

Beyond Political Rhetoric – the Meaning of the Grand Eastern and Southern Africa FTA

Stephen N. Karingi¹

Belay Fekadu²

This draft: 13 April 2009

¹ Stephen N. Karingi, Chief, Trade and International Negotiation Section (TINS), Trade, Finance and Economic Development Division: UN Economic Commission for Africa, Addis Ababa, Ethiopia. E-mail: skaringi@uneca.org

² Belay Fekadu, Associate Economic Affairs Officer, Trade and International Negotiation Section (TINS), Trade, Finance and Economic Development Division: UN Economic Commission for Africa, Addis Ababa, Ethiopia. E-mail: bfekadu@uneca.org

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Abstract

The multiple and overlapping regional integration initiatives in Africa have for many years been used as examples of what it means to lack political will. Despite there being a general consensus that regional integration is an indispensable pillar of Africa's development, it remains puzzling why the integration initiatives in the continent have not been rationalized. Several explanations have been offered why multiple and overlapping memberships to regional economic communities proliferated in Africa. It has been argued that the integration initiatives in Africa have been driven more by political economic issues, rather than a true desire to foster trade integration. Yet in recent years, some African institutions have elevated their criticism of the spaghetti bowl character of regional integration in the continent. The political leadership of the continent appears now to be listening, given the freeze imposed in 2006 by the Summit of the African Union in recognizing any new regional economic communities. The need for rationalization and harmonization of the integration initiatives has also been accepted in principle, with some African countries now going the extra mile to conduct cost-benefit studies to determine the viability of being in more than one overlapping regional economic communities. One example where progress appears to be starting is the coming together of the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA), and the Southern Africa Development Community (SADC) and agreeing to work towards a fast-track process to lay the foundation for a grand Eastern and Southern Africa FTA. Besides the harmonization of trade policies, the three regional economic communities have agreed to undertake cross-RECs infrastructure projects to ensure that even as the trade policies are rationalized, trade facilitation efficiency will also be enhanced. This paper looks at what the grand COMESA-EAC-SADC (CES) FTA portends. The paper uses the recent African GTAP database to uncover what the grand CES FTA could hold for the future of the member countries. Besides aiming to uncover policy lessons that the three RECs could draw from the analysis, the paper takes on board the Economic Partnership Agreements that the three RECs have individually been negotiating with the European Union, as they are likely to have impact on the optimality of the grand CES FTA.

1. Introduction

Economic and political justifications often considered as the main motivation behind the regional and multilateral integration. In Europe, the two key motivations to establish European Economic Community were to bring peace and stability in the region after World War II and to boost the negotiation power of the region (UNECA 2006). This suggests initially the EU integration project gave limited emphasis to broader economic issues. After 58 years of the inception of the European Union (i.e. the establishment of European Coal and Steel Community in 1952), Europe has made significant progress towards integrating members' economies successfully. In Africa, the ideal of Pan-Africanism was the central motivational cause for the establishment of the OAU and its subsequent efforts for political and economic independence of the continent.

The Abuja Treaty was the first bold and comprehensive continental initiative attempt to establish Africa Economic Community (AEC) by 2037 among the continent's 53 countries. The Abuja Treaty aimed to foster integration of Africa economies, free movement of factors of production across the continent, promote cooperation among the member states and coordinate and harmonize policies. One of the strategies proposed to achieve the above objectives was "the strengthening of existing regional economic communities and the establishment of other communities where they do not exist" (AU 1991: 8). The five regions recognized by the Abuja Treaty are: North Africa, West Africa, Central Africa, East Africa and Southern Africa.

These ambitious goals of the Abuja Treaty have further been consolidated and renewed by the transformation of the OAU to Africa Union (AU) and establishment of NEPAD, which has fortified member's commitments. UNECA (2006) identified the main driving forces in regional integration in Africa including geographical proximity and contiguity, political cooperation, continental organization like New Partnership for Africa Development (NEPAD) and global institutions like the World Trade Organization (WTO).

