros, La Reunion, Madagascar, Mauritius, Seychelles)		**X**			Cap		
COMESA (EAC – Tanzania, IGAD – Somalia, IOC – La Reunion, + Angola, DCR, Egypt, Malawi, Swaziland, Zambia, Zimbabwe)	**X**	X		O	O		O
Southern Africa							
SACU (Botswana, Lesotho, Namibia, RSA, Swaziland)	**X**			*			
SADC (SACU + Angola, DCR, Madagascar, Mauritius, Malawi, Mozambique, Tanzania, Zambia, Zimbabwe)	**X**	X	X	O	O	O	O
North Africa (non-ACP)							

AMU (Algeria, Libya, Mauritania, Morocco, Tunisia)			X				O
Inter-regional							
CENSAD (Benin, Burkina Faso, Burkina Faso, Central African Republic, Comoros, Côte d'Ivoire, Djibouti, Egypt, Eritrea, Gambia, Guinea, Guinea-Bissau, Ghana, Libya, Liberia, Mali, Morocco, Niger, Nigeria, Senegal, Sierra Leone, Somalia, Sudan, Chad, Togo, Tunisia)		X					O

Notes:

Eco. : Economic integration **X** Key focal area
Fun. : Functional cooperation x Minor focal area
Pol. : Political cooperation O Area of EC-ACP co-operation
Cap. : Co-operation in capacity building * Minimal EC-ACP co-operation

Finally, there is ***insufficient ownership and diversity of stakeholders***. Putting in place trade liberalisation and integration policies, plus broader co-operation requires strong political commitment to regional integration, a strong institutional and legal system, the awareness of all stakeholders (e.g. business, trade unions, civil society) and the convergence of their views. These pre-conditions do not always exist in ACP countries. The processes rely too often on general declarations by national leaders, without in-depth ownership by a wide range of actors such as national politicians, administrations, parliaments, business and non-state actors. The results of the public consultation back up the idea that broader stakeholder participation is required.

3. WHY DOES THE EU CARE?

Progress and difficulties in ACP regional integration are of strong interest for the EU. One of the **objectives of EU development policy** is to help developing countries to integrate into the world economy, together with the sustainable economic and social development of developing countries and the fight against poverty (Article 177 EC Treaty). The EU sees regional integration as a vehicle for smooth integration into the global economy and therefore lends its support to regional integration in developing countries. This is a long standing feature[7] of EU policy and that is particularly the case for ACP countries.

Conversely, the economic, social and environmental challenges facing ACP regional efforts may weaken efforts to reduce poverty and to foster sustainable development of ACP countries, and eventually counteract action supported by the EU.

3.1. EU-ACP relations and regional integration: an ancient partnership

Conceptually, there are several ways of conducting relations with third countries. These can be held principally in multilateral fora, on a bilateral basis with each individual country, or with regional groupings of countries arranged according to political, geographical or other interests. These levels are, of course, not mutually exclusive.

The EU-ACP relationship is, for historical reasons, not run primarily on a multilateral basis. A long-standing relationship, it formally began in March 1957 with the signature of the Treaty of Rome, which made special allowances for the then-called Overseas Countries and Territories (OCTs) of the European signatories of the Treaty. Since then, these countries

[7] Communication on European Community support for regional economic integration efforts among developing countries, COM (1995) 219 final, 16.06.1995.

became independent, but provisions were made to preserve the special economic relationships inherited from the past and to promote their economic and social development. Hence a first generation of association agreements with largely francophone former colonies in the form of two "Yaoundé Conventions" (1963 and 1969), and later, following UK accession in 1973, a second generation of agreements, the "Lomé Conventions" (1975, 1980, 1985, 1990) extending this special relationship to former British colonies in Africa, the Caribbean and the Pacific.

Therefore, **since the origins of the EC itself, a special relationship between Europe and the ACP countries as a group has been developed**. It encompasses trade arrangements, economic and technical assistance, development assistance and, increasingly, political dialogue and the protection of fundamental rights. For a long period of time, these successive conventions, that gradually expanded into new areas, remained the most far-reaching, elaborate and complex North-South contractual agreement, and were held as the flagship of EU development policy and external relations.

This special relationship with a group of developing countries remains at the core of EU development policy. It is recognised as such by the EC Treaty itself (Article 178(3)). Even when the EU was critically looking at the experience of the past and exploring new ways for the future[8], the multilateral option which would replace any bilateral arrangements with the ACP as a group or individually or regionally – i.e. going back on 40 years of special EU-ACP relations – was not contemplated.

EU relations with ACP countries have traditionally been conducted within a collective framework, the successive Lomé and Cotonou conventions, but in practice, mainly at the national level. This is the case for most Cotonou instruments: Political dialogue takes place mainly with national governments; development assistance has been mostly spent through National Indicative Programmes (NIPs) that respond to national Country Strategy Papers (CSPs); under Cotonou and until 31 December 2007, EU-ACP trade relations were governed by a unilateral EU trade regime towards ACP countries individually.

However, a *purely* bilateral relationship with each individual country is an option that has been discarded for a long time. Countries of the ACP group, and in particular of each of the sub-regions – Sub-Saharan Africa, Caribbean, Pacific – have **common political, economic, social and geographic characteristics** that make cooperation with them as regions or as a group more effective: general political undertakings shared by all; a single financial instrument (the European Development Fund) and the same financial procedures; and shared goal to reduce poverty and integrate into the world economy through a number of key policy areas (such as economic and financial cooperation, human and social development, improved governance).

This is why **regional integration has been supported by the EU-ACP partnership agreements already since the second Lomé Convention (1979)**[9]. The regional dimension of

8 Commission Green Paper on Relations between the European Union and ACP Countries on the eve of the 21st century – Challenges and Options for a new Partnership, COM(1996)570 final, 20.11.1996

9 Article 133 of the Lomé II Convention already established that "in the implementation of the financial and technical cooperation, the Community shall provide effective assistance for attaining the objectives which the ACP States set themselves in the context of regional and inter-regional cooperation. This assistance shall aim to:

the EU-ACP cooperation is seen as a necessary complement to its national component. In effect, the general objectives of EU-ACP cooperation as set out in the **Cotonou agreement** (Article 19) are poverty reduction, sustainable development and integration into the world economy as the overarching aims of the partnership. In order to achieve them, regional integration and cooperation is one of the fundamental areas of interest of the Cotonou agreement. Among the overall objectives of the partnership, "*regional and sub-regional integration processes which foster the integration of the ACP countries into the world economy in terms of trade and private investment shall be encouraged and supported*" (Article 1). To this effect, "*cooperation support shall aim to:*

(1) foster the gradual integration of the ACP States into the world economy;

(2) accelerate economic cooperation and development both within and between the regions of the ACP States;

(3) promote the free movement of persons, goods, services, capital, labour and technology among ACP countries;

(4) accelerate diversification of the economies of the ACP States; and coordination and harmonisation of regional and sub-regional cooperation policies; and

(5) *promote and expand inter and intra-ACP trade and with third countries*." (Article 28).

In addition, protection of the environment and natural resources, as well as enhancing the role of non-state actors, are cross-cutting issues that should also be pursued at regional level (Article 32).

This makes the EU a unique partner of ACP as most other bilateral or multilateral actors of development policy have, until now, not placed the same emphasis on regional integration. Indeed, some have virtually no operations at regional level.

USAID has regional programmes in all areas of Sub-Saharan Africa plus the Caribbean, and works with a variety of partners including RECs such as EAC and ECOWAS across a range of areas relevant to regional integration. These regional programmes have been in existence for several years. Aid for regional projects in 2007 totalled $72m for West Africa, $30m for Southern Africa, $28m for East Africa, $15m for Central Africa, $316m for "Africa regional aid" and $15m for the Caribbean.

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a) accelerate economic cooperation and development both within and between the regions of the ACP States;
b) accelerate diversification of the economies of the ACP States;
c) reduce the economic dependence of the ACP States on imports by maximizing output of those products for which the ACP States in question have real potential;
d) create sufficiently wide markets with the ACP States and neighbouring States by removing the obstacles which hinder the development and integration of those markets;
e) promote and expand trade between the ACP States and with neighbouring third countries;
f) maximize the use of resources and services in the ACP States;
g) strengthen organizations set up by the ACP States to promote regional cooperation and integration;
h) implement specific measures in favour of the land-locked and island countries, notably in respect of transport and communications."

Canada has a "Pan African" programme which primarily supports institutions in building their capacity and structure. The support is limited to financial support and the organisations themselves must propose (and then implement) projects with a regional impact. CIDA quotes the African Union as a partner for this program. None of the RECs appear to be partners at present, and there is no direct focus on regional integration.

Japanese assistance to Africa is limited to a handful of countries, and does not include any clear regional development initiative. Assistance to the Pacific is more developed but still does not appear to contain any regional aspects.

The World Bank has recently adopted its "Regional Integration Assistance Strategy for Sub-Saharan Africa". On regional integration, the EU seems to be "leading by example" since the concepts and ideas developed in this document are very much in line with what the EU has been doing for long on regional integration.

Overall, the trend towards an increased focus on the regional level is now established as witnessed by the number of important development partners who are developing regional strategies This fact, in itself, confirms the need for further regional integration in the current global climate.

3.2. More and better can be done

While development co-operation is a shared competence between the EU and its Member States, the EU has a key role to play in supporting regional integration through its development policy. The EU's own experience with regional integration makes it a natural partner for regional organisations in ACP regions and it has developed significant experience and expertise in dealing with regional organisations and regional matters in developing countries. In addition, as in all areas of development cooperation, the EU has a key role to play in the co-ordination of Member States' efforts to increase aid effectiveness.

The EU has been very responsive to the trend towards enhanced regional integration in ACP countries. Many recent EU initiatives and policies seek to support this process, in particular: the regional strategies for Africa (October 2005), the Caribbean (March 2006) and the Pacific (May 2006), and the Joint EU-Africa Strategy of December 2007; the negotiation of region-to-region Economic Partnership Agreements (EPAs); the EU-Africa Infrastructure Partnership focused on network interconnectivity; the programming of the 10th European Development Fund (EDF) and the increase of Regional Indicative Programmes (RIPs) therein; the promotion of dialogue and cooperation with European outermost regions and overseas countries and territories (see Annex 7 for the full references of these documents).

3.2.1. The need for a consolidated EU vision

However, more can be done to make this partnership between the EU and ACP more effective. There is need for a consolidated vision, at EU level, of regional integration from a development point of view, as well as the necessity to better identify key challenges and tools in order to make EU policies in support of regional integration more effective. Three issues are critical in this regard.

First, there is a need to deepen the approach to regional trade integration, and adapt it to today's trading reality. While it remains essential that tariff and non tariff trade barriers be lifted on a regional level, and to support ACP capacities to do so, it is also important to reflect on the most appropriate ways to fulfil the Cotonou objectives to cooperate in other areas of regional dimension, such as trade in services (including maritime transport and information and communication technologies), competition policy, intellectual property rights, standardisation and certification, customs legislation and procedures, and sanitary and phytosanitary standards.

Second, it is necessary to develop a more consistent and articulated EU vision of the role of policy cooperation in a number of areas which are essential to bring forward the concept of *sustainable* regional integration and protection of regional public goods (agriculture, food security, environment and natural resources management, disaster risk management, health, higher education, research and development, rules aspects of business development). There is also a need to establish a better linkage with the key political ingredients for sustainable regional integration, notably peace and security. In all these areas, it is important to identify what needs to be done at which institutional level (continental, regional, national) and what is the role of the regional level.

Finally, it is appropriate to review the tools with a view to enhancing their complementarity and efficiency. Policy tools at EU level are diverse (development policy, trade policy, political dialogue), and the most appropriate policy mix needs to be developed to ensure its efficiency as well as its adequacy with varied regional realities. These tools need also to be complementary and coordinated with EU Member States and other donors' activities in support to regional integration, in order to develop the principles of aid effectiveness also in the context of regional interventions. The 10th EDF Regional Strategy Papers (RSPs) will provide the basis for the Commission and EU Member States to support regional integration in a coordinated fashion.

3.2.2. Setting out the objectives

A reinforced EU-ACP partnership in support of regional integration should pursue the following objectives:

- ***Reinforce the link between regional integration/cooperation and growth generation***. The objective is to strengthen the impact of **accelerated and deeper market integration** (and of all forms of regional cooperation) on growth and poverty reduction.

- ***Reinforce the sustainability*** of the outcomes of increased economic integration. This means reinforcing cooperation with a view to protecting and delivering **key regional public goods**. This implies strengthening support for the integration agenda of the various regions and for their regional policies aiming to deliver these public goods.

- ***Strengthen the efficiency of regional governance***, both at regional level and at national level. This requires a more **streamlined organisation** of regional agendas, increased **capacity building** at regional and national level, and **broader stakeholder participation** at regional and national level.

- ***Strengthen political dialogue and joint understanding*** between the EU and ACP countries and regions on the merits and objectives of regional integration, notably on the basis of EU experience. This means going beyond delivering financial assistance and develop **new ways of working together** toward more regional integration

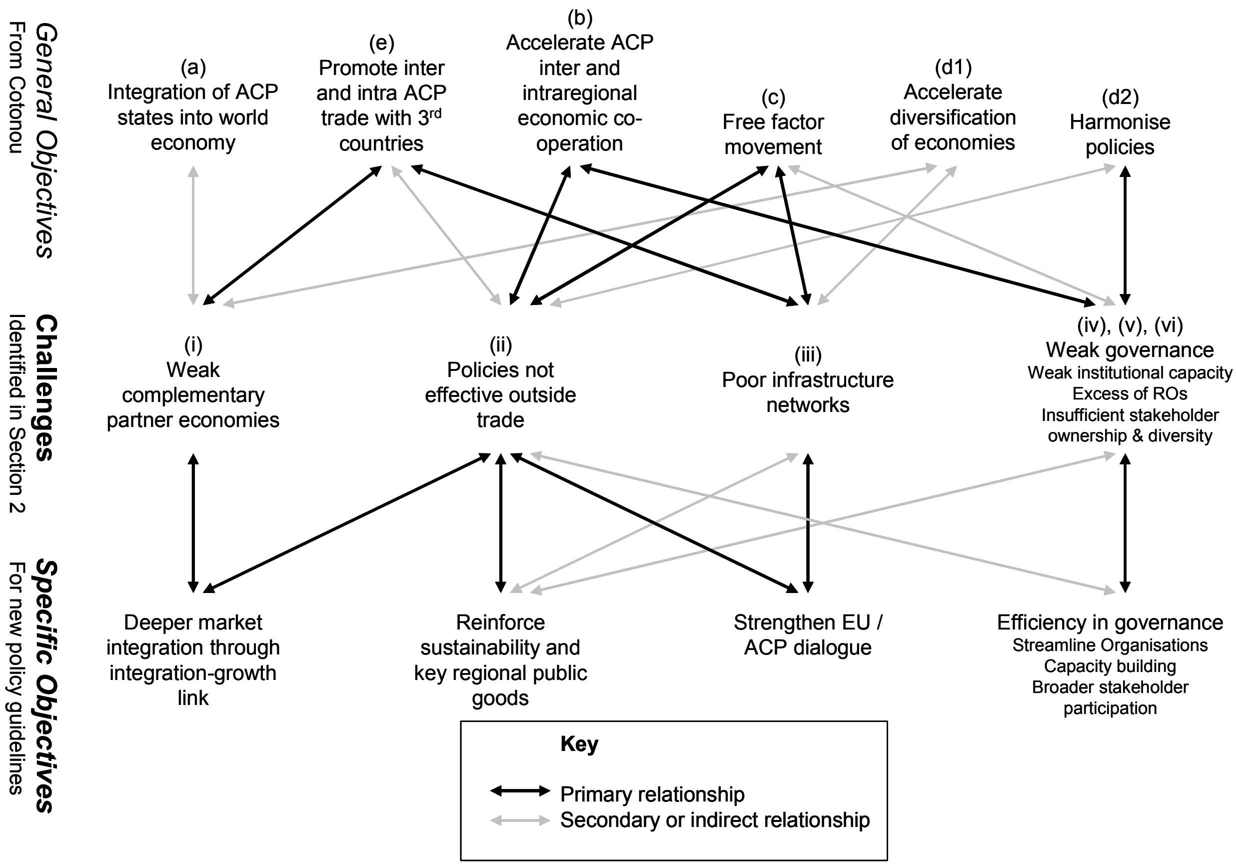
Enhanced efforts to achieve the above objectives should also pursue more operational objectives, notably:

– ***Maximise the efficiency of the new generation of the 10th European Development Fund (EDF) programmes***, and in particular the regional programmes, with a view to better leveraging regional economic development through clearly identified priorities for regional intervention, based on the regions' own agendas and a review of past implementation methods an increased coordination of EDF programming;

– ***Identify key issues for supporting the implementation*** of a major element of the EU-ACP relationship, i.e. the ***Economic Partnership Agreements (EPAs).*** The EPAs are aimed at strengthening regional integration by building upon, supporting and fostering existing integration processes. There are challenges that need to be addressed as regards the capacity of ACP economies and structures to implement and adjust to the EPAs.