Currently, there are 14 regional economic communities (RECs) on the African continent, each with its own mandate, vision and mission. Of Africa's 53 countries, 27 belong to two RECs, 18 belong to three, and one country belongs to at least four. Only seven African countries hold membership to only one REC. The multiple memberships constrain economic efficiency and the collective vision of African economic unity – particularly the march towards the establishment of the African Economic Community (AEC). UNECA (2006) further identified the drawbacks of overlapping membership including fragmented economic spaces and approaches to regional integration, increased cost of membership in regional economic

communities, unhealthy rivalry for donor funds, contradictory obligations and loyalties for member countries, inconsistent objectives and conflicting operational mandates, duplicated efforts, and reduced ability for regional economic communities to pursue coherent and effective integration programmes (UNECA 2006: 7).

Moreover, membership in more than one Customs Union (CU) is technically/legally impossible. As most RECs in Africa wish to move to a Customs Union, member states with multiple memberships will have to strike the balance of the costs and benefits of belonging to one or another CU/REC grouping on the one hand, and the political and socio-cultural foundations that have underpinned part of the overlapping membership on the other. In addition to the overlapping membership problem which constraints the economic efficiency in Africa, the following factors are identified as a problem in the regional integration process: lack of complementarities (i.e. exporting similar products); limited market size; inadequate infrastructure; absence of a system of compensation for losers; structural constraints; lack of political commitment; and lack of effective supra-national institutions.

However, regional integrations efforts in Africa are not all about stories of failure. One important accomplishment that should be highlighted is the transformation of some of the RECs into a more comprehensive and deeper integration level. Some of the RECs transformed themselves to Monetary Union (West Africa Economic and Monetary Union and Central Africa Economic and Monetary Community already formed a monetary union). On the other hand, the Common Market for Eastern and Southern Africa and Economic Community of West African States have each established a free trade area. There are exceptions however as some members of the RECs are reluctant to join the FTA. For instance, COMESA has not yet succeeded to fully implement its protocol of establishing a free trade area (FTA) within the region. Some of its members (such as Ethiopia and Uganda) are reluctant to join COMESA FTA partly fueled by the perception that the cost of acceding to the FTA may outweigh the benefits derived from it.

To sum-up, the multiple and overlapping regional integration initiatives in Africa have for many years been used as examples of what it means to lack political will. Despite there being a general consensus that regional integration is an indispensable pillar of Africa's development, it remains puzzling why the integration initiatives in the continent have not been rationalized. Several explanations have been offered why multiple and overlapping memberships to regional economic communities proliferated in Africa. It has been argued that the integration initiatives in Africa have been driven more by political economic issues, rather than a true desire to foster trade integration. Yet in recent years, some African institutions have elevated their criticism of the spaghetti bowl character of regional integration in the continent. The political leadership of the continent appears now to be listening, given the freeze

imposed in 2006 by the Summit of the African Union in recognizing any new regional economic communities. The need for rationalization and harmonization of the integration initiatives has also been accepted in principle, with some African countries now going the extra mile to conduct cost-benefit studies to determine the viability of being in more than one overlapping regional economic communities. One example where progress appears to be taking concrete steps is the coming together of the East African Community, the Common Market for Eastern and Southern Africa, and the Southern Africa Development Community after agreeing to work towards a fast-track process to lay the foundation for a grand Eastern and Southern Africa FTA. Besides the harmonization of trade policies, the three regional economic communities have agreed to undertake cross-RECs infrastructure projects to ensure that even as the trade policies are rationalized, trade facilitation efficiency will also be enhanced. This paper looks at what the grand CES FTA portends. The paper uses the recent African GTAP database to uncover what the grand CES FTA could hold for the future of the member countries. Besides aiming to uncover policy lessons that the three RECs could draw from the analysis, the paper takes on board the Economic Partnership Agreements that the three RECs have individually been negotiating with the European Union, as they are likely to have impact on the optimality of the grand CES FTA.

By way of conclusion, in this paper, we argue that eliminating overlapping membership will significantly improve the effectiveness and efficiency of the RECs. UNECA (2006) identified the potential gains of rationalization of the RECs. These includes: efficient allocation of resources; increased trade between member countries and countries outside the region; gain in economies of scales; strong negotiating position; welfare gains, improved productivity; higher wages; policy credibility; more efficient provision of public goods; and fewer regional conflicts.

The paper begins by discussing the stylized facts on the nature of regional integration in Africa and the factors driving it. The second section outlines the best practices in designing regional trade agreements and how Africa can adopt them. It then presents the achievements and challenges of the EAC, COMESA and SADC integration project and illustrates the basic economic features of the member economies. The fourth section discusses the model used in the study and its database and the fifth section highlights the major findings. The final section puts forward some concluding comments.