– ***Enhance the efficiency of EU assistance*** (including outside EDF) with increased coordination and complementarity of Community, Member States and other donors' support. Regional programmes (RIPs) will serve as a basis for this coordination. On the basis of the European Consensus for Development, improving coordination between EU donors is a key objective for EU development policy – and a key to its success.

Figure 1: Problem tree linking general objectives, challenges and specific objectives



4. THREE POSSIBLE APPROACHES FOR EU SUPPORT

Considering that the regional integration agenda is set by the ACP countries themselves, EU support must aim specifically at **supporting the regional integration process in ACP countries,** i.e. helping ACP regions reach the goals they have set for themselves. Ownership is a central principle of the partnership between the EU and ACP countries and regions. The EU is therefore not in a position to make choices about regional integration in ACP countries. In a context of limited financial resources, it can, however, decide, among the choices made by ACP regions, which approach it will support as a priority in order to best achieve the objectives presented in Section 3.2.

Conceptually, three approaches for EU support to regional integration in ACP countries can be envisaged: elimination of barriers to trade; policy coordination to foster sustainable development; political cooperation to ensure the effectiveness of regional integration. They are presented here as separate concepts because each one has specific results that it is important to evaluate. In reality, policies are a complementary and mutually reinforcing mix of these three approaches, as shown in section 5. **This mix is, and will remain, different in each region, as it depends on a region's own priorities.**

4.1. Elimination of barriers to trade[10]

This approach is what has most often been referred to as "regional integration" and defined as the reduction of *policy* barriers to the movement of goods, services, capital and persons with the elimination of tariff and non-tariff barriers to trade, the removal of obstacles to investment from regional partners and the facilitation of payments at the centre. This approach was the main focus of the 1995 Commission Communication, and is reflected in Article 29 of Cotonou agreement on "regional economic integration"[11]. It heavily builds, although not exclusively, on trade policy and trade agreements between regional partners.

There is still plenty of scope for more effective trade integration in ACP countries. While regional agendas are ambitious (see Annex 1), implementation generally lags behind. There is, in particular, a potential for progress to be made in the following areas:

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[10] This approach is usually referred to in the academic literature as "negative integration". This is a neutral phrase that is used (often in an EU context, but not exclusively) to describe the form of integration based mainly on the reduction / abolition of barriers, as opposed to "positive integration", which implies the approximation or harmonisation of laws and standards. These expressions being descriptive, they do not convey any judgement on the merits of either form of integration.

[11] "Cooperation shall, in the area of regional economic integration, support:
a. developing and strengthening the capacities of:
- regional integration institutions and organisations set up by the ACP States to promote regional cooperation and integration, and
- national governments and parliaments in matters of regional integration;
b. fostering participation of Least Developed Countries (LDC) ACP States in the establishment of regional markets and sharing the benefits therefrom;
c. implementation of sectoral reform policies at regional level;
d. liberalisation of trade and payments;
e. promoting cross-border investments both foreign and domestic, and other regional or sub-regional economic integration initiatives; and
f. taking account of the effects of net transitional costs of regional integration on budget revenue and balance of payments."

– ***Effective implementation of all regional trade liberalisation commitments*** (FTAs, customs unions) at national level is essential for the benefits of regional integration. As highlighted in the public consultation, this is the prime area where regional integration can deliver benefits and help attain development objectives. Protectionism and concerns about national sovereignty need to be overcome for these benefits to accrue. Regional trade will spur local competition as cheaper imports from regional partners will lower the price of agricultural and industrial inputs, as well as of household products. As far as customs unions are concerned, the correct implementation of external regional duties is as important as the free circulation of goods as it allows the region to protect its industry and agriculture as appropriate, to collect public revenue (sometimes, as in UEMOA, for the benefit of regional organisation) and to maintain the delicate regional balance of costs and benefits from openness to the rest of the world.

– ***Services***: most ACP regions have not advanced much in liberalising services between themselves. As a result, there are currently no real regional markets for services. Wherever regions engage in building up such regional markets, however, they are likely to draw very large benefits – if commitments are effectively implemented. Indeed, whereas services are essential to any economy, regardless of its level of development, the service sector remains underdeveloped in most ACP countries and the excessively high cost of services can sometimes increase the cost of industrial products by as much as 20%. Establishing more transparent, stable and liberal regional rules on sectors crucial to development could considerably reduce the excessive costs currently borne by both businesses and consumers. This is, in particular, the case for infrastructure service sectors such as telecommunications, transport, banking and insurance, which are vital to the competitiveness of all businesses. The importance of lowering obstacles to regional trade in financial services was highlighted in the public consultation as a crucial way of improving the business climate.

– ***Investment***: investment is key to growth and development. Lowering or abolishing regional barriers to investment can strongly contribute to a more dynamic regional economy. Easier cross-border investment within a region acts as a multiplier of more open regional goods and services markets. Free capital movement within a region improves the allocation of capital and helps attracting FDI by offering improved security to investors, be they regional or outsiders. Solid and transparent regional rules are particularly important to rebalance economies and attract investment outside the traditional fields of mining and oil.

– ***Customs and trade facilitation****:* Complex, diverse and inadequate customs procedures represent an important obstacle to trade, especially to intra-regional trade, in developing countries. This is particularly true in relation to transit procedures. 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, which imposes heavy and unnecessary costs on them. These reforms should be carried out at regional level but appropriate capacities are needed in national customs administrations to ensure a smooth implementation on the ground.

– ***Technical barriers to trade*** (TBT): beyond SPS (see box below), TBT are an important impediment to regional trade. Lack of standardisation leads to otherwise unnecessary controls and restrictions to the free circulation of products, thereby reducing in practice the advantages of regional economic integration. Some of these technical barriers may indeed be designed to restrict competition and favour local producers – at the cost of local consumers. The adoption and effective implementation of regional technical rules and standards is thus an important step to increase regional trade flows.

> ***Box 4: Sanitary and Phytosanitary Standards (SPS)***
>
> The experience of the EU shows how regional integration in SPS can be of assistance to development. Unharmonised SPS act as a significant trade barrier, as trade in food and livestock is subject to costly checks and certification at borders. Harmonisation therefore brings the benefits expected from trade integration including less price distortion, and higher quality through competition. Harmonised SPS can also have wider effects. They provide a mechanism for addressing food safety on a regional level. Plant and animal disease eradication is a potential regional public good as disease, by definition, cross borders. Naturally, to reach a high level of SPS integration requires not just harmonised policies, but also strong capacity at both regional and national level.

The ***Economic Partnership Agreements*** (EPAs) have to be seen under this approach as an important contribution in support of regional economic integration. They are an innovation as the previous trade instrument used (unilateral preferences granted by the EU) could not foster regional integration: the Cotonou trade regime was granted to ACP countries on a national basis for their imports to the EU. EPAs are different in that they are negotiated with ACP regions and trade not only between ACP and the EU but also within ACP regions.

To date (see Annex 3 for further details), the comprehensive EPA concluded with Cariforum has had a positive impact on regional integration in the Caribbean as the negotiating process itself has allowed the region to build common positions and to strengthen its own ambitions. The final text covers not only trade in goods, but also technical barriers to trade (TBT), sanitary and phytosanitary measures (SPS), investment, trade in services and e-commerce, competition, intellectual property and public procurement, thereby allowing the region to develop and strengthen its own rules in all these important trade-related areas.

In all other regions, the commitment to a comprehensive regional EPA has been renewed at the highest political level and negotiations are still going on. It has been noted, however, that the negotiations have had an accelerating effect on a number of regional projects – for instance the finalisation of the ECOWAS Common External Tariff (CET). Nevertheless, in order to exploit the regional potential of the EPAs, it remains a priority to conclude the negotiations.

4.2. Policy co-ordination and co-operation for sustainable development[12]

This approach focuses on what could be called the deeper policy aspects of regional integration. It is fully reflected in Article 30 of the Cotonou Agreement[13] and builds on other

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12 As far as laws, regulations and standards are concerned, this approach covers what is referred to in the academic literature as "positive integration" (see footnote 10).

13 "1. Cooperation shall, in the area of regional cooperation, support a wide variety of functional and thematic fields which specifically address common problems and take advantage of economies of scale, including:
a. infrastructure particularly transport and communications and safety thereof and services, including the development of regional opportunities in the area of Information and Communication Technologies (ICT);
b. the environment; water resource management and energy;
c. health, education and training;

types of cooperation often referred to as "functional cooperation", i.e. **cooperation in policy areas which create the framework conditions for long-term development and sustainable interdependence of the economies**. These address the *physical* barriers to intra-regional economic flows as well as supporting the *interdependence* of the economies managing *common* resources or challenges.

ACP regions and countries are more and more eager to go in this direction. They have put, or are putting, in place a number of initiatives and policies which deserve to be supported but are still at varying stages of development.

4.2.1. Reducing physical barriers through infrastructure networks

Regional cooperation on infrastructure is essential to ensure the interconnection of national networks. Completing the "**missing links**" between national networks is vital for roads and telecommunications as they are preconditions for intra-regional trade (see Figure 2). This is also the case for **border posts**. There are also large benefits to be expected from interconnection of **energy** networks: larger electricity networks are more stable and more reliable and pooling resources allows conducting larger projects (e.g. dams) for the benefit of the whole region.

Most of key growth constraints have a regional dimension, and if they were overcome, growth would likely increase by 2-4 percentage points. 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 functional approach is often needed to materialize the gains. Some striking examples:

- 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 Mombasa. 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.
- In case of Mozambique, higher road user charges due to the country's non-membership of COMESA have resulted in a reduced frequency of use 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.

Figure 2: Trans-African Road Transport Corridors

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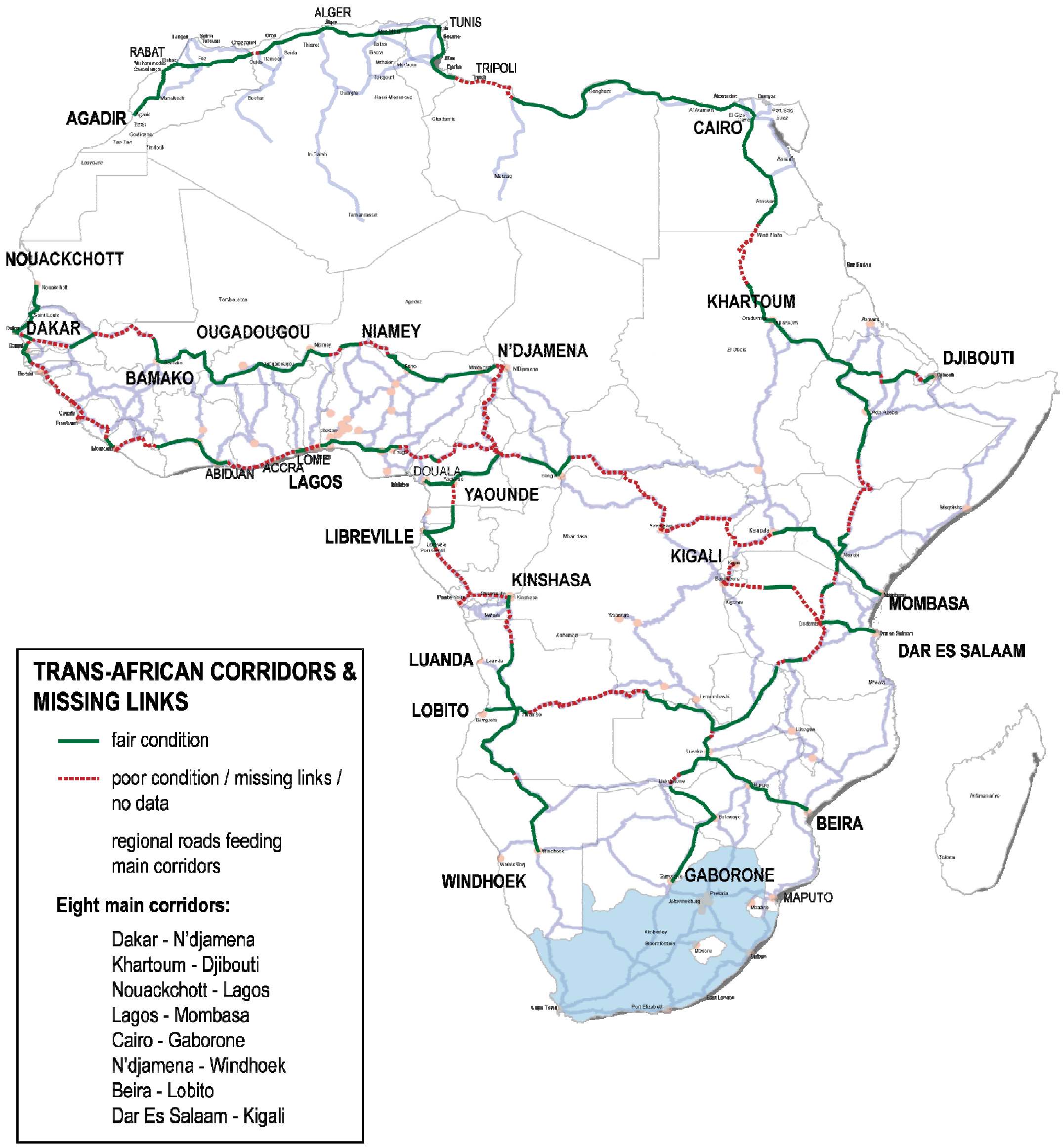
d. research and technological development;
e. regional initiatives for disaster preparedness and mitigation; and
f. other areas, including arms control, action against drugs, organised crimes, money laundering, bribery and corruption."

TRANS-AFRICAN ROAD TRANSPORT CORRIDORS



- The boundaries, colours, denominations and any other information shown on this map do not imply, on the part of the European Commission, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.

4.2.2. *Strengthening interdependence by action at macro-economic and micro-economic level*

At different levels (macro, meso and micro), **economic policy coordination** is seen as important. Most regional organisations pursue an agenda of economic policy integration, but success requires objectives to be set and mechanisms for their implementation which are adequate for the region-specific context. Coordinating macroeconomic and structural policies is important to avoid cross-border spillovers within regional economic communities that can be detrimental to the process of trade integration.

At a more micro-economic level, **reinforcing productive capacity building and improving business competitiveness and climate** is key. The main weaknesses of the private sector in the ACP regions (in terms of productive capacities, financial services and competitiveness) should be tackled at different levels: company, national and regional. The relevance of the regional dimension, however, still seems to be underestimated by the main public and private actors Beyond the trade aspects of integration, other actions are relevant at regional level: improvement of the regulatory environment (such as company law, industrial standards, competition laws), strengthening of productive capacities, development of financial markets and improvement of financial regulations, promotion of inter-enterprise co-operation. Box 5 shows that many of the issues for reducing the cost of doing business have a regional/cross-country dimension as well as a national one.

Box 5: The cost of doing business

Obstacles to doing business in the SADC were identified by ASCCI Regional Business Climate Survey in 2007. Many of them (marked *) are directly related to regional integration or the lack thereof. They were ranked as follows :

- Crime, theft and corruption
- Customs regulations, procedures and bureaucracy (*)
- Exchange rate fluctuation
- Lack of market information
- Lack of affordable and reliable transportation (road, air transport and ports) (*)
- Economic and regulatory policy uncertainty (*)
- Lack of transparency of rules and regulations
- Trade tariffs and customs charges (*)
- Legal environment (enforcement of contractual and property rights)
- Business licensing and operating permits
- Access to land
- Access to and cost of finance (*)
- Business culture
- Skills and expertise
- Communication restrictions (*)
- Insurance
- Visa regulations (*)
- Import-export licensing (*)
- Phyto-sanitary and veterinary regulations (*)
- Domestic content (*)

In particular, institutions responsible for implementation and respect of international standards, like specialized technical centres and laboratories, controlling, auditing and certification bodies and training institutions are inexistent at national level - because of a lack of critical mass - or are small and do not possess the necessary capacities to support the companies, which, in consequence, affects their competitiveness.

Box 6: The potential of regional cooperation in R&D

In the area of research and development, while policies should be adapted to national capacities and specificities, the regional level is important to coordinate efforts, pool resources and exploit economies of scale. It can assist in important areas for development such as consumer protection, food security, health care and environmental sustainability. This is why the African Union Commission has launched a Science and Technology Consolidated Plan of Action. Regional cooperation is also essential to launch large projects, such as the African Space Agency.

Regional economic integration has also an impact on companies R&D policies and therefore competitiveness. Literature shows that increased competition could stimulate investment and enhanced efforts to improve a company's technological competitiveness, and better access to inputs might promote outsourcing activities.