2. Why is Africa's integration agenda different?

There is a general consensus that multilateral liberalization has better positive impact vis-à-vis regional trade arrangements. However, due to the gloomy prospect of a WTO deal in the Doha Round accompanied by other factors, regionalism has become the second best options for many countries.

Karingi and Deotti (2008) documented the conditions that are likely to determine whether regionalism reinforces multilateralism. The foremost important factor is the choice of the right partner. The other factors include: the possibility of the deal creating a net trade creation effect; the non-discriminating tariff reductions among members; and deeper integration that mitigates potential causes of conflict between RTAs and multilateral trade arrangements. Some of the disadvantages of the RTAs include: the involvement of the interest groups in the design of the agreement; overlap and contradictions associated with a country having many different preferential trading arrangements.

More often, European Union integration is considered by far the most successful integration effort in the world, which causes many regional blocs to take its lessons. UNECA (2006) identified three basic lessons Africa should consider to fulfill their integration agenda with the least cost. First, having strong and efficient institutions is very crucial for the success of integration. Second, developing supranational entity is vital which will take care of issues beyond national level. Third, a large degree of institutional diversity is important for the success of the regional integration process.

Karingi and Deotti (2008), on the other hand, outlined the best practice on the designing of the regional trade arrangements. These includes: comprehensive coverage of goods and services; low and symmetrical rules of origins and minimal barriers to trade; customs procedure should follow global best practices and GATT/WTO consistent protocols; the intellectual property right protection guidelines should be non discriminatory and consistent with TRIPS and related international conventions; FDI should embrace national treatment and non-discrimination; and competition policies should aim at creating a 'level playing field'.

There is a broader consensus among the African States that the overlapping membership constrains the overall efficiency of the RECs and compromises the march towards the establishment of the Africa Economic Community. UNECA (2006) proposed ten core principles members should adhere to for the realization of the aspiration of a unified economic community in Africa. The ten principles of rationalization proposed include: (1) aligning vision with the African Union and the New Partnership for Africa's Development; (2) strengthening regional economic community efficiency; (3) ensuring geographical viability; (4) broadening economic

and market space for investment; (5) including transitional arrangements; (6) adopting a realistic and participatory approach; (7) maintaining clarity and credibility; (8) sharing responsibility; (9) consolidating vested interest; and (10) achieving convergence³.

3. The state of play in the EAC, COMESA and SADC integration process

In this section, the paper will discuss where each of the three regional economic communities stands in the integration process. The section will provide a brief discussion of the objectives and the achievements so far. The section will also bring out those areas where there are differences in the targets and benchmarks for integration in each of the RECs. A special focus will be made on the trade and market integration (including at sectoral level) since from the best practice point of view, this is where most integration start and success in cooperation would depend on how well the trade integration is carried out.

Basic economy structure of COMESA, EAC and SADC

COMESA, EAC and SADC member states comprise nearly half of African states and populated by more than half billion people (see Table1). Agriculture is the main stay for most of the member states contributing, on average, more than 50 percent of GDP for the countries like D.R.C in 2000 – 2006. Comoros, Ethiopia, Rwanda and Tanzania are also heavily dependent on the sector. On the other hand, agricultural share to GDP is relatively very small for Angola and Botswana while their industry shares are 68.71 and 54.76 percent, respectively. Exceptionally, Djibouti's economy is entirely dependent on the service sector.

Economic performance, measured in-terms of GDP growth between the years 2000-2006, of the member states diverge widely. Angola and Sudan being oil producing countries registered an impressive economic growth of 10.6 and 7.51 percent, respectively. Similarly, Botswana, Ethiopia, Mozambique and Tanzania exhibited strong economic performance. On the contrary, Eritrea and Seychelles registered less than one percent growth in the period under consideration. Confronted by internal political instability, Zimbabwe's economic growth has been below zero.

Most of the member states fall under lower income group categories. DRC, Ethiopia and Malawi GDP per capita are less than USD 200 depicting lower purchasing power of their citizen. However, five of the member countries (i.e. Botswana, Libya, Mauritius, Seychelles and South Africa) are upper-middle income economies. In nutshell, Table 1 depicts that member countries are in dissimilar stage of development.