The empirical analysis shows that the impact on R&D investment after having joined a regional trade agreement 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.

Moreover, the current situation is characterised by a fragile framework of inter-enterprise co-operation at different levels. In this context, support for development of regional networks of business intermediate associations and promotion of regional inter-enterprise co-operation and investment can be more efficient than actions undertaken only at country level.

Finally, the development of a financial sector of a regional dimension would improve the conditions of access to credit institutions for ACP companies, in particular SMEs, and would therefore contribute to the improvement of their competitiveness.

4.2.3. Management of common resources or challenges

Tackling challenges of a trans-national dimension at regional level can be more effective than national policies alone, or a necessary complement to maximise their efficiency.

This is the case to improve **food security**: better-functioning regional markets for food and agricultural inputs, regional alert systems, improved regional transport infrastructure and the constitution of regional stocks can all provide a contribution to improved food security.

On **agriculture**, the regional – and, as far as Africa is concerned, continental – levels can provide a significant value added, notably on: the strategic integration of agriculture in development agendas; agricultural research (improved synergies, access to knowledge); policy harmonisation between the various levels; livestock development and disease control ; and risk management.

Similarly, in response to the serious development and cross-border challenges of **communicable diseases**, notably HIV/AIDS, malaria and tuberculosis, ACP countries are cooperating at regional levels in policy development and horizontal technical collaboration. On HIV/AIDS, both SADC and CARICOM have, with support of the European Commission, implemented regional support programmes for responses to the pandemic.

Environmental issues and climate change generally have an impact across borders, not the least because natural resources are often shared, and should therefore be considered as regional public goods. In the area of climate change there are particular arguments for regional cooperation to deal effectively with adaptation and related subjects such as disaster risk reduction: research on drought resistant crops, early warning for floods and droughts, insurance mechanisms, for instance, can all better function at regional level. Hence there are sizeable benefits from regional cooperation and policy coordination in the area of environment policy. A number of RECs have real responsibilities in this area but there has also been a tendency towards the ad hoc creation of separate specialised agencies.

Finally, there is an argument to deal with **increasing disparities (cohesion)** at regional level. Regions are increasingly considered to be the appropriate level to reconcile economic openness with social cohesion. Regional policies are also likely to increase a sense of solidarity within a region. Two aspects are present here. The first is the impact of regional integration on the weaker territories. As explained above, regional economic integration is likely to bring about an increased concentration of wealth in a limited number of countries and regions. A cohesion policy at regional level is the way to rebalance the benefits of regional integration and to support the legitimacy of the process, in particular – but not exclusively – when the strengthened and (relatively) weakened territories are located in different countries.

The second aspect is the impact of regional integration on the weaker social groups. Regional integration is strengthened by cross-border social regulations, redistribution mechanisms and the articulation of regional social rights, as well as by cross-border cooperation in health, education and social protection policies. Policies to address issues of cross-border migrant labour are of particular importance. Regions may adopt a number of instruments to enhance the social dimension of their region including laws, funds and intra regional social policy dialogue.

4.3. Developing political co-operation for effective regional integration

This third approach examines what conditions are required in order for regional integration to be effective. It is reflected in Article 30 of Cotonou Agreement[14] and essentially concerns the **political factors** surrounding regional integration, such as:

– The actual and potential relationship among partners: existence of genuine common interests, trust and interdependence; compatible historic, cultural and political patterns;

– The internal political and economic situation in partner countries: sovereignty, political commitment, peace and security;

– Factors facilitating the success of regional integration: rule of law, democracy and democratic governance.

The above factors are regarded more and more as important areas of intervention by the EU, and EU support is highly valued by ACP partners, but action remains stove-piped, disconnected from the continental political framework. There is also a need for coherence, especially since there are high expectations of ACP partners and a positive impact on development is expected in this area. It is particularly the case of the three following areas, in which ACP regions are increasingly active.

4.3.1. Regional cooperation for peace and stability:

The drivers of, and threats to, security, vary in nature and in geographical impact. Responses to security threats depend on political mandates and frameworks. However, it is acknowledged that political or civil instability or conflict in one country can have serious destabilizing effect in neighbouring countries. Preventing them and/or tackling them through regional cooperation or intervention is increasingly recognised as necessary.

For the African continent, this is done through the continental political frameworks for peace and security in Africa. The EU is supporting these efforts through the Africa-EU Peace and Security Partnership within the Joint Africa-EU Strategy. The activities of the related Action

[14] "3. Cooperation shall help promote and develop a regional political dialogue in areas of conflict prevention and resolution; human rights and democratisation; exchange, networking, and promotion of mobility between the different actors of development, in particular in civil society."

Plan require regional engagement and support for their implementation as well as for the coherence of policies at continental level.

In the Pacific, threats to stability are intra-state rather than inter-state and mainly due to the very recent accession to independence of most Pacific ACP countries, highly fragmented ethnic mix in most Melanesian countries, inalienable land tenure systems and population pressures. The Pacific Islands Forum adopted a collective security declaration in 2000, in Biketawa, Kiribati, which was invoked in 2003 with regard to the Solomon Islands, and in 2004 with regard to Nauru, and allowed the Forum to assist with the post-December 2006 coup return to democracy in Fiji. In accordance with the EU Strategy for the Pacific adopted in July 2006, the European Union is strengthening its region-to-region political relationship through an annual Ministerial-level political dialogue.

4.3.2. Good governance as a regional good

Strengthening good governance is essentially a matter for national governments and institutions. However, there is also recognition that there are mutual benefits of a dialogue at regional level on progress made in various countries so as to spread the benefits of improved governance.

The **African Peer Review Mechanism** (APRM) is a mutually agreed instrument voluntarily acceded to by the member states of the African Union (AU) as a self-monitoring mechanism. The mandate of the APRM is to encourage conformity in regard to political, economic and corporate governance values, codes and standards, among African countries and the objectives in socio-economic development within the AU socio-economic programme: the New Partnership for Africa's Development (NEPAD). More than half of the AU's 53 countries (29) have formally joined the APRM by signing the Memorandum of Understanding on the APRM. This shows that an increasing number of African countries are committed to governance reforms to create favourable conditions for sustainable development and that African-owned mechanisms have an important contribution to make to improve governance.

4.3.3. Harnessing the effects of migration

Intra-regional migration or, more precisely, intra-regional labour-mobility is part of the collective history and culture of many developing countries. In the past, this phenomenon went largely unnoticed by policy makers, both in ACP countries and in the EU. With the increasing importance of migration issues on the EU policy agenda, the call for 'well managed migration' has appeared at the forefront of cooperation and dialogue with ACP countries, not only in connection with migration movements to the EU, but also in its intra- and inter-regional ACP context. Since 2006 – the launch of the EU Global Approach on Migration – important conferences were held (Rabat, Tripoli), regional processes aimed at management and facilitation of free movement of people were strengthened (notably in ECOWAS), and many national and regional migration management capacity building initiatives were launched.

4.4. Comparing the approaches

4.4.1. Overview of advantages and drawbacks

It is important to sketch out the advantages and drawbacks of the various possible approaches of EU support to regional integration, even from a theoretical point of view, as the analysis needs to ensure that a reinforced partnership in this area will effectively deliver on the objectives of accelerating and deepening market integration in support of growth and poverty reduction; protecting and delivering key regional public goods in view of reinforcing the sustainability of regional integration; strengthening the efficiency of regional governance; and enhancing political dialogue and joint understanding between the EU and ACP countries with regard to regional integration.

The following analysis tries to identify, from a qualitative point of view, the main economic, social and environmental effects that can be expected of different approaches, while also citing empirical studies and examples from both ACP and non-ACP regional integration experiences. These effects are considered in isolation, and therefore only the effects of an increased focus of EU support on the chosen option are considered. However, a number of drawbacks arising from one approach may be minimised if a number of policies are put in place, either at regional or national level. Conversely, in order for the advantages of an option to accrue, accompanying policies need also to be put in place.

The starting point is the current situation. Depending on the starting point in a given region, advantages and drawbacks from focussing EU support on a given approach will be different.

The time horizon is important, and cannot easily be accommodated in an overview. A number of policy actions at regional level may have significant costs in the short-term but large benefits in the longer term. This is typically the case of economic reforms deriving from regional integration: while the benefits of the abolition or diminution of tariffs should be delivered to a large number of people over the long-term, they will almost inevitably hurt a small number of protected sectors in the short-term.

This being said, the three possible approaches – elimination of barriers to trade, policy co-ordination and co-operation for sustainable development, and political co-operation - have distinctive economic, social and environmental advantages and drawbacks. These can be summarised as follows:

Eliminating barriers to trade has many important economic advantages, but the balance is less clear in social terms and rather negative in environmental terms. The imbalance between large expected economic advantages and significant social and environmental drawbacks may raise concerns about the sustainability of the first approach if appropriate measures and policies are not in place to redress or prevent them. This is even more important given that the economic benefits will not be delivered in the short-term but in the medium- to long-term.

Table 7: Elimination of barriers to trade – Advantages and drawbacks

	Advantages	**Drawbacks**
Economic	The reduction or removal of tariffs will result in lower prices for goods imported from other countries in the region, both for producers (including exporters) and for consumers. The reduction or removal of tariffs can lead to increased government revenue through increased imports, production and consumption (tariffs, direct and indirect taxes) Larger, more integrated markets are open to	Infant industries or small local companies in weaker member economies may suffer from the increased competition from stronger member economies or from multinational corporations (MNCs) In the short-term, the loss of revenue from the removal of tariffs may cause funding problems for governments unless fiscal reform is implemented Effective implementation of both SPS and international standards may have negative

	more competition, which will lead to higher productivity, lower prices and increased quality (if the right conditions / legal framework on competition are in place and enforced) Larger, more integrated markets will attract more FDI, with a positive impact on productivity Cross-border flows will increase, which will foster specialisation, improve the division of labour and allow the development of larger regional companies, with associated productivity gains The removal of barriers to trade, standardisation and computerisation of procedures reduces corruption in trade matters.	effects on certain traditional products and production processes, affecting the livelihood of certain communities
Social	There is the potential for a rise in the importance of border regions, fuelled by increased cross-border flows. Standard of living should rise as the costs associated with the transit of goods falls, which should contribute to poverty alleviation, particularly in land-locked countries. Employment (and possibly salaries) will increase in industries that grow because they produce more (as a result of increased exports or enhanced overall growth) and in industries that generate a higher productivity. This should contribute to poverty alleviation. The effective implementation of SPS will improve food safety. The removal of trade barriers can have benefits for food security as agrifood products should more easily reach regional markets.	The freer movement of people may involve problems: people migrating to wealthier areas, thus generating agglomeration; easier cross-border movement could allow unrest and security problems to cross borders; diseases (e.g. AIDS) can spread more easily along trade corridors. Regional disparities may increase as regions with greater potential profit from the new economic opportunities, while poorer regions stagnate. Sectoral disparities may increase as economic sectors with greater potential profit from the new economic opportunities, while other sectors stagnate. In the short-term, there is a risk that food flows more to richer and/or urban regions across borders, thereby adding to food insecurity in poorer and/or rural regions.
Environmental	The harmonisation of SPS provides the opportunity to tackle animal and plant diseases on a regional level if supporting policies are implemented with sufficient organisational capacity	There is the potential for damage to the environment as a result of increased economic activity. Examples are: increased air pollution; strain on water resources; reduction of biodiversity; overuse of resources, illicit trade (ex. timber).

What does empirical evidence say?

– In the non-ACP regions of the EC and Mercosur, regional integration was found to have raised intra-regional trade by 65% and 150% respectively. However, the mere reduction or elimination of tariffs on intra-regional trade will have fewer effects if the potential for intra-regional trade is small, as is the case in Africa, where intra-regional trade covers only a small percentage of total trade, partly due to 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 deeper regional integration.

– 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. For example, one study found that the increased market size of a "Maghreb" region would increase FDI stocks by up to 165% for its member countries. One particular study found that membership of a region per se does not increase FDI, but that regions with sufficient trade and investment provisions will help to attract inwards investment, with investment provisions in particular being effective as they provide positive signals to foreign investors. 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.

– Studies also show that different countries within a region experience different FDI related 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.

– 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%). Intra-regional migration has responded well to a relaxation in migration provisions in the Caribbean.

– A study of manufacturing firms in three ACP countries (Benin, Malawi and South Africa) found that exporting firms as a whole have higher productivity levels than domestically focused firms. The destination of export was not important for the productivity of firms in Benin and Malawi, while in South Africa, firms exporting intra-regionally were found to be more productive than those exporting to the rest of the world. The implication of these findings is that increased trade and investment from regional integration will increase aggregate growth.

– There are a number of factors that may condition whether regional integration is associated with convergence or divergence of incomes amongst its members (but the size of the group is not relevant): integration of monetary policy, harmonisation policy, different institutions and trading rules; labour mobility; macro economic convergence; presence of a sub-regional development finance institution; and competitive advantage.

– While empirical evidence is slightly variable, it generally points to the fact that there is not a strong link between regional integration and income convergence. One particular study of 46 African countries assessed the level and rate of the convergence of income for the members of SADC, COMESA, ECOWAS, CEMAC and UEMOA. The link between regional integration and income convergence was found to be low. Three explanations were given for this. 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.

The above is comforted by the main findings of the Sustainable Impact Assessments (SIA) conducted in the context of the EPA negotiations (these can be found on the following website: www.sia-acp.org). As EPAs aim at fostering intra-regional trade through a range of trade and trade-related measures, they are directly contributing to the elimination of trade barriers as identified under Approach 1. Out of the twelve main recommendations highlighted in the SIA[15], the following are particularly relevant:

"1. The EU and ACP countries should strive to ensure coherence between EPA negotiating configurations and overlapping efforts at regional integration and should ultimately pursue, at regional level, strategies for the developing key economic and industrial sectors and for promoting sustainability.

6. The EPAs should contribute to a stable climate for FDI and encourage FDI and regional investment that support sustainability through, inter alia, including means of cooperation to achieve compliance with the enforcement of environmental and social regulations at the national level.

7. EU-ACP cooperation on standards should focus on addressing obstacles to trade, maintaining high levels of protection for consumers and the environment and assisting ACP countries to develop their own national and regional approaches to SPS and TBT.

8. The EU should engage in ongoing cooperation with the ACP in several areas related to trade facilitation including, inter alia, customs, transportation, technology, business information and human resources.

9. Development cooperation should focus on priority needs for diversification of production and exports towards higher value-added products, with an emphasis on reinforcing economic and industrial sectors impacted by the EPAs, while ensuring the sustainability of new development.

10. Development cooperation should focus on technical assistance to collect information and data on trade and sustainability to support sound policy development.

11. Development cooperation should focus on capacity building to promote sustainable development in both the private and public sectors, with an emphasis on training, research and development, and a sound regulatory framework."

These recommendations point to two important directions:

– To enhance the benefits of EPAs and minimise their potential cost, there is a strong need for **accompanying measures** at regional and national level.

– Development cooperation should be broad-based and cover **areas well beyond trade**, in particular regional rules for business and sustainable development.

Policy cooperation and coordination in a number of key areas goes some way towards neutralising the sustainability issues raised in approach 1. Like the first approach, the second approach brings many economic benefits. Nevertheless, in order to fully reap the economic benefits of approach 2, certain preconditions, which are largely encompassed by approach 1, are necessary. While negative social and environmental impacts are not on the same scale as under approach 1, there are still some issues, though social issues are of a more short-to-medium term nature.

Table 8: Policy co-ordination and co-operation for sustainable development

	Advantages	**Drawbacks**
Economic	Improved regional rules of economic governance will bring further incentives for intra-regional trade, with the associated benefits in terms of lower prices for	Environmental protection programmes may restrain the economic opportunities of certain communities. In the short-term, certain local businesses

[15] See PriceWaterhouseCoopers (2007): Page 9 ff.

	consumer goods and agricultural and industrial inputs. Improved regional infrastructure will bring down the costs of consumer goods and agricultural and industrial inputs Infrastructure hubs and corridors can be drivers for economic development (creation of industry clusters with high positive externalities). Larger and deeper regional financial markets will improve access to capital and improve the allocation of financial resources. Improved competitiveness and the implementation of international standards increase the export potential, fuelling economic growth. Macroeconomic and monetary co-operation provides a more stable and investment-friendly environment, attracting FDI Improved, harmonised statistics at regional level provide a sounder basis for decision-makers, both at national and regional level, thereby reducing the risk of policy failures (inadequate action).	may have difficulties to conform to new standards.
Social	Redistribution initiatives will limit migration flows and levels of disparity. Food security should be improved through co-operation in early warning systems. Co-operation on non-transport infrastructure matters should provide some communities with new amenities (access to energy, clean water), increasing their standard of living. Tackling human diseases in common will improve results.	New infrastructure projects, plus corridors and hubs can lead to the displacement of people as land is needed for the new project (the displaced are more likely to be poorer rural communities). Macroeconomic and monetary co-operation could have negative effects in the short term for certain groups (difficulty with price adjustments, understanding new currencies). The experience of many African countries with currency re-numeration demonstrates these issues (e.g. Ghana – the recent Cedi re-numeration).
Environmental	Joint management of natural resources should increase sustainability. Pooled resources can be managed more effectively (e.g. fisheries, water, forests, energy, dams). A co-operative approach to regional infrastructure will prevent the overuse of certain routes and the environmental damage which accompanies such overuse.	The environment may be damaged through new infrastructure projects (e.g. deforestation) unless environmental impact assessments are carried out.