3 See UNECA (2006), for blow-by-blow discussion on the ten principles suggested jointly by UN Economic Commission for Africa and Africa Union.

Table 1: Basic economic performance and structure of COMESA, EAC and SADC

Country	Average Value added (% of GDP) (2000 - 2006)			% of Average GDP growth (2000 - 2006)	GDP per capita in 2006 (Constant 2000 US\$)	Population in 2006 (in Millions)
	Agriculture	Industry	Services			
Angola	7.88	68.71	23.41	10.62	1069.50	16.56
Burundi						
Botswana	2.24	54.76	43.00	5.36	4423.10	1.86
Comoros	49.48	11.79	38.02	2.19	379.21	0.61
Congo, Dem. Rep.	50.03	23.23	26.75	2.64	90.78	60.64
Djibouti	3.56	16.11	80.33	2.88	817.45	0.82
Egypt, Arab Rep.	15.74	35.51	48.75	4.38	1724.10	74.17
Eritrea	16.37	23.90	59.73	0.61	159.66	4.69
Ethiopia	45.41	13.81	40.78	6.24	146.44	77.15
Kenya	29.07	17.88	53.05	3.54	440.09	36.55
Lesotho	16.99	41.89	41.11	3.44	527.67	1.99
Libya	..	..	..	3.30	7066.50	6.04
Madagascar	28.92	15.04	56.04	3.23	237.56	19.16
Malawi	36.79	18.48	44.73	2.04	144.63	13.57
Mauritius	6.25	29.73	64.02	4.04	4522.30	1.25
Mozambique	26.13	25.15	48.72	7.44	330.21	20.97
Namibia	11.04	29.68	59.28	4.33	2166.10	2.05
Rwanda	41.29	21.00	37.71	5.47	261.58	9.46
Seychelles	3.00	27.91	69.09	0.14	7004.90	0.08
South Africa	3.30	31.58	65.12	4.09	3562.10	47.39
Sudan	38.07	23.62	38.31	7.51	501.69	37.71
Swaziland	12.71	46.07	41.21	2.29	1400.90	1.14
Tanzania	45.28	16.47	38.26	6.25	334.56	39.46
Uganda	33.55	20.18	46.28	5.61	274.88	29.90
Zambia	22.50	27.88	49.62	4.81	371.25	11.70
Zimbabwe	14.66	22.54	60.35	-5.75	..	13.23

Source: World Development Indicators (2008)

Based on the classical stages of integration, starting with preferential trading arrangement, free trade area, customs union, common market, economic and monetary union culminating to a political federation, the EAC is ahead of COMESA and SADC. As previously indicated, COMESA has already launched an FTA since October 2000. 14 out of its 19 member states participate in the FTA. COMESA plans to deepen its integration through a customs union, which is slated for launching in June 2009. The COMESA FTA has been credited with the rapid

increase in intra-COMESA trade, which grew by 30% in 2007 alone over 2006 to US\$ 8 billion. And for the six years, 2000-2006 that also covers a period when the FTA was operational, intra-COMESA trade grew at an annual average rate of 20%.

The EAC as noted above has a more deepened integration compared to SADC and COMESA, as it is already a customs union. The implementation of the customs union started in January 2005 and is due to become fully-fledged beginning 2010 when the five year transitional period with asymmetry in favour of Uganda and Tanzania in the Kenyan market will come to an end. The EAC customs union has also been credited with significant intra-EAC trade. By 2007, intra-EAC trade had increased by 42% over 2004. Exports from Uganda and Tanzania to Kenya have increased four-fold between 2004 and 2007. Cross-border investments among the EAC countries have also been witnessed.

The structure of the EAC customs union and the proposed COMESA customs union are similar to a large extent. See Table 2 below for the common external tariffs of the EAC and proposal for COMESA.

Table 2: Proposed Common External Tariffs by the three RECs

	Common External Tariff (CET)	Proposed date
EAC		
Raw materials and plant and machinery	0%	January 2005
Intermediates products	10%	January 2005
Finished goods	25%	January 2005
COMESA		
Raw materials	0%	June 2009
Capital goods	0%	June 2009
Intermediates products	10%	June 2009
Finished goods	25%	June 2009

SADC launched its FTA in January 2008 and aspires to have a customs union in 2010. The intra-SADC trade accounts for roughly 20% of SADC's total trade. Its large share of SADC total trade, which is estimated to have averaged close to three-quarters of total intra-SADC trade during the 2000-2006 period, reflects the weight of South Africa as the biggest economy.