What does empirical evidence say?

– There is a dynamic relationship between trade agreements and other type of cooperation: countries that cooperate most extensively with each other on trade are also each other's favoured partner for non-trade related cooperation. Therefore, trade cooperation paves the way for further cooperation in areas such as infrastructure cooperation, regional environmental protection or other political integration.

– 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.

– 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. There is a positive correlation between infrastructure provision and trade and growth. 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. For least developed countries (LDCs), transport is more important than communications. The effects of communications infrastructure on trade grows as a country reaches the middle income range. Upgrading a primary road network connecting the major 83 urban areas in sub-Saharan Africa would expand overland trade by around US$250 billion over 15 years. The new Central African network, linking Chad, the Central African Republic and Cameroon, is expected to save US $86m per year. 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.

– 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. For Zambia, 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.

– 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 be linked to the economic centres of their region in order to attract investment, enabling them exploiting their resource. 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.

– 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. On shared river systems, the use of water in a country can profoundly affect the quality and quantify of available water in downstream countries. Riparian countries must search for sustainable solution can allow the equitable sharing of the scarce resource.

– 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. In Senegal, higher tariffs have not resulted in higher prices for farmers but were absorbed by the rent-seeking behaviour of traders and parastatals.

– For land-locked countries the management of grain reserves is likely to be more cost-effective on a regional basis than national stock holding

– Informal agricultural trade is estimated at well above 20% of total Sub-Saharan African trade. 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.

Developing political cooperation to ensure effective regional integration has large economic benefits, as it provides the preconditions for other policies. Most notably, peace and security are an essential requirement for further development, and hence for approaches 1 and 2 to be effective. Conversely, peace and security cooperation at regional level is most likely to be successful if countries are bound together by strong common interests, so that approaches 1 and 2 also appear to be beneficial for approach 3. Yet, it should also be considered that peace and security are also influenced by national and international factors that cannot be controlled through action only at regional level. For this reason, while approach 3 is vital to sustainable development, its benefits are less certain and no amount of support can guarantee that they will be delivered in a sustainable manner.

Table 9: Developing political co-operation for effective regional integration

	Advantages	**Drawbacks**
Economic	The long-term economic cost of wars can hardly be overestimated. Peace and stability provide an environment favourable to economic activity and economic growth.	
Social	Deepened cross-border co-operation may help to reduce political tensions and helps building mutual trust. The prevention of conflicts has many positive social effects: saving lives, stopping migration and displacement, preventing weaker groups being victims of war (e.g. children soldiers, rape of women). Political cooperation can prevent crime, insurgency and terrorism. Greater civil society participation allows the population to both identify with the region, and shape its future	Deeper political integration at a regional level may lead to changes/evolutions of national identity/culture to which some fractions of society may have difficulty to adapt.
Environmental	Improved stability prevents the illicit use of natural resources as a source of revenue for civil conflicts (e.g. " war diamonds")	
All areas	Deeper co-operation fuels the potential for regional organisations to increase their capacity, allowing them to be more effective in all areas.	

What does empirical evidence say?

– The probability of forming an FTA is 15 times higher in democracies than in autocracies, and for economic unions it is almost 50 times higher. Democratic leaders have a stronger incentive to join regional integration arrangements and to move towards deeper integration than leaders in autocracies. The development of common democratic values and institutions is in turn regarded as crucial for regional integration.

– There is a positive correlation between countries' engagement on a multilateral level and regional cooperation.

– Civil war reduced GDP growth by 2.2% on average – often leading to negative growth in African countries with low pre-conflict growth rates.

– While only a small percentage of spending on regional peacekeeping missions ends up in the local economy, the amount is enough to boost very low income countries.

4.4.2. The contribution of different approaches to EU policy objectives

The respective contribution of the three approaches to the four main policy objectives (growth generation, sustainability, regional governance and political dialogue) is very uneven as highlighted in Table 6 below: Approach 1 contributes most to growth generation; Approach 2 is most beneficial for sustainability; and Approach 3 has a potentially strong contribution to improved governance and political dialogue.

Table 10: The respective contribution of the three approaches to the EU policy objectives

	Growth generation	Sustainability	Regional governance	Political dialogue
Elimination of barriers to trade	+++	--	++	+
Policy co-ordination and co-operation	+	+++	+	++
Political co-operation	n.a.	+	++	+++

More specifically:

– **Elimination of barriers to trade** has a **very strong potential for supporting growth** since it focuses on the abolition of the (many) existing barriers to business and therefore allows countries to reach a higher growth potential. It is also expected to help regions deliver on their own agendas of improved economic governance at regional level, thus directly **contributing to improved regional governance**. However, it **contributes rather negatively to the objective of reinforcing sustainability** as it does not address the externalities produced by enhanced growth and increased economic integration. There may also be some **drawbacks in the area of governance**, as it may also highlight the conflicts and overlaps between existing regional agendas. This is also why its contribution to a strengthened political dialogue within the ACP regions and between the EU and ACP regions will vary: it may foster the realisation among ACP countries that a rationalisation exercise is much needed; it may also spur the competition between various regional organisations and bring the EU into debates that need to be settled by the regions themselves.

- **Policy co-ordination and co-operation for sustainable development** will **contribute to growth generation** through better common rules for business development and common policies that remove the obstacles to physical integration (energy, transports). However, the main contribution of this option lies in the **strongly improved sustainability** of outcomes of increased regional integration. By making economic integration more environmentally and socially sustainable, it allows its benefits to be maximised over the long term, thus making regional integration more desirable for citizens and more politically sustainable. Its **benefits for the efficiency of regional governance** are more contrasted: on the one hand, there is the risk that new regional organisations will be created to deal with new policy areas, thereby increasing the institutional complexity ; on the other hand, policy coordination in a wider range of policy areas – ranging from environmental policy to cohesion policy – will foster policy dialogue within the region, and allow such dialogue to be developed also with the EU, which has a strong experience and expertise and where a strengthened dialogue on policies could prove mutually beneficial.

- **Political co-operation,** by contributing to political stability will contribute to improved economic conditions and to make the benefits of approaches 1 and 2 more sustainable. Its **contribution to growth and sustainability could therefore be very large** in theory. In practice, there are likely to be more limited since EU support is just one element in a highly complex political environment. In many other cases, EU instruments may be insufficient or inadequate to avert a crisis. Approach 3 has a **strong potential for reinforcing the efficiency of regional governance**. Indeed, improved governance is at its core, although essentially at national level. In practice, the regional dimension should probably be upgraded in the assessment of national good governance in order to reinforce the contribution of the national level to effective regional governance. Moreover, it is unclear to what extent the EU can contribute to the streamlining of regional organisations. Supporting regional integration on key security, stability and governance issues could also **strongly contribute to a deeper and broader political dialogue** between the EU and ACP countries, by putting this agenda at the heart of the region-to-region relationship and not limiting it to the national level as is currently the case.

The three approaches have been considered in isolation for analytical purposes. In practice, however, they are not mutually exclusive "options". Indeed, they can and should be combined, so that the benefits of the various approaches are added while the benefits of one approach are allowed to offset the drawbacks of the other.

4.4.3. Finding the right mix

The above analysis highlights that a **"mix of approaches" may actually deliver on the expected benefits**. This will also crucially depend on the specific situation of each region in terms of regional integration and of the main features of past and current EU intervention in this region.

Some conclusions can, however, be drawn from the analysis above. First, given the strong expected benefits in terms of growth, which is a condition for development and poverty reduction to take place, **continuing to focus EU support to regional integration on the elimination of barriers to trade** appears essential.

Second, the analysis also clearly demonstrates that this focus needs **to be complemented by a strengthened support to the two other approaches** for:

– ***The benefits of increased trade integration to be maximised***: infrastructure is a case in point: even if the political, legal and administrative conditions for regional free trade are in place, intra-regional trade will not take off if the physical infrastructure has not kept pace;

– ***The drawbacks of trade integration to be minimised***: the environment is the most obvious example. Supporting enhanced regional economic integration may have detrimental environmental consequences if a common regional policy for the sustainable management of resources is no simultaneously supported;

– And regional integration to be economically, socially, environmentally and politically ***sustainable***.

5. EDF SUPPORT TO REGIONAL INTEGRATION: A MIX OF APPROACHES

Overall, over the period 1996 to 2007 covering the 8th and the 9the European Development Fund (EDF), a total of €3.2 billion has been supporting projects with a regional focus (see Annex 4). The main area for support has been sustainable development with €1.2 billion, followed by infrastructure development (€777 million) and business development (€524 million). These three areas can be considered as falling under approach 2 as presented above, while support to regional integrated markets (corresponding to approach 1) received €501 million.

5.1. The 9th EDF regional programmes

Unsurprisingly given the diversity of regional situations and the multiplicity of policy tools, current regional intervention is a mix of the three conceptual approaches outlined above.

Within the realm of **the elimination of barriers to trade**, the current intervention contains a strong focus on economic integration.

Although the emphasis differs from one region to the other, approach 1, as evidenced in Annex 5, Part 2, has been the overall main focus of 9th EDF RIPs. Economic and trade integration is a focal sector in all regions, with a foreseen share of regional expenditure ranging from 25-30% in Central Africa to as high as 75-90% in the Caribbean. Regional assistance under approach 1 encompasses in particular the strengthening of regional organisations for the formulation and implementation of regional economic integration commitments. Capacity-building for EPA negotiations is mentioned in all regional programmes and is an important part of this approach, as it concerns the external dimension of regional integration.

Intervention also includes all-ACP instruments, such as the Trade.com Facility Programme (€50 million under the 9th EDF). The specific objective of this programme is to improve the capacity of ACP countries and regional organisations to design and implement their own trade strategies and effectively participate in international (multilateral or bilateral) trade negotiations.

There is also considerable activity in the field of **policy co-ordination and co-operation for sustainable development**, although the regional focus varies.

With regard to business development, the focus is on 5 areas with accompanying tools. These are: (1) the macro-economic / regulatory environment (BIZ-CLIM), (2) investment and business partnership (PRO-INVEST), (3) Financial market development (EIB), (4) non-financial services for SMEs (CDE, PRO-INVEST), and (5) Micro business and micro finance (CGAP). However**,** assistance at regional level is low, with efforts scattered over a number of programmes in different areas, with differing implementation and hence varying effects (see also Annex 5)

Support of infrastructure has had a limited regional dimension, although this is the main area of intervention of the 9th EDF country programmes. This support concentrates on co-ordination and harmonisation rather than a fully blown infrastructure development plan, and the current transport intervention strategy has been considered as ineffective at regional level (see also Annex 5). In Africa, the EU-Africa Infrastructure Partnership, launched in 2007 and accompanied by a new Trust Fund funded by the EC, the EIB and several Member States, aims at strengthening EU support to infrastructure networks of a continental and regional dimension and is specifically designed to support the African Union – NEPAD Infrastructure Plan. It provides a framework for better interconnecting countries to countries, regions to regions and Africa to the rest of the world, thus considerably boosting the attention to the regional dimension of infrastructure development.

Further areas of intervention vary between different ACP regions, but tend to be the development of plans and regional capacities for the sustainable management of natural resources. Concerning the 9th EDF RIPs, this is in particular the case in ESA, where natural resources take up 15 to 25% of the regional, in Central Africa, where the sustainable management of natural resources is the second focal sector with 20 to 25% of the budget and in the Pacific, where fisheries is the third focal sector, with 17% of the budget.

Current intervention in the domain of **political co-operation** is essentially limited to the streamlining of regional organisations, efforts to develop good governance and the support to regional stabilisation mechanisms.

The EU approaches governance in a comprehensive way, with an emphasis on the ability of states to deal with their core functions and to deliver to citizens in an efficient, responsive, accountable and transparent way. Supporting political will for reform and stimulating country-owned governance reforms through dialogue and incentives has been a central feature of ACP-EC cooperation, with the recent "Governance Incentive Tranche" under the 10th EDF. In a number of cases, partner governments have considered regional integration as a priority for reform and have therefore committed to specific reforms in this area. These reforms will be monitored through permanent political dialogue with partner countries and the periodic reviews foreseen in the Cotonou Agreement.

The African Peace Facility (APF - €440 million) was created under the EDF to provide the African Union and other African regional organisations with the resources to mount effective peace-making and peacekeeping operations. It is the EU's way of backing the emerging African resolve to deal with conflicts on the continent with African solutions. The APF has funded four African peace operations: the AU Mission in Sudan (AMIS, nearly €300 million); the AU Mission in Somalia, AMISOM (€15 million); the FOMUC mission in the CAR (€23,4 million) and the AU Mission in Comoros (AMISEC, €5 million). The APF has also backed capacity-building activities at the regional and sub-regional level in the areas of conflict prevention and crisis management (around €35 million in total).

The Instrument for Stability (IfS) consists of a crisis response component (€100 million in 2007) and a longer-term component (€40 million in 2007) addressing proliferation and trans-regional threat. Thematically, the measures supported so far cover a broad range of issues, depending on the specific needs of each conflict / post-conflict situation. A number of programmes currently underway support regional peace-building capacity, for instance the AU operation AMISOM in Somalia (€5 million) and the AU-UN mediation in Darfur (€ 3 million).

The above includes the assessment received from independent evaluations. Such independent evaluation also highlighted a number of weaknesses in the broader regional intervention strategy used for the 8th and 9th EDF (Annex 5):

– The Commission faces a "**choice of partner**" dilemma, i.e. with which regional organisation to work. This is closely linked to **capacity constraints** in implementing regional policy due to weak institutions.

– While the Commission is contributing to regional level **governance objectives**, the overall effect of this intervention on sustainability is not always clear.

– The participation of **non-state actors** at regional level is missing from current regional interventions, though this is complicated by the fact that most non-state actors think on a local or national level, rather than on a regional level.

– Efforts towards economic integration are considered as not tackling **poverty** satisfactorily at regional level.

– **The articulation / mutual reinforcing between the national programmes and the regional programmes** can be improved.

– More focus should be placed on effective **local and regional capacity-building.**

5.2. The 10th EDF regional programmes[16]

The 10th EDF regional programmes are the primary instrument of EC support to ACP regional integration. While the overall EDF substantially increased from the 9th to the 10th EDF, the regional envelope almost doubled to €1.78 billion, reflecting EU-ACP consensus on the importance of regional integration for development.

16 See Commission Staff Working Paper SEC(2008)2538 of 01.10.2008 for more details on the Regional Strategy Papers and the content of the Regional Indicative Programmes.

The new RIPs will respond to the identified challenges and provide a mix of the three approaches outlined above. They will:

– Provide, in all regions, support for ***regional mechanisms to foster peace and stability***, prevent and manage conflicts, and fight security threats (such as organised crime), thus furthering a broadly-defined regional human security agenda. In West, Southern and East Africa, EDF support will help strengthen the regional pillar of the pan-African architecture of peace and security.

– Pay particular attention to ***regional economic integration***, with almost 75% of the indicative appropriation (i.e. €1.3 billion) likely to be devoted to this area.

– Within the regional economic integration agenda, focus on ***specific regional priorities***, with an emphasis on the completion of more integrated markets; the development of productive capacities; and the improvement of infrastructure networks and enhanced regional cooperation for the promotion of sustainable energy policies. There will be a particular focus on EPA support measures: almost half of the Caribbean RIP would be allocated to their EPA commitments.

– Reflect the ***diversity of ACP regions*** in terms of their priorities for sustainable development. This applies, in particular, to the second focal sector in the Pacific (fisheries) and in Central Africa (forestry). Support for food security and agriculture is foreseen in West Africa, and for land, water and marine resources management in East Africa.

– Support ***good regional governance***, with an emphasis on capacity-building for non-state actors.

5.3. Exploiting the synergies for inter-regional cooperation

Regional integration projects should not be developed in isolation from their immediate environment. In designing their strategies, ACP regions should be invited to reflect on the potential for increased cooperation with neighbouring regions/partners, that the EU could support. This particularly concerns:

– ***Cooperation across ACP regions***: this applies to Africa and the fact that economic, social, environmental or political ties do not stop at the borders of a particular country grouping: desertification should, for instance, be tackled across the Sahel region, not within regional boundaries. There is therefore a need to take into account and eventually favour initiatives that will address challenges that are common to two regional groupings, or will facilitate cross-border cooperation. This will require well identified needs, and well coordinated and sequenced support, but in many cases will be more efficient than two separate sets of intervention.

– ***ACP – EU Outermost regions collaboration:*** the EU is a long standing supporter of inter-regional cooperation, not the least through the support of its regional and structural funds. The Commission Communication "Strategy for the Outermost Regions: Achievements and Future Prospects" of 12 September 2007[17] calls on the ACP, the outermost regions and the

[17] Commission Communication on a Strategy for the Outermost Regions: Achievements and Future Prospects, COM(2007)507 final, 12.09.2007

Oversees Countries and Territories to "implement the specific possibilities and practicalities of a concerted EDF and ERDF programming with parallel co-financing arrangements, with a view to cooperation schemes at national and regional level".

– Territorial cooperation programmes, funded under the former INTERREG initiative, have been set in all outermost regions to support cooperation with ACP and OCTs in the Caribbean, Indian Ocean and West Africa. These programmes include committees entrusted with the collaboration between EDF and ERDF managers in order to better coordinate financial programming and facilitate parallel financing of common projects.

– ***New links between ACP – EU Oversees Countries and Territories (OCTs):*** The Commission's Communications on a renewed partnership with the Caribbean and Pacific emphasised the added value of new synergies between these ACP regions and other partners of the same region. With regard to OCTs, the Commission's Green Paper on the future EU-OCT relations invited the OCTs and their Member States to examine how, in the context of increased regional integration that is taking place in the different regions where OCTs are located, OCTs could increase their trading relationship with neighbouring (ACP) countries, while ACPs regions could be invited to accept that an OCT participates in regional integration if that OCT and its Member State so request. Another area of increased synergies is the sharing their "European" know-how and knowledge in a number of areas of interest of neighbouring (developing) countries.

5.4. Design of regional integration and EU support

Whichever the approach for EU support as described above, a key parameter to be examined is the design of regional integration, i.e. the model followed, its architecture and its governance structures. Amongst the various issues are:

– ***Intergovernmentalism vs. supranationalism***: the EU does not interfere with the choices made by its partners on whether their cooperation entails maintaining the full exercise of national sovereignty or sharing (some specific aspects of) sovereignty. It is clear, however, that the effectiveness of a number of policies is predicated on the acceptance that sovereignty is to be shared – i.e. that the decisions taken collectively are to be loyally and effectively applied by all regional partners. An important realisation in this respect is that, in a globalised world, pooling sovereignty is increasingly the only way to actually exercise this sovereignty.

– ***Configuration, full inclusiveness or variable geometry***: the EU supports the choices made by partners, who should decide on regional configurations, the modalities of political and economic integration and whether some countries in a region may progress towards (shared) objectives and more far-reaching commitments quicker than others. In so far as this may have implications for the achievement of development goals and the effectiveness of the relations with the EU (e.g. financial or trade cooperation), the EU should be ready to share expertise and advice on how best to address diversity within a region while encouraging deep and, over time, fully inclusive integration.

– Whichever approach is chosen, ***the number and relationships*** between various regional organisations should be manageable and clear, and institutions should have realistic and contradiction-free mandates as well as adequate (human and financial) resources to fulfil these. As these aspects are of direct relevance for the effectiveness of EU support, the EU has an interest in sharing expertise with ACP partners on these issues.

– ***Subsidiarity*** is a key guiding concept. Not only is it in ACP partners' interest to deal with issues as close as possible to the population concerned and at the level that will maximise the efficiency of the activity, but it is of direct application also for EU interventions, especially when they include financial support and a decision whether to intervene at country, regional, continental or all-ACP level.

The design of regional integration as chosen by ACP partners is bound to have an impact, in particular, on the **design of EU policies** toward regional integration in ACP countries and, in particular, on the following aspects:

– ***Articulation between the national and regional levels of support***: the type of intervention and the desirable balance between regional and national support are affected by the integration model chosen by a region for a particular policy. In any case, the national level is essential for the effective implementation of regional commitments. This may not have been sufficiently taken into account in past interventions.

– ***Global EU approach***: Given that the EU (the European Community and its Member States) is collectively and by far the largest donor of development assistance, uniting all EU Member States behind a common concept can make the difference in enhancing the EU-ACP partnership on regional integration and specifically in improving the effectiveness of EU financial support for regional integration. An EU concept of support for regional integration will help support regional priorities, avoid inconsistencies in the institutions / projects funded, allow a critical mass to be reached and efficiency and effectiveness to be increased.

– ***Strategic approach***: a more strategic approach could enhance the effectiveness of EU support. This would, for instance, imply that regional considerations – positive and negative externalities for regional integration, leverage effect in boosting further cooperation and integration – become more important factors in the selection of projects, both at regional and national level.

5.5. Risk factors

There are many risks and uncertainties. **Political instability**, at national or regional level, is clearly the single largest risk for regional integration. Indeed, it can easily wreck regional integration as the benefits of integration will turn into drawbacks. This was demonstrated in recent years in Ivory Coast, where instability has had important consequences on neighbouring countries that were economically very much linked to Ivory Coast, such as Burkina Faso. This is why the importance of approach 3 increases with the degree of integration reached: in addition to its direct benefits, it also helps reaping / preserving the expected benefits of approaches 1 and 2.

Policy failure is another risk. Although this is inherent to any policy action, the potential for policy failure may be larger for action at regional level, especially if and when governance and implementation capacities are low. Even where the value added of acting jointly at regional level is well-established and where the policy itself is well-designed, its impact may be less positive than the sum of national actions. If countries are insufficiently committed to the common tackling of diseases, this can lead to a worse situation than if countries were to tackle diseases alone. This is why implementation capacities, both at regional and at national level, are essential.

ANNEX 1: OVERVIEW OF REGIONAL INTEGRATION IN ACP REGIONS

1. Caribbean

Regional Integration in the Caribbean is mainly through the Caribbean Community, or **CARICOM**[18] as it is more widely known. **CARICOM** was established in 1973 by the Treaty of Chaguaramas which was revised in 2001. **CARICOM**'s three main objectives are: economic co-operation, co-ordination of foreign policy and functional cooperation including health, education, youth, sports, science and tax administration. The Caribbean Single Market and Economy (**CSME**) contributes to deepening the integration process, based on both market and economic integration. To support this process, the Treaty of Chaguaramas was revised and now contains nine chapters covering the major areas of the CSME. When completed, the CSME will provide for the free movement of goods, services, capital, labour and right of establishment within the Community and harmonised laws and regulations affecting commerce. The Single Market component of the CSME was introduced by Barbados, Belize, Guyana, Jamaica, Suriname and Trinidad & Tobago in January 2006. The **OECS** countries (Antigua & Barbuda, Dominica, Grenada, St. Kitts & Nevis, St. Lucia and St. Vincent & the Grenadines) signed up to the CSME in July 2006. A Regional Development Fund to assist in mitigating negative impacts of **OECS** participation in the CSME was also agreed.

The **CARICOM** trade policy is to remove remaining internal barriers through progressive movement towards a maximum harmonized tariff, further harmonization of customs procedures and establishment of a customs union. A Common External Tariff (CET) has been introduced. Quotas remain as well as allowed tariffs on some agricultural and other products, which will have to be removed by the end of 2008. A corresponding policy of legal, institutional and judicial reform is intended to create an appropriate enabling environment for these moves. The Caribbean Court of Justice (CCJ) was established in 2006.

The Caribbean States that make up the Organization of the Eastern Caribbean States (**OECS**)[19] (all of whom are members of **CARICOM**) constitute in some ways an inner circle of Caribbean economic/monetary integration, and have, since the colonial era, a long tradition of cooperation. In more recent times, the nature of the cooperation has taken on a more functional and development-oriented character. **OECS**' main objective is economic integration among its member states, and they have a single currency and an Eastern Caribbean Central Bank, exercise common monetary and exchange rate policies, share a common Supreme Court, jointly regulate the telecommunications sector, cooperate on some issues of public procurement and collectively govern their airspace. In the medium-term, they intend to further this functional and economic integration. The organisation has begun technical work with respect to creating regional support systems and mechanisms for the police and prison services, creating centres of medical and surgical specialization across

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18 The **CARICOM** Member States are: Antigua/Barbuda, Bahamas, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts/Nevis, Saint Lucia, St. Vincent/the Grenadines, Suriname and Trinidad/Tobago. **CARICOM**'s Associated Members are: Anguilla (1998) ; Bermuda (2003); British Virgin Islands (1991); Cayman Islands (2002); Turks and Caicos Islands (1991

19 Antigua and Barbuda, Dominica, Grenada, Montserrat, St Kitts and Nevis, St Lucia and St Vincent and the Grenadines. Anguilla and the BVI are associate members.

Member States and establishing an Economic Union, with free movement of productive factors.

The next circle is the Caribbean Forum of ACP States, also known as **CARIFORUM**[20]**,** which was created in 1992 by inter-governmental agreement, as a political group including not only the **CARICOM** Member States, but also what were then the new signatories to the Lomé Convention, namely, the Dominican Republic, Haiti and Suriname although the latter two have since acceded to **CARICOM**. Cuba is also now a member state of **CARIFORUM**, although it is not a signatory to the Cotonou Agreement. The **CARIFORUM** mandate is to manage and coordinate policy dialogue between the Caribbean region and the EU, to promote integration and cooperation in the Caribbean and to coordinate the allocation of resources and manage the implementation of Regional Indicative Programmes financed by the European Development Fund and regional programmes financed by member states of the EU and any other source. The EU-Caribbean Economic Partnership Agreement (EPA) was concluded on a **CARIFORUM** wide basis.

Hemispheric relations are important to **CARICOM/CARIFORUM**, as part of its global integration objectives. In that regard, the region is committed to effective participation in hemispheric and/or bi-lateral processes. The hemispheric strategies include strong technical and political representation, securing special and differential treatment and transitional measures, design and implementation of measures to cushion the impact of adjustments, monitoring of parallel negotiations and consistency with other multi-lateral negotiations.

All Caribbean countries are also part of the **Association of Caribbean States** (**ACS**).

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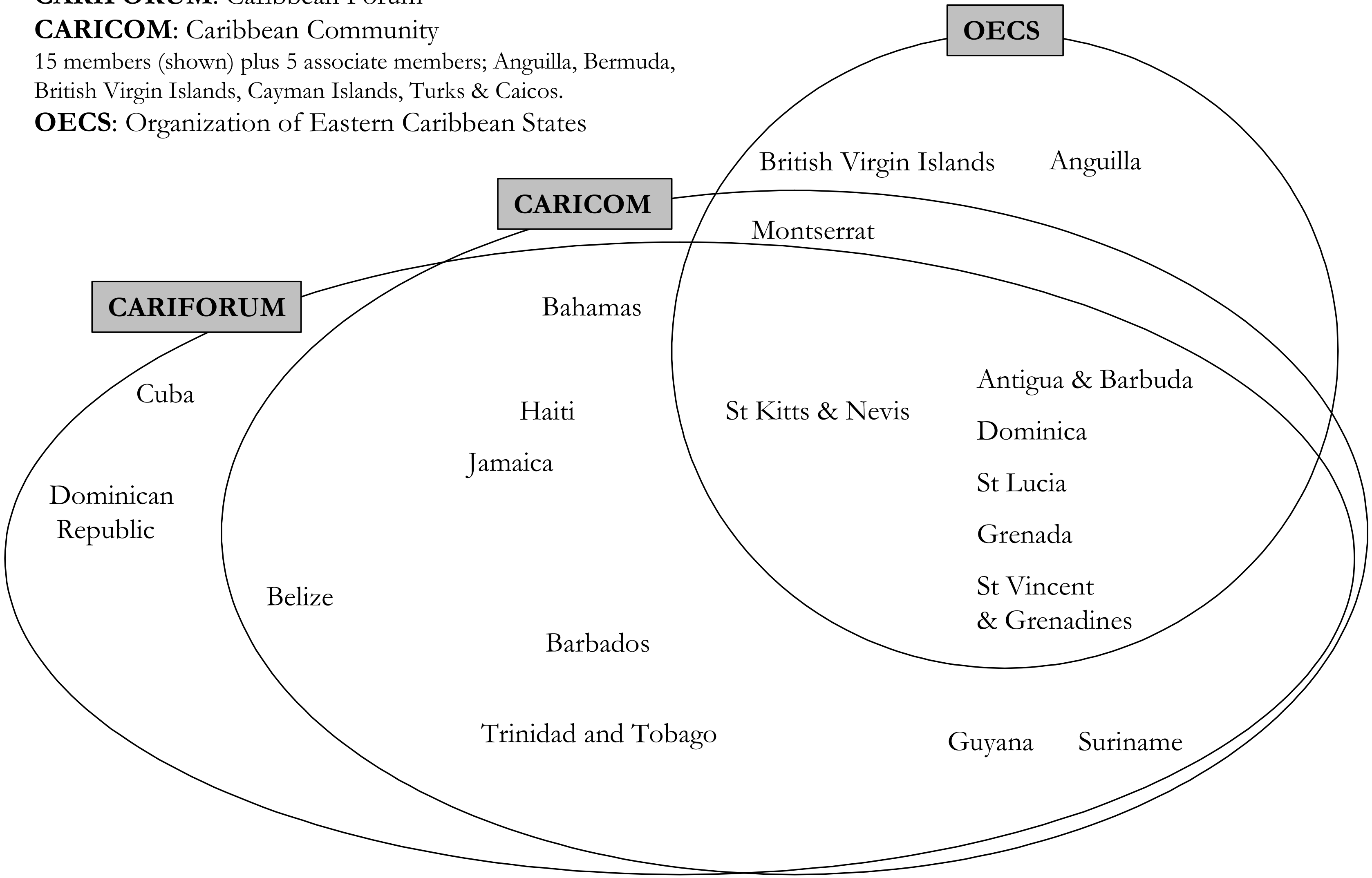
[20] CARIFORUM includes all the Caribbean ACP States, namely all the CARICOM Member States except Montserrat (which is an OCT) plus the Dominican Republic and Cuba.

<u>Caribbean Regional Economic Communities</u>

CARIFORUM: Caribbean Forum
CARICOM: Caribbean Community
15 members (shown) plus 5 associate members; Anguilla, Bermuda, British Virgin Islands, Cayman Islands, Turks & Caicos.
OECS: Organization of Eastern Caribbean States



2. Central Africa

The landscape of regional integration in the Central African region consists of three, overlapping, regional groupings: the Economic and Monetary Community of Central Africa (CEMAC); the Economic Communities of Central African States (ECCAS); and the Economic Community of the Great Lakes Countries (ECGLC).

The Economic and Monetary Community of Central Africa (**CEMAC**[21]) replaced the Union Douanière et Économique de l'Afrique Centrale (UDEAC) in 1994. The main objective of the Community is to reinforce the process of regional integration in support of development. The monetary union built around the CFA Franc, which was originally pegged to the French franc and is pegged to the euro since 1999, worked well during the thirty years of cooperation under the UDEAC, but this union remained largely disconnected from regional economic cooperation on non-monetary issues.

Four institutions were created in 1994: the Economic Union of Central Africa; the Monetary Union of Central Africa; the Parliament of the Community; and the Court of Justice.

The CEMAC Treaty foresaw a three step integration process for the economic union: 1999-2004, 2005-2009 and 2010-2014. The main objectives of this process are the establishment of a common market for the free movement of goods, services, capital and persons (this includes a customs union) the elaboration of community legislation in the area of economics and finance and provides the impetus for macro-economic convergence between member states; the coordination of national policies through joint action (by sector: agriculture, animal husbandry, fisheries, trade, tourism, energy, environment, transports and telecommunications), the coordination of trade relations with other regions, and community action on horizontal issues such as education and research.

There is, however, an important gap between the existing body of legislation, which is quite comprehensive, and the state of implementation of Community decisions. In several areas, the current results are still very far from achieving the objectives. For example, despite the agreement on the free movement of CEMAC citizens, a number of countries in the region continue to require an entry visa for CEMAC citizens. However, the Community as a whole does not have a system of sanctions with which to address the non application by its member states of community legislation.

Currently the Community is in the middle of a reform process launched in 2005 to improve the efficiency of the community institutions. In particular the reform will create an independent Commission which will be in a better position to animate the regional integration process.

The second organization in the region, the Economic Community of Central African States (**ECCAS**) is made up of the same CEMAC six countries plus the Democratic Republic of Congo (DRC), São Tomé e Principe, Angola and Burundi (Rwanda left the organization during 2007). Given the weight of DRC, the demographic, political and economic importance of the region covered by this organization is significant.

21 Cameroon, Central African Republic, Republic of Congo, Equatorial Guinea, Gabon, Chad

The integration process has been slowed down by the number of conflicts that many countries have faced. During the late 1990s, seven of the eleven countries were in such a situation, which led to a crisis in the organisation, which only restarted its activities at the end of the 1990s, notably in the area of conflict prevention.