The foregoing presents the stages that each of the three RECs has reached in their integration process. What has not been noted up to this point is the multiple and overlapping membership of the 26 African countries that are to be covered by the CES FTA. Of the 19 COMESA members, 4 are also members of the EAC and 8 are

members of SADC. Of the 5 countries forming the EAC, 1 also belongs to SADC while all the other 4 belong to COMESA. In the case of the 15-country membership of SADC, 8 of them belong to COMESA and 1 is a member of EAC. Five of the SADC countries are also members of the South African Customs Union (SACU), meaning that of the 26 countries to be covered by the Grand CES FTA, 10 countries are already customs union members, and all the ten are engaged in parallel tracks that will culminate in three customs unions (COMESA (2009); SADC (2010) and the already existing EAC (2005)). Given this overlapping membership challenge, it is important that the deepening of the integration among the 26 countries be considered and the Grand CES FTA presents the first opportunity as it would culminate in the harmonization of not only trade policies but also other initiatives aimed at supporting trade in the grouping. The envisaged FTA will help the three RECs to deal with the challenges brought about by the overlapping memberships through the FTA, since trade arrangements will be rationalized and harmonized.

The remainder of this paper focuses on the implications of freeing the trade between the three RECs and establishing the Grand CES FTA. One of the expected benefits for the Grand CES FTA is that it will catalyse higher welfare through reduced prices and wider choices; create a larger market; remove inefficiencies in production; increase competitiveness in the 26 countries covered among other benefits. The first step in realising the Grand CES FTA is the harmonization of the tariff regime between COMESA, EAC and SADC; and also the rules of origin.

4. The methodology

In this study, the GTAP model will be utilized to investigate the cost and benefits of establishing a grand CES FTA in Eastern and Southern Africa. In what follows, we will briefly discuss the GTAP Africa database, the GTAP model, the scenarios analysed and the structure of the economies of EAC, COMESA and SADC for the base year.

4.1. Data and model

The newly constructed GTAP Africa database, benchmarked to 2001, will be used. GTAP Africa database is a special version of GTAP 6 database constructed to facilitate rigorous quantitative analysis of trade research in Africa. It includes 39 regions of which 30 Africa countries/regions are included explicitly in the database (see Table 3 in the annex). This obviously is a significant improvement on the coverage of the African countries relative to the latest GTAP 7 database, which includes 22 African countries/regions. The other important feature of the African database is that it's constructed by giving sufficient emphasis of the RECs in Africa that are the basis for many trade negotiations in the continent, especially the Economic Partnership Agreement being negotiated with the EU. However, ten of

the 30 Africa regions included in the GTAP Africa database are extrapolated from other Africa database with similar per capita income highlighting the need for further efforts to expand the coverage and improve the quality of the data.

GTAP model that is used together with the GTAP database, is a multi-country and multi-sectoral model that is based on conventional neoclassical assumptions of perfect competition, constant return to scale, market clearing conditions and factor mobility. The model is constructed based on eight basic modules: government consumption, private consumption, firms, investment, global bank and saving, international trade, international transport services, regional household, and equilibrium conditions. Government and private consumption are specified by Cobb-Douglas and Constant Difference Elasticities (CDE) functional forms, respectively. A nested Leontief production function is assumed to combine the intermediate input and factors of production. Factors and intermediate inputs are in-turn modeled using constant elasticity of substitution (CES) function. The Armington assumption is used to combine the imported and domestically produced goods⁴.

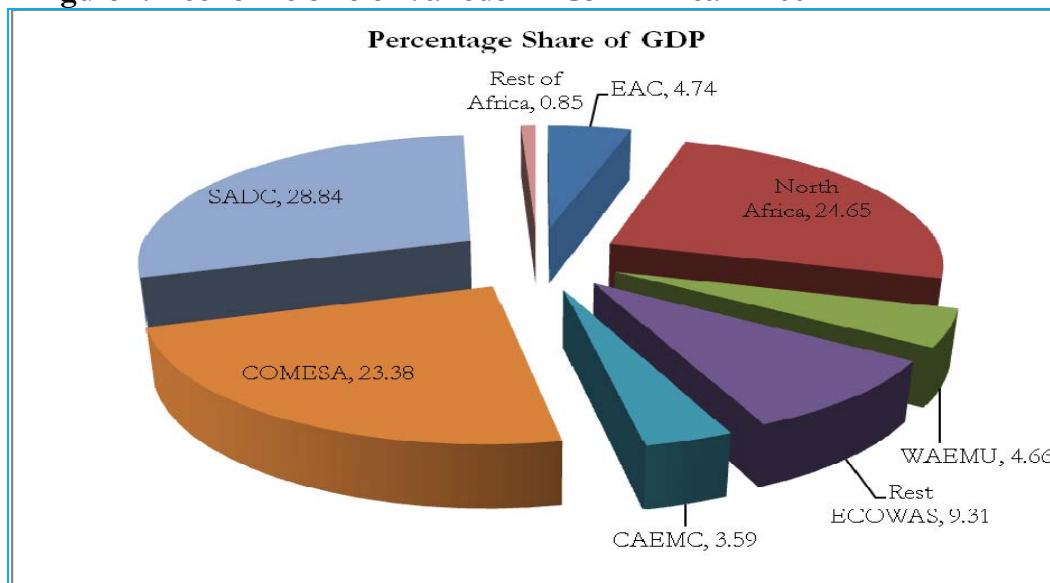
Sectors included in GTAP Africa database are identical to those of the GTAP 6 sectoral classification. For our purpose, the 57 sectors are aggregated into ten commodities (see Table 4 in the annex), which contain two agricultural sectors (grains & crops, and livestock and meat products), six industrial sectors (mining and extraction, processed food, textile and clothing, light manufacturing, heavy manufacturing, and utilities and construction), two service sectors (transport and communication, and other services). The 39 regions aggregated to 10 regions of which eight of them are Africa regions (North Africa, WAEMU, Rest of ECOWAS, CAEMC, EAC, COMESA, SADC and rest of the world) (See Table 5 in the annex). Two closures are used for this study. The first one is the standard GTAP closure in which full employment is assumed. Taking into account the excess supply of unskilled labour in most Africa countries, the second closure assumes unskilled labour unemployment for EAC, COMESA and SADC. To do this, we swap labour supply by its price, in effect allowing labour supply to be determined endogenously in the model.

Finally, two scenarios are constructed to simulate the possible impact of a grand CES Eastern and Southern Africa FTA and CES-EU FTA. The first scenario is the grand CES FTA in which all tariffs among the EAC, COMESA and SADC are removed for all traded commodities. The second scenario assumes grand CES FTA plus FTA among the three RECs (COMESA, EAC and SADC) with EU in the context of the Economic Partnership Agreement. Under scenario two, all tariffs are

⁴ For detail discussion of the GTAP model, see Hertel and Tsigas (1997)

removed with the exception of two traded commodities (grains and crops, and livestock and meat products). The specific scenarios include: CES FTA 1: Grand CES Eastern and Southern Africa FTA (standard closure); CES FTA 2: Grand CES Eastern and Southern Africa FTA (unemployment closure) and CES-EU FTA: Grand CES-EU FTA (unemployment closure)