ECCAS has adopted a trade liberalization scheme; the free trade area has been launched in 2004 and is slowly implemented.

The Economic Community of the Great Lakes Countries (**ECGLC-CEPGL**), created in 1976, consists of the DRC, Rwanda and Burundi. After many years of paralysis, the organization has been officially re-launched in 2007 in the hope of restoring trust between the three countries. The main objectives of CEPGL are to promote security and economic development through developing economic activities of common interests in the energy, environmental and rural development sectors.

3. East and Southern Africa

Regional integration in the East and Southern African region is a complex picture. There are four main Regional Integration Organisations, with significant overlap between them. The regional economic integration process in the ESA region was first institutionalised in the late seventies and evolved into the formation of the four organisations that were given mandates to address specific issues but ultimately with common development objectives. The organisations concerned are COMESA, EAC, IGAD and IOC.

The Common Market for Eastern and Southern Africa (**COMESA**[22]) was created in 1994 by the treaty of Lilongwe, with an objective of promoting regional economic integration within the region, by developing trade and investment. COMESA launched its Free Trade Area in 2000, currently with currently with thirteen members, and is preparing to establish its Customs Union in 2020. COMESA has programmes in trade and transport facilitation, trade in services, free movement of persons and investment. Cross-cutting areas and other issues include gender policy, conflict prevention and a COMESA Court of Justice. The General Secretariat is the main institution and has a technical and consultative role on the Treaty's application, whose interpretation is subject to the ruling of the Court of Justice.

Since October 2000, tariffs have been abandoned between several ESA States[23]. This free trade area is the greatest success of the region and trade has increased rapidly between the member countries (+30% the two first years) as a result. Of the 19 ESA countries, there are currently 13 of them in the Free Trade Area, with others committed to joining at specified and times. Since then a medium term Strategic Plan for 2007-2010 has been adopted by the Heads of State and Government in December 2006. In terms of regulatory and policy framework, the major challenges to be addressed by COMESA in establishing a Common Market are the setting up of a COMESA Common Investment Area and the application of the principle of the Free Movement of People while at the same time ensuring that all those measures actually benefit all the stakeholders, and ultimately contribute to poverty eradication in the region. To this end COMESA Mid Term Strategic Plan encompasses private sector development, investment promotion and infrastructure development among other things.

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[22] Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Maurice, Uganda, Rwanda, Seychelles, Sudan, Swaziland, Zimbabwe, Zambia.

[23] Djibouti, Egypt, Kenya, Madagascar, Malawi, Maurice, Sudan Zambia, Zimbabwe

The Eastern African Community (**EAC**[24]) has undergone a rapid process of both widening and deepening since its rebirth in 1999. EAC now has five member states. This membership obliges EAC countries to maintain close and productive relationships with other regional organizations to whom its members also belong while aiming for rationalisation of membership where needed – the principal partners in this respect are COMESA, IGAD and SADC. Like COMESA, EAC pursues a regional integration agenda and also plays an active part in the agenda of the African Union and its institutions.

The key integration milestone in EAC's recent history was the agreement of the Customs Union protocol, which came into force in 2005. The principal components of the customs union agreement are a Common External Tariff on imports from third countries, duty-free trade between the EAC member states and common customs procedures. The agreed external tariff follows the tariff-escalation principle, with different rates. The removal of duties on trade within the Customs Union has the effect of reducing protection against competitors within the region, particularly creating greater openness of the Tanzanian and Ugandan markets to imports from Kenya. Negotiations have now started to establish a common market in EAC by 2012, and to evolve to a monetary union according to a similar schedule. In addition, discussions have been undertaken in the last three years on 'fast tracking' the final component of the integration continuum, political federation.

The recurrent droughts, during the 1970s and 1980s, led in 1986 to the creation of the Intergovernmental Authority on Drought and Development (IGADD) by the General Assembly of the United Nations. Its objective was to fight against water shortages, and aimed in the long term at improving cooperation between the member States[25]. However its role remained limited, due to a lack of financing and tensions between several countries.

The 1996 Nairobi summit led to a deep reform of the institution, which became the Intergovernmental Authority for Development (**IGAD**). The main objectives of the organization are to work at a regional economic integration, meaning a wide free trade agreement; to reach and sustain food security; and to prevent conflicts within the region.

The main achievements of recent years were focused on security issues, including mediation in Sudanese and Somali conflicts. Four projects were actually developed: an ICT project involving EAC, COMESA and IOC; the IGAD livestock policy initiative; a programme concerning the development and economic integration of women; and the IGAD climate prediction and application centre.

The Seychelles, Madagascar and Mauritius created the Indian Ocean Commission (**IOC**) in 1984. For Réunion, France joined them in 1986, and now contributes 40% of the organization's budget. The constitutional Agreement of Victoria covers a wide variety of cooperation areas (diplomatic, economic and commercial, agricultural and fishing, cultural, scientific, education and justice).

Since its creation, IOC has been involved in projects concerning natural resources and environment protection. The challenge the deepening of economic integration faces is the high heterogeneity in the levels of development (2 LDCs, 2 Intermediate Income Countries and an island considered as developed).

[24] Burundi, Kenya, Tanzania, Uganda, Rwanda.
[25] Eritrea, Ethiopia, Djibouti, Kenya, Sudan, Somalia, Uganda.

Implementation of activities in the ESA region is through the Inter-Regional Coordinating Committee – (IRCC), which was established to ensure better coordination in the implementation of programmes and contribute to the harmonization of policies in line with the recommendations of the AU. Two delivery mechanisms are used to channel the funds to the ESA IO region: Contribution Agreements and Financing Agreements. Regional mechanisms such as the COMESA Fund and other equivalent mechanisms under other RECs will be used as much as possible to channel funds.

4. Southern Africa

Southern Africa has two regional economic communities, the Southern African Development Community[26] (SADC) and the Southern African Customs Union[27] (SACU). The Southern Africa region is composed of a highly diverse set of countries -in terms of size, level of development and economic specialisation- and is marked by the prominent weight of South Africa. South Africa represents more than 70% of the region's GDP (2007), accounts for 60% of intra-SADC trade and is the first investor in the region. Since its democratization in 1994 the country has exerted a growing influence in the region whilst at the same time seeking to operate in consensus with its neighbours.

The **Southern African Development Community (SADC)** is an intergovernmental organization that was founded in 1992 on the basis of the former Southern African Development Co-Ordination Conference (SADCC). The SADC integration project has evolved along two parallel tracks: a trade integration track (a market-driven economic project with an emphasis on trade and investment) and a development integration track (a politically-driven process that deals with political and security issues).

Most positive results have been achieved on trade integration. The SADC FTA came into effect in January 2008. By the end of the year, 85% of all product lines should be trading with zero tariffs, whereas the remaining 15%, including sensitive products, will be duty-free by the end of 2012. SADC's ambitions for deeper integration in the future are outlined in the Regional Indicative Strategic Development Plan (RISP) that sees the FTA as a first step towards the establishment of a customs union in 2010 and a common market in 2015.

The **Southern African Customs Union** (SACU) was created in 1910 and is considered the oldest functional customs union in the world. The founding agreements were significantly revised in 2002 in order to deepen the engagement between South Africa and the four other member States and set up a more democratic and ambitious integration project. The main features of the revised agreement are a reform of SACU's decision making bodies, the adoption of common policies and strategies, and the support of more balanced development between member countries.

The biggest changes of the reform affected SACU's governing institutions, particularly the SACU Council of Ministers where decisions are taken by consensus. External trade negotiations are also to be conducted by SACU as a single entity since 2002.

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26 Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, United Republic of Tanzania, Zambia and Zimbabwe.

27 Botswana , Lesotho, Namibia, Swaziland and South Africa.

The revenue-sharing arrangement is another central feature of SACU. The new formula consists of a customs component, an excise component and a development component. Customs revenues are distributed according to each country's imports but the compensation formula de facto entails a sizeable subsidy by South Africa to the other members, for whom these transfers represent between 30% and 60% of their public budgets.

Future work for SACU includes moving towards completion of its internal market, including through the elimination of existing non-tariff barriers and tackling the implications of rules of origin agreements that some members have established with third countries. SACU's internal agenda also comprises the adoption of common frameworks in areas like fiscal harmonization, customs procedures or competition policy, although no dates have been set for these objectives.

5. Western Africa

Western Africa is probably one of the most integrated regions within the ACP, with two organisations dominating the regional landscape: the Economic Community of West African States (ECOWAS) and the Economic and Monetary Union of West Africa (UEMOA).

The Economic Community of West African States (**ECOWAS**), created in 1975, is made up of fifteen States[28]. According to its founding treaty, ECOWAS is the overall framework for integration in Western Africa, with the UEMOA Treaty built into the objectives of ECOWAS. The initial objectives of the Treaty were the implementation of an economic and monetary union, settling a regional market for the whole West Africa, complete with free movement of goods and people.

Four priorities form the political agenda of ECOWAS: institutional strengthening; establishment of a common market, and especially the creation of a free trade area and a customs union; harmonization of economic and financial policies with a view to establishing a monetary union; and conflict prevention and political dialogue.

From an institutional point of view, in addition to the creation of a Court of Justice and a Parliament, the Secretariat was reorganised and transformed into a Commission. Its powers were strengthened and its operational procedures improved.

The ECOWAS treaty foresees the progressive establishment of this common market between the member States, including the free circulation of goods, services, capital and people. The Heads of States Conference decided to implement the Free Trade Area by 2004 and the customs union by 2007 but these decisions have not been fully implemented yet. Free movement of people is regulated by a 1978 protocol. Whereas neither visas nor residence permits are officially required anymore, controls and administrative procedures remain.

ECOWAS also developed several sector programs, concerning *inter alia* infrastructures, agricultural policy, energy, telecommunications, and private sector development, in order to create the common market. However, ECOWAS still suffers from a lack of human and financial resources to effectively coordinate implementation.

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28 Benin, Burkina Faso, Cape Verde, Ivory Coast, Gambia, Ghana, Guinea Conakry, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo. Mauritania left the Community in 1999.

Harmonization of economic and financial policies constitutes an intermediate objective towards a fully-fledged monetary union. In this context, the countries which are not members of the UEMOA (except Cape Verde and Liberia) decided to establish a second monetary union, which is then supposed to join the UEMOA zone, thereby creating a big ECOWAS monetary union (the currency will be the ECO).

In the political area, ECOWAS is developing a conflict prevention and management strategy, as well as a standby forces approach. Through its peacekeeping interventions and mediations initiatives in the region, ECOWAS has contributed to the stabilisation of the region and gained credibility for conflict prevention.

The West African Economic and Monetary Union (UEMOA) is an organisation of eight states[29] established in 1994 after the devaluation of the Franc CFA, with the objective of promoting economic integration among member countries of ECOWAS that share the same currency, the CFA Franc. UEMOA is a customs union, and a monetary union, pegging the CFA franc to the Euro, which has several objectives:

– ***Creating a common market***: consolidating the customs union created in 2000 and eliminating all non tariff barriers to the free movement of goods.

– *Greater economic competitiveness,* through open and competitive markets, along with the *standardization, and harmonization* of national legislation concerning public tenders, intellectual property, fiscal policies, and consumers' policies. In addition much progress has also been done in order to harmonise legislations with the aim of ensuring the free circulation of persons, services and capital.

– The ***convergence of macroeconomic policies***: member states signed in 1999 a *Convergence and Stability Pact*, which aims to ensure convergence of macroeconomic policies on the basis of a number of convergence criteria.

– The ***coordination of sectoral policies***, for example in agriculture, environment, telecommunications, infrastructures, industry. A number of these sectoral policies have been adopted and are in the process of being implemented.

The Commission of the UEMOA has, through increased donor support, developed important technical and administrative capacities, and has thus been the driving impulsion in strengthening and further deepening economic integration between its member states. A special solidarity fund, the 'Fonds d'Aide à l'Intégration Régionale' was created in the UEMOA treaty, in order to finance the balanced land settlement of the community territory, and its interconnectivity, while reducing regional discrepancies.

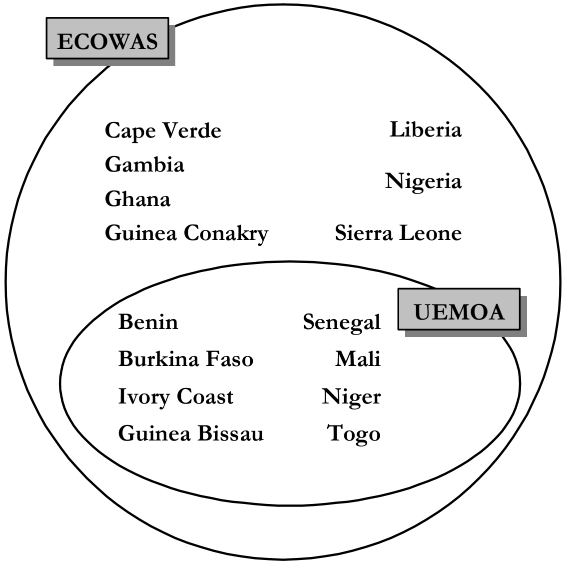
UEMOA adopted a "Programme Economique Régional" (PER) in 2006, in order to further deepen regional economic integration, and to reinforce the regional growth strategy for the 2006-2010 period. It aims at implementing over 60 infrastructure projects, a common market, macroeconomic convergence and business development, which will ultimately improve the visibility and utility of regional integration.

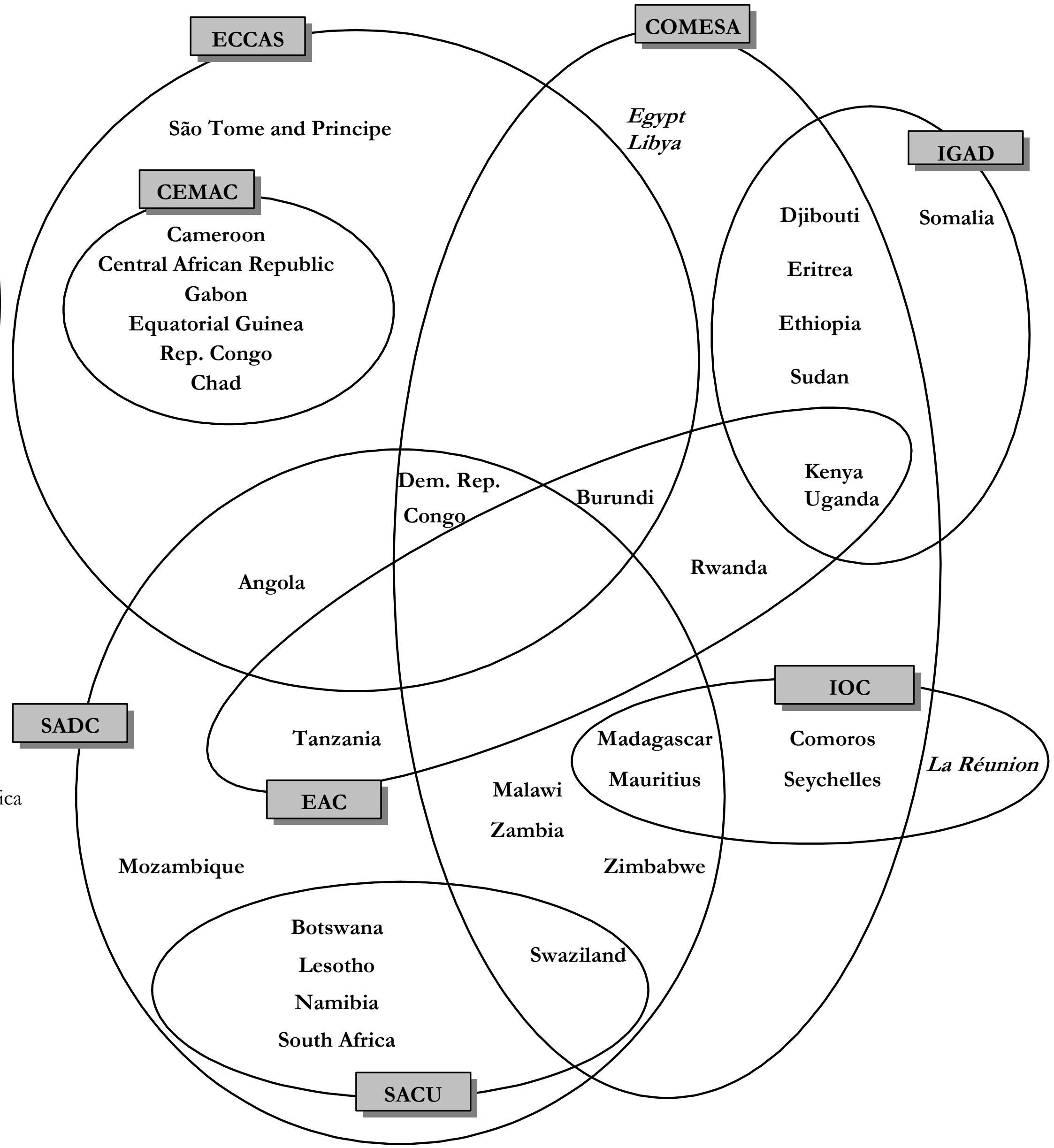
[29] Benin, Burkina Faso, Guinea Bissau, Ivory Coast, Mali, Niger, Senegal, Togo.