Figure 1: Economic Size of Various RECs in Africa in 2001



Source: GTAP Database

4.2. Descriptive Statistics⁵

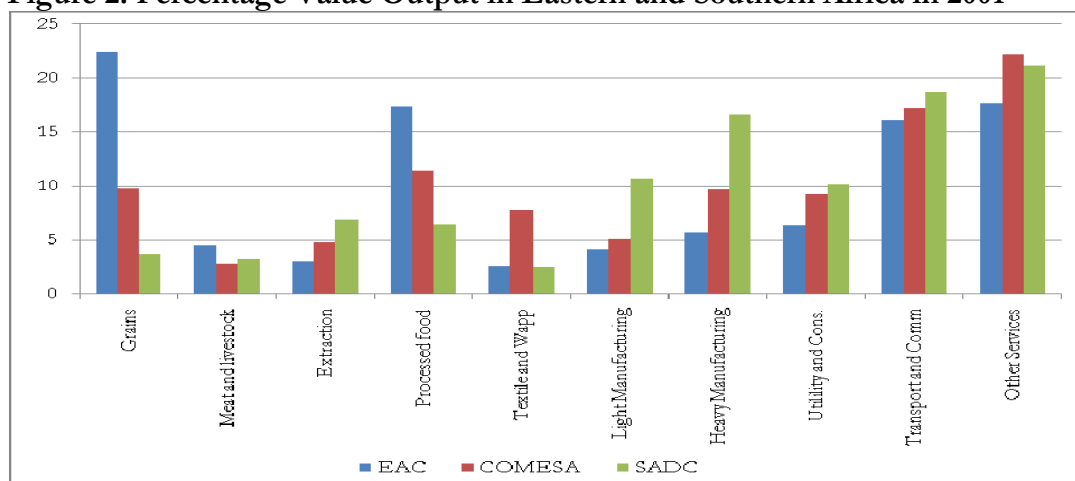
It is useful to have a glimpse picture of the structure of the economy in the base year in order to capture the initial conditions necessary to contextualize the simulation results. Consequently, here we discuss the basic economic characteristic of the three RECs to get some insight on the size of their economy, their protection structure and their trade pattern. Figure 1 depicts the economic weight (as measured in terms of GDP) in the various RECS in Africa. SADC is by far the most important in terms of economic weight in the continent contributing more than 29 percent of the Africa GDP in 2001. This share has improved since according to the 2006 World Bank data, SADC GDP stood at US\$ 379,256 million, which is roughly 35% of total African Union GDP. North Africa (24.7 per cent) and COMESA (23.4 per cent) follows SADC in their importance in their share of GDP. The 2006 World Bank data estimated COMESA share of African Union GDP at 27% or US\$

⁵ In this study, EAC constitutes Kenya, Uganda and Tanzania. Consequently, Kenya and Uganda are taken out from COMESA cluster. Similarly, Tanzania exclusively considered as member of EAC. D.R.C., Malawi, Mauritius, Zambia and Zimbabwe categorized as SADC. Therefore, it is important to bear in mind this caveat throughout the paper (See Table 6 for the county aggregation).

286,775 million in nominal terms. However, the shares of the various RECs in the 2001 base year should be understood in terms of number of African States in each RECs and the contribution of South Africa and Egypt to SADC and COMESA, respectively. On the other hand, globally, Africa contribution to the world GDP is less than 1.8 percent in 2001 suggesting the small role of the RECs in the world economy.

Crop agriculture is the most important sector in EAC as the data for 2001 suggests, contributing more than 20 percent of total output while agriculture role is relatively minor in SADC (see Figure 2). This suggests the relative high dependence of the EAC economy on agriculture. On the other hand, the importance of the light manufacturing (10.6 percent) and heavy manufacturing (16.6 percent) is high in SADC when compared to EAC and COMESA. The share of services in COMESA and SADC is relatively high. In a nutshell, the SADC economy is more advanced and has a broad industrial base than that of the EAC and COMESA.