The UEMOA has the exclusive power to negotiate trade agreements on behalf of its members, and was mandated to conduct EPA negotiations alongside ECOWAS.

UEMOA and ECOWAS have decided to implement an "accelerated strategy of the integration process in West Africa", which provides for a consultation and convergence process between both regional organisations.

In order to ensure the harmonisation and coordination of policies and programmes, the Presidents of both Commissions meet twice a year to establish the common political and economic orientations and a joint ECOWAS and UEMOA Technical Secretariat has been set up. As an important result of this Committee, ECOWAS has adopted the UEMOA's common external tariff (CET) in the framework of the customs union.





African Regional Economic Communities:

CEMAC: Economic and Monetary Community of Central Africa

COMESA: Common Market for Eastern and Southern Africa

EAC: Eastern African Cooperation

ECCAS: Economic Community of Central African States

ECOWAS: Economic Community of Western African States

IOC: Indian Ocean Commission

SACU: Southern African Customs Union

SADC: Southern African Development Community

UEMOA: Economic and Monetary Union of West Africa

IGAD: Intergovernmental Authority for Development

6. Pacific

The Pacific region has a number of regional organizations, covering a wide range of areas of cooperation between the islands.

The **Pacific Islands Forum** is the premier regional policy-making body of the self-governing states in the Pacific. Established in 1971, its membership includes 14 of the Pacific ACP countries[30] together with Australia and New Zealand. As regards security, the Biketawa Declaration of 2000 establishes a framework for Forum intra-state security cooperation, which calls for Forum Foreign Affairs Ministers to meet as part of an *ad hoc* crisis management mechanism for the region.

The Forum is served by its Secretary-General, supported by the Forum Secretariat. The Secretariat's overall objective is to service the member states and to promote Pacific regional cooperation, particularly on economic and trade matters. It also acts as the Forum's administrative arm, implementing its decisions, including delivering development assistance to Member States. In the case of trade-related assistance, it can also act as an implementing agency.

The Forum Secretary-General is also the permanent Chair of the **Council of Regional Organisations in the Pacific (CROP)**, which brings together the Forum Secretariat and nine other Pacific regional organisations: Pacific Forum Fisheries Agency (**FFA**); Pacific Islands Development Programme (**PIDP**); Secretariat for the Pacific Community (**SPC**); South Pacific Applied Geoscience Commission (**SOPAC**); South Pacific Regional Environment Programme (**SPREP**); South Pacific Tourism Organisation (**SPTO**); University of the South Pacific (**USP**); South Pacific Board for Educational Assessment (**SPBEA**); and Fiji School of Medicine (**FSchM**).

The October 2005 meeting of Forum Heads of State and Government made two important decisions aimed at strengthening regional cooperation. Leaders approved an agreement giving the forum legal personality under international law. They also approved the Pacific Plan and a roadmap for its implementation. This decision represents the culmination of a process started in 2003, at the initiative of the New Zealand Forum Chair, aimed at strengthening Pacific regionalism. The Plan, covering the years 2005-2015, has been presented as a dynamic framework for strengthened regional cooperation and integration. However, the effective realization of the Plan is taking longer than it should.

Presently, regional cooperation in the Pacific is neither broad nor deep. Reasons include the geography of the region, the fact that many Pacific countries are still relatively young as independent states and therefore particularly sensitive about issues pertaining to sovereignty, as well as the asymmetry between Australia and New Zealand on the one hand and the Pacific ACP countries on the other.

The Pacific Islands Countries Trade Agreement (**PICTA**) entered in force in April 2003. Eleven out of fourteen countries have ratified[31] it. Notification and rules of origin

[30] Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, Niue, New Zealand, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Republic of the Marshall Islands, Tuvalu and Vanuatu.

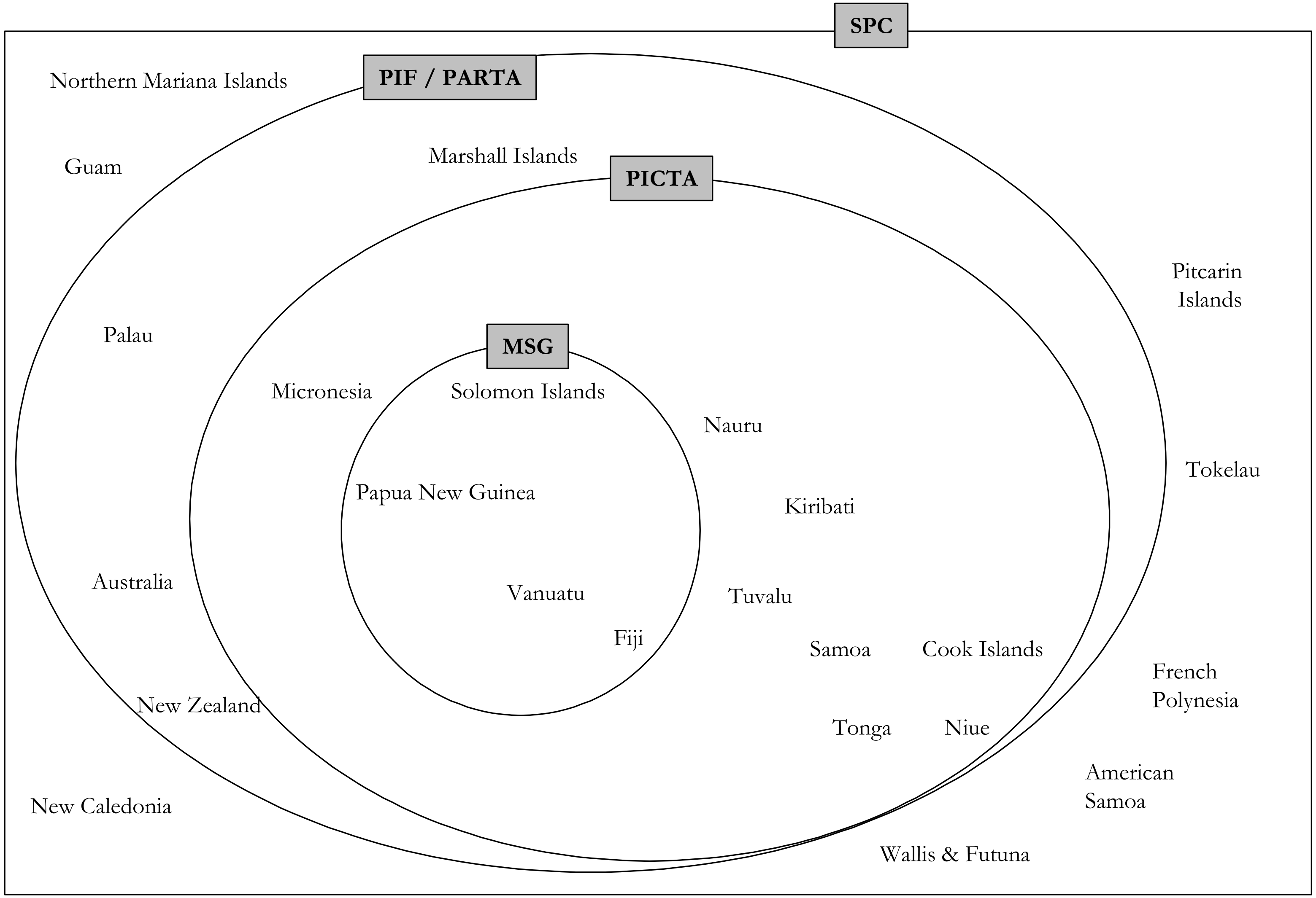
[31] Cook Islands, Fiji, Kiribati, Nauru, Niue, PNG, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu.

requirements have been fulfilled. Six countries have made formal announcements on their readiness to trade under PICTA. Some domestic legislation is nonetheless still required for trade to begin in most countries. An outright PICTA customs union is thought to be inappropriate by island leaders. The Forum Trade Ministers have officially launched the negotiation of a trade in services Agreement as an extension to PICTA in March 2008. The aim is to conclude this Agreement by the end of the year 2008.

FTA negotiations with Australia and New Zealand may begin this year under the Pacific Agreement on Closer Economic Relations (**PACER,** of which PICTA is the first stage). A key feature of PACER is the ongoing *Regional Trade Facilitation Program*. To date, eleven Forum countries, including Australia and New Zealand, have ratified PACER.

The Melanesian Spearhead Group[32] (**MSG**) was founded in 1994 and revised in October 2005. The new approach has shifted to a negative list of products (rather than the present positive list) on which tariffs are scheduled to be phased out over a period of 1 to 8 years. A services annex has yet to be developed. The MSG brings together by far the biggest ACP economies of the Pacific but is more of a political counterweight to Australia and New Zealand in a Forum context than an effective trade bloc.

[32] PNG, Fiji, Solomon Islands, Vanuatu



Pacific Regional Economic Communities

PIF / PARTA: Pacific Island Forum / Pacific Regional Trade Agreement
16 listed members plus 2 associate members: New Caledonia and French Polynesia

PICTA: Pacific Island Countries Trade Agreement
12 signatories as of November 2006.

SPC: Secretariat for the Pacific Community
Not strictly an economic community. Intergovernmental co-operation.

MSG: Melanesian Spearhead Group

ANNEX 2: REVIEW OF EXISTING LITERATURE ON REGIONAL INTEGRATION IN ACP

The following is a summary of a study commissioned to the Overseas Department Institute (ODI) by the European Commission for the purpose of this Background Document, entitled "Regional integration in ACP - A review of the literature". The report is available at http://ec.europa.eu/development/icenter/repository/Regional-Integration-Report-18-09-2008_en.pdf

The literature review focuses on literature on broader regional integration; not just the removal of barriers to trade, but also policy co-ordination and functional co-operation.

The theoretical effects of **the removal of barriers to trade** are well documented, and empirical evidence largely backs them up. The removal of tariffs leads to increased trade, creating favourable conditions for growth. However, if the potential for intra-regional trade is low, tariff removal alone will not be as effective a tool. There are several so-called "dynamic" effects from the removal of barriers to trade. An increase in FDI flows is one of these effects, with FDI flows from outside the region increasing in particular as a result of the removal of barriers to trade. There is the risk that these FDI flows will be concentrated on the larger markets in the region, or countries neighbouring these larger markets. Other "dynamic" effects include increased competition, knowledge spillovers from research and development, and eventual economies of scale.

Removing barriers to trade therefore has an indirect positive effect on growth through the mechanisms of trade, FDI and technology transfer. However, it is not clear if regional integration alone promotes convergence among members. A specific tool which can help the convergence of members in an RTA is the special differential treatment of less developed countries; SACU implements such a system with restrictions permitted for some of the poorer members.

In the area of **policy co-ordination**, theoretical effects are again well documented, though unfortunately ACP-specific based evidence is more limited. Co-operation on investment rules boosts FDI, in particular extra-regional FDI; this view further builds on the finding that the removal of barriers to trade has a similar effect. There are some sceptical views on investment rule co-operation in a regional context and these highlight the need for countries to reach a certain level of development and governance for the benefits to outweigh the possible costs.

Theoretically, the free movement of labour is meant to lead to the equalisation of wages within a region. Empirical evidence points to increased migration as a result of the free movement of labour. Outside the Caribbean, there is, however, little progress in this field.

Harmonised standards should have positive long term effects by allowing firms to increase exports or enter value chains, although in the short term effects could be negative for local firms having to comply with standards, and consumer prices in the region. ACP countries have not yet co-ordinated standards.

Functional economic co-operation, including **regional public goods**, is a broad area and can often add more value to regional integration than trade liberalisation alone.

Financial market integration can contribute to economic growth through addressing the lack of liquidity that many small countries have, and also by increasing intra-regional capital flows. There are plans to integrate the stock markets of Southern and Eastern Africa but no experience in the ACP overall. Studies point that, due to the need of complex regulation, integration in this area needs to occur at the right pace.

Monetary integration provides financial stability and reduces transaction costs. There are already four monetary unions within the ACP. Outside the existing monetary unions in the ACP, the required convergence of macro-economic indicators for a monetary union appears not to exist.

Businesses need to rise to the challenge of the international trading environment. To meet this challenge, business co-operation and R&D at regional level can help. There are an increasing number of regional business associations in ACP countries.

Poor infrastructure is an important impediment to intra-regional trade. Effective regional co-ordination would reduce the time of transit and uncertainty for traders. Both theory and examples from ACP countries show that the results of better regional infrastructure are reduced transport costs. These reduced transport costs sow the seeds for increased intra-regional trade. A lack of regional co-operation acts as a constraint to growth. Co-operation in energy and water leads to economies of scale; regional co-operation could be particularly effective in ACP countries, where most individual markets are not big enough to benefit from this effect. However, few regional ACP power grids are currently fully functional.

Regional co-operation in the area of land, fisheries and forests should both promote the sustainable use of resources and combat illegal usage. Co-operation in the area of agriculture can help with the issues of food sovereignty and food security. Four ACP regions are currently in the process of implementing regional food and agricultural trade strategies but effects are no measurable at his stage.

Increased migration poses challenges related to the spread of communicable diseases in particular, and improved regional disease management is likely to increase the growth prospects of African countries. Migration itself also requires management; while healthy, integrated migrants can be a valuable resource to the host country, many African countries have difficulties to manage heavy migration flows.

Social cohesion policies have the advantage of reducing disparities within a region, and preventing the "race to the bottom" with labour wages. ACP regions are less advanced than rest of the world regions in the field of social policies. Some ACP regions do use trade measures to deal with social issues, and some progress has been made in the institutionalisation of social dialogues.

Finally, there are several benefits of **political co-operation**. Political integration may be a pre-requisite for economic integration (e.g. the EU); it may accompany economic integration; or it may be a result of economic integration. An example of the last is the case where higher income from economic integration promotes the understanding between countries.

A political advantage of entering a regional integration agreement is the joining of interests into one stronger, united voice for trade negotiations. A strong motivation for political integration is that of peace and security. Peacekeeping operations can kick-start an economy at a vital time. In the ACP regions, security components are increasingly included in regional integration programmes, and several organisations have emerged as conflict managers and peace keepers. It is worth noting that "lead nations" such as South Africa and Nigeria have a complicated role in the peace keeping process; on one hand, they have the necessary resources to lead such missions, but on the other hand, weaker countries can find the military power of such countries a threat.

ANNEX 3: STOCKTAKING OF EPAS AND REGIONAL INTEGRATION

At the end of 2007, the negotiations with the fifteen **CARIFORUM** countries were successfully concluded. The Agreement comprises all ACP countries in the Caribbean region and covers all subjects originally identified for negotiations. This Agreement will promote integration in the Caribbean with regard to trade in goods, services, investment and a wide range of trade related areas.

The Caribbean EPA follows the two principles applied by the region's own integration process, namely, those of *variable geometry* and *differentiation*, which allow taking into consideration the different levels of development and integration existing in the region. Within the EPA the region has committed to remove tariffs on 80% of EU imports over 15 years, while certain products are excluded from liberalization and others are liberalised within a 20-25 years timeframe. The Agreement includes commitments on customs and trade facilitation, such as the introduction of a single administrative document in Cariforum countries. In the area of sanitary and phytosanitary standards (SPS) and technical barriers to trade (TBT) the Parties agreed to cooperate so as to increase the capacity of the region to apply internationally recognised standards.

The Caribbean EPA also contains a comprehensive section on Investment and Services as well as on specific rules on E-commerce. On both services and investment the Agreement aims at fostering predictability and transparency. In the area of services, liberalisation commitments focus on sectors that are expected to have a positive development impact, areas in which CARIFORUM states are looking for FDI or new technologies as well as sectors important to create economic opportunities including in out-sourcing. Special reservations have been maintained for small and medium sized enterprises and public services remain excluded. In addition the EPA includes provisions aimed at fighting against corrupt practices of investors, as well as binding provisions on non-lowering of standards in the environmental and social fields and for cultural diversity laws and regulations.

Finally the Caribbean EPA contains also a comprehensive set of trade related rules e.g. on intellectual property rights (IPRs), the protection of personal data, government procurement (focusing on transparency), on competition policy, and social and environmental aspects.

Further extensive information on the contents of the Caribbean EPA and its expected benefits can be found at the website of the Caribbean Regional Negotiation Machinery: http://www.crnm.org.

Outside the Caribbean **in all other ACP regions, interim agreements were concluded** that basically focus on <u>trade in goods</u> and also contain <u>to a varying degree certain trade related rules</u> while rendezvous clauses foresee the negotiation of the still missing EPA elements relating to rules, services and investment, over coming months. Except for the agreement with the East African Community (EAC) where all members are part of the interim EPA, the interim agreements generally include only certain but not all members in each region. Hence, they are still incomplete and need to be turned into comprehensive EPAs over coming months in order to release their full potential for regional integration. In this context and in all regions, the commitment to do so by the end of 2008 (by mid 2009 in the cases of EAC and West Africa) has been re-affirmed by the ACP and EU sides.

In addition it should be noted that in a number of regions and partly in anticipation of full EPAs, **discussions and concrete steps towards deeper integration are already ongoing**. In West Africa for instance, a regional policy framework for competition was defined and an external tariff set for countries of the West African Economic and Monetary Union (WAEMU), while in the Pacific discussions about a regional services agreement and the establishment of certain trade related rules are progressing.

Rules of origin (RoO) are important for allowing cumulation between producers in different ACP countries and hence they are important for the integration of production processes within and between regions particular in Africa. The EPA RoO are based on the Cotonou rules with certain substantial improvements in the areas of agricultural products, fishery products and textiles. They were designed such that a maximum of integration potential will be ensured within and among the various regions.

In all regions, **EPA related support** is key in helping with the EPA process, implementation of commitments and regional integration. This important topic is covered separately in the document.

The interim agreement with the **East African Community (EAC)**[33] focuses on an agreement on trade in goods but also contains a regional chapter on fisheries and provisions on institutional arrangements. Despite the fact that it is as yet only an interim agreement, it already develops a very high degree of regional coherence since the agreement is concluded with all five EAC members acting as a customs union. Thus liberalisation commitments towards the EU are identical for all EAC countries and consolidate the internal cohesion process of the grouping. Since EAC members have also linkages with the Eastern and Southern African group (ESA) and the Southern African Development Community (SADC), close coordination between the EAC, ESA and SADC processes is needed as well as a variable and flexible approach to develop the integration aspects of the wider region gradually and in harmony. Rendezvous clauses in the interim agreement foresee negotiations towards a full EPA comprising all relevant EPA elements by mid 2009.

In the **Eastern and Southern African grouping (ESA)** group, six members[34] have initialled the interim EPA which focuses on an agreement on trade in goods but also contains a regional chapter on fisheries and institutions as well as development cooperation. Rendezvous clauses foresee the negotiations towards a full EPA containing all other EPA elements by the end of the year. Negotiations on SPS/TBT, Trade facilitation and a Dispute Settlement Mechanism are already far advanced, negotiations on services, investment, agriculture and development are ongoing as are discussions on other important issues such as trade related rules for example on sustainable development, transparency in public procurement and competition law.

Five countries[35] in the **Southern African Development Community (SADC)** group have concluded an interim agreement which focuses on trade in goods. The agreement also contains regional rules on SPS and TBT, trade facilitation, institutions and development cooperation. Rendezvous clauses foresee the continuation and conclusion of negotiations

33 Kenya, Tanzania, Uganda, Rwanda, Burundi

34 Mauritius, Comores, Seychelles, Madagascar, Zimbabwe; Zambia also initialled but does not take part in the goods agreement.

35 Botswana, Namibia, Lesotho, Swaziland, Mozambique.

during 2008 to establish a full EPA containing all relevant issues. Most members in the region are highly interested in particular in progressing towards a services and investment agreement as part of the full EPA.[36] As regards the regional coverage and in addition to the five countries that concluded the interim agreement, Angola has also actively engaged in the negotiations. Finally South Africa is equally part of the SADC EPA negotiation group but has not signed the interim agreement. Following a period of consideration of its position, it has however recently re-opened negotiations on trade in goods. To tap the full EPA potential to boost regional integration and development, it is highly desirable that South Africa will be part of the full EPA.

In **Central Africa** an interim EPA was concluded with only one country in the region, i.e. Cameroon containing trade in goods, trade facilitation, SPS and TBT clauses, institutional arrangements and development cooperation. The region has recently indicated its eagerness to move forward towards a full EPA containing all elements and comprising all members of the region.

In **West Africa** interim agreements were concluded with two countries in the region, Côte d'Ivoire and Ghana. The contents comprise trade in goods, facilitation, SPS, TBT, institutions and development co-operation. At Heads of States and Government level, the entire region has decided to resume negotiations and aim at concluding a full EPA by mid 2009.

In the **Pacific,** an interim agreement was concluded with the economically most important countries Papua New Guinea and Fiji. The interim arrangement contains a trade in goods agreement, rules on trade facilitation, SPS and TBT, institutional arrangements and a rendezvous clause to conclude a full EPA in 2008. A slow and careful resumption of the negotiations involving the whole region is currently ongoing. The region is particularly interested in negotiating a services agreement within an EPA and in particular in arrangements for the temporary movement of labour and is currently considering its options. In parallel to negotiations with the EU, discussions in the Pacific on the establishment of regional arrangements in services and certain trade related rules are also ongoing.

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[36] All except Nambia.

ANNEX 4: EC FINANCIAL SUPPORT FOR REGIONAL INTEGRATION

Initial commitments on projects with a regional focus in ACP countries for the 8th and 9th EDF (covers multi-country, regional and national programmes between 1996 and 2007) (million euros)

Region	Regional Integrated Markets	Business Development	Infrastructure	Sustainable Development	Regional Governance	*TOTAL*
Inter regional (sub-total)	**134,35**	**276,453**	**119,45**	**818,506**	**29,723**	***1378,482***
West Africa (sub-total)	**121,8**	**2,485**	**167,15**	**86,873**	**123,9**	***502,208***
Regional	121,8		34,7	79,	123,9	*359,4*
Guinée				6,4		*6,4*
Mali		2,485	132,45	1,473		*136,408*
Central Africa (sub-total)	**28,5**	**5,5**	**196,24**	**43,15**	**13,1**	***286,49***
Regional	28,5			38,15	8,1	*74,75*
Cameroun		5,5				*5,5*
Cameroun - Tchad			138,24			*138,24*
Great Lakes					5	*5*
RCA			55			*55*
ROC				5		*5*
Rwanda/Regional			3			*3*
ESA (sub-total)	**122,6**	**6,412**	**210,496**	**127,835**	**3,532**	***470,875***
COMESA	122,6		21	18		***161,6***
East Africa				3		***3***
Ethiopia-Djibouti			50			*50*
IGAD					1	*1*
IOC				35,5		*35,5*
Kenya		6,412	119,996		1,532	*127,94*
Somalia, Ethiopia & Kenya				4		*4*
Uganda			19,5	67,335	1	*87,835*
SADC (sub-total)	**19,09**	**45,27**	**39,2**	**45,514**	**7,95**	***157,024***
Regional	19,09	45,27	39,2	45,514	7,95	*157,024*
Caribbean	**63,5**	**184,044**	**45,005**	**41,836**	**5,73**	***340,115***
Regional	37				2,63	*39,63*
CARIFORUM				8,787		*8,787*
Barbados		107,584	13,755	13,399	3,1	*137,838*
Dominican republic	5	5				*10*
Dominica			0,55			*0,55*
Guyana				0,45		*0,45*
Haiti - Dominican Republic		45				*45*
Jamaica	21,5	26,46				*47,96*
Suriname			30,7			*30,7*
Trinidad and Tobago				19,2		*19,2*
Pacific	**11,2**	**4**	**0**	**70,276**	**4,19**	***89,666***
Regional	11,2	4		52,576	4,19	*71,966*
PALOP				17,7		*17,7*
Entire ACP Total	**501,04**	**524,165**	**777,541**	**1233,99**	**188,124**	***3224,861***

Source: European Commission

ANNEX 5: OVERVIEW OF 9TH EDF REGIONAL PROGRAMMES (2002-2007)

1. Eastern and Southern Africa

Main strategy: economic liberalisation (trade and tax policy) and investment promotion in order to remove supply side constraints.

There are three main areas of focus in the RIP:

1. **Economic integration and trade** – 45 to 55% of the budget. The focus is on supply capacity, using public sector tools. In particular, there are attempts to eliminate overlapping and conflicting programmes and encourage the economic integration of states. Action in the field of economic integration takes into account the need to prepare for the negotiation and implementation of the EPA.

2. **Transport** – 15 to 25% of the budget. Intervention in this area consists of a master-plan focussing on investment opportunities and priorities.

3. **Natural resources** – 15 to 25% of the budget. Natural resources are to be tackled at regional level. Sustainable management plans for natural resources are to be developed.

No specific intervention for HIV/Aids is planned although it was identified as a key hindering factor for the region.

2. Southern Africa

Main strategy: export led growth and economic liberalisation, plus the promotion of the supply side.

There are two main focuses in the RIP

1. **Economic integration and trade** – 35 to 45% of the budget. There is a specific focus on supply capacity and public sector tools. The aim is to encourage foreign investment for export led growth. The need to prepare for the EPA is taken into account.

2. **Transport and infrastructure** – 35 to 45% of the budget. The EU is to provide assistance from its experience with trade facilitation. The NIPs contain considerable infrastructure investment, and the RIP will attempt to co-ordinate this investment.

Non-state actors are also to be involved on a regional level.

3. West Africa

Main Strategy: UEOMA and ECOWAS are the key partners. The aim is to assist the long term convergence of these two key partner organisations. This includes assisting the harmonisation process in order that goods and people can circulate freely through transport investment.

1. **Economic integration** – This includes assisting the formation of the ECOWAS customs union and the free circulation of goods in the West Africa area; in particular, there is help

with the continuous dialogue process. Assistance for private sector development is a further element. Considerable help will be offered to improve institutional capacity. Assistance with preparation for EPA negotiations will be offered.

2. **Transport and infrastructure** – The target area is the harmonisation of national policies and a focus on the facilitation of circulation (non-physical barriers, security, etc). The NIPs focus on investment in the inter-regional sections of the transport network.

3. **Experience sharing** – particularly on public health, further education and research.

4. **Conflict prevention**

4. Central Africa

Main strategy: the consolidation of a Central African regional space and the integration of this space in to the world economy.

1. **Economic integration** – 25 to 30% of the budget. The main aim is deeper regional integration to increase growth and reduce poverty. Regional organisations should be made to work more effectively. Assistance will be provided towards creating a customs union and common market, and also in the convergence of economic policies. Private sector assistance will be provided and non-state actors will be involved more. Assistance will be provided to assist with transition and restructuring required from the EPA.

2. **Transport and telecommunications** – 35 to 40% of the budget. The aim is to improve land-based transport networks. This includes the improvement of CEMAC's competence on transport, analysis of obstacles in conjunction with the private sector, the definition of a regional network and the development of an open and competitive telecommunications market.

3. **Sustainable management of natural resources** – 20 to 25% of the budget. The ECOFAC[37] programme will be continued. RAPAC[38] will be made autonomous and able to manage money. Assistance will be provided to make the national conservations plans both regionally integrated and managed by an existing regional organisation. Several environmental conventions should be implemented (e.g. Kyoto).

5. Pacific

1. **Regional integration** – 31% of the budget. The key focus is the strengthening of capacities for regional integration. This includes the strengthening of negotiating capacities in the context of the WTO and EPA. Assistance is to be provided for the mutual removal of tariffs. Help will be offered to private sector companies so that they can fully benefit from new opportunities. Technical assistance will be given with public financial administration and tax.

2. **Human resource development** – 28% of the budget. Technical and Vocational Education and training is included in the NIPs. The RIP is to assist both with basic education and TVET at regional level.

[37] Conservation et utilisation rationnelle des ECOsystèmes Forestiers d'Afrique Centrale.
[38] Réseau des Aires Protégées d'Afrique Centrale.

3. **Fisheries** – 17% of the budget. The focus is the strengthening of regional institutions for fisheries.

6. Caribbean

The creation of a harmonised regional economic space to improve competitiveness and integration to world economy will use the majority (75 – 90%) of the budget. This general objective focuses more specifically on regional economic integration, integration into the world economy, and economic repositioning allowing the region to take advantage of new opportunities (with a specific focus on SMEs). The preparation for negotiation of EPAs also falls within this category.

ANNEX 6: EVALUATION OF EDF PROGRAMMES

1. Evaluations of 9th EDF Regional Strategies and Programmes

Four of the six RIPs under the 9th EDF have been evaluated by external consultants. The following recurring themes have been identified**:**

– Regions are not clearly defined (multiple RTA membership / delimitations of regions) hence there is a "choice of partner" problem for the EC.

– Transport intervention at a regional level is not effective.

– The RIPs and NIPs are often not coherent.

– Poverty issues are not being tackled satisfactorily at a regional level.

– Capacity constraints to implement regional policy exist due to weak institutions.

– There is the need to involve non-governmental actors on a regional level. However, in general terms, such actors tend to think more on a local level.

More specifically, below are presented the highlights of the evaluation reports for the concerned regions:

Caribbean

Source: Evaluation of the Commission's Regional Strategy for the Caribbean. April 2005 - Evaluation of past and present intervention = chiefly 8th EDF effectiveness and 9th EDF strategies.

– No policy dialogue exists for a long-term vision of regional integration. Institutions set up by the Commission are deemed not sustainable and still require external assistance.

– Regional intervention is effective in the areas of trade, cultural identity, product identity, regional marketing, tertiary education and crime prevention.

– Poverty and gender issues are not being tackled in a regional integration context.

– Roles and responsibilities are not clearly marked out for actors on the Caribbean and EC sides. CARIFORUM has helped, but lacks the necessary capacity to ensure regional strategic objectives are achieved.

– The regional approach is being taken, but does not pay enough attention to specificities of the Caribbean.

– The RIP and NIP are considered not coherent.

SADC

Source: Evaluation of the Commission's support to SADC: Regional Level. October 2007. - An evaluation for the period 1996-2007, chiefly analysing 8th and 9th EDF effectiveness. Some projects from 6th and 7th EDF were still active.

- Regional intervention does not tackle the multiple membership problem, e.g. in relation the EPA.

- There is a focus on capacity building activities to help SADC, the aim being to make SADC capable of managing its own aid. Currently SADC ownership of regional programmes is not strong and SADC member states do not sufficiently support SADC national committees.

- Transport intervention is working at a national level but not at a regional level. The liberalisation reforms of SADC states are limiting the effectiveness of transport intervention.

- EC support is increasingly poverty orientated, but does not appear to be effective.

HIV/AIDS regional strategies are in place but appear not to be working.
There is a need to look at the long term aspect of food security, and to look at it on a regional, not a national level.

- Non State Actors generally are not able to focus on regional issues.

- The NIP and RIP are considered as not always coherent.

- Delegations with regional responsibilities need to consider more the regional aspects.

Central Africa

Source: Evaluation de la Stratégie Régionale de la CE en Afrique Centrale. December 2006 - An analysis of the effectiveness of past experience (8th EDF) and ongoing experience at the time of writing (9th EDF).

- NIP – RIP coherence is considered weak, particularly for poverty reduction.

- Central Africa is not clearly delimited as a region. There is therefore the lack of a clear regional partner for the EU.

- Transport intervention on a national level is strong, but it is not having a significant effect on intra-regional exchanges.

- Natural resource intervention has been successful, but is not sustainable, and does not have enough support from national governments.

- Citizens do not recognise the region.

Pacific

Source: Evaluation of the Commission's support to the ACP Pacific Region. September 2007 - An evaluation for the period 1997-2007 (implementation up to 2005 analysed) - 8th and 9th EDFs.

- General assistance is seen as weak in the area of poverty reduction; intervention specifically for poverty reduction has not been programmed.
- There is a lack of coherence between RIP and NIP. Regional and national strategies have been designed separately.
- Environmental and natural resource assistance is considered not sufficient.
- Commission's intervention in regional integration and trade is generally quite recent and therefore could not be assessed at the time of writing the report.

2. Issues relevant for regional integration in thematic evaluations of support

Governance

Source: Thematic Evaluation of EC Support to Good Governance. June 2006

- Governance is included in regional level co-operation agreements and RSPs at a policy level.
- The EC is contributing to region specific governance objectives, but the overall effect (on systemic change) is not clear, nor is the sustainability of the contribution.

Private Sector Development

- *Source: EC Support for Private Sector Development. December 2005.*

- There is no methodical process for selecting an area of intervention, which limits the effectiveness of interventions.
- Activities are not designed so as to improve the competitiveness of the private sector in a sustainable manner.
- There is no systematic attempt to maximise complementarities between areas of intervention or to ensure coherence between private sector development and other sectors or other EU policies.

Co-ordination, complementarity and coherence. November 2007

- No effects on policy at a regional level have been identified.

Développement rural et agricole. June 2007

- No effects on policy at a regional level have been identified.

Co-ordination of trade building capacity in partner countries. February 2006

- No effects on policy at a regional level have been identified.

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