Figure 2: Percentage Value Output in Eastern and Southern Africa in 2001



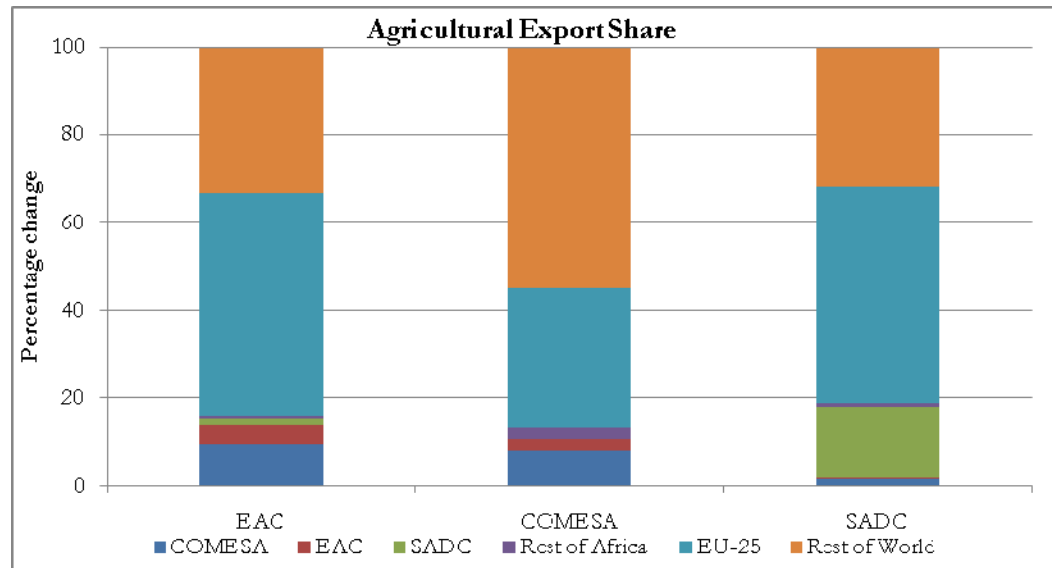
Source: GTAP Africa Database

Trade Pattern

Regional economic communities in Africa were established, among other things, to foster economic growth and sustainable development through trade and cooperation among member states. Nevertheless, evidences suggested that the intra-regional trade flows are still small. This is partly due to the export complementarities and also lack of commitment among some member states to fully implement the protocols they sign in relation to the integration processes. Figure 3, 4 and 5 demonstrate the pattern of export of the three RECs (COMESA, EAC and SADC).

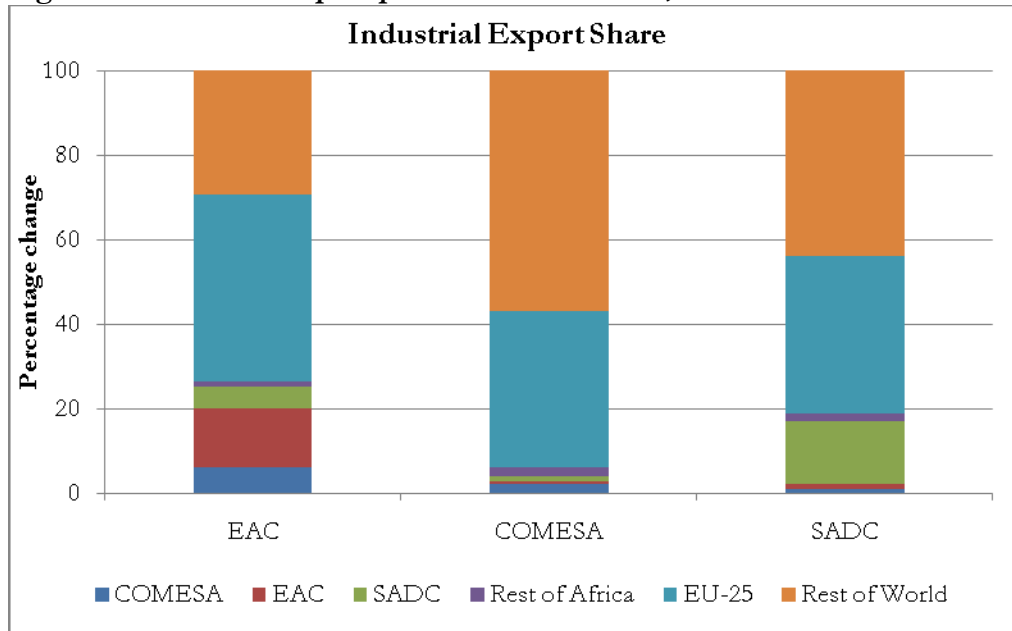
The contribution of agricultural intra-export among EAC partner states amounts only 4 per cent of the total EAC agricultural export in 2001 (see Figure 3). The share of intra-industrial export among the EAC is relatively better than that of agricultural export share (see Figure 4). Similarly, COMESA agricultural intra-export amounts 8.07 per cent while intra-industrial share is only 2.08 per cent. SADC intra-regional trade is by far better than that of the two RECs (i.e. COMESA and EAC) probably due to the strength of the South African economy in the grouping. The share of intra-agricultural and industry share in SADC are 16.08 and 14.83 percent, respectively. Intra-regional trade in services in COMESA and EAC is negligible implying the entire export destined to out of Africa (see Figure 5). On the other hand, SADC intra-regional export amounts 9 per cent. In summary, Figure 3, 4 and 5 demonstrate that: (1) intra-regional trade is very small, particularly that of services; and (2) EU-25 is by far the most important trade partner for the three RECs.

Figure 3: Agricultural Export pattern for COMESA, EAC and SADC in 2001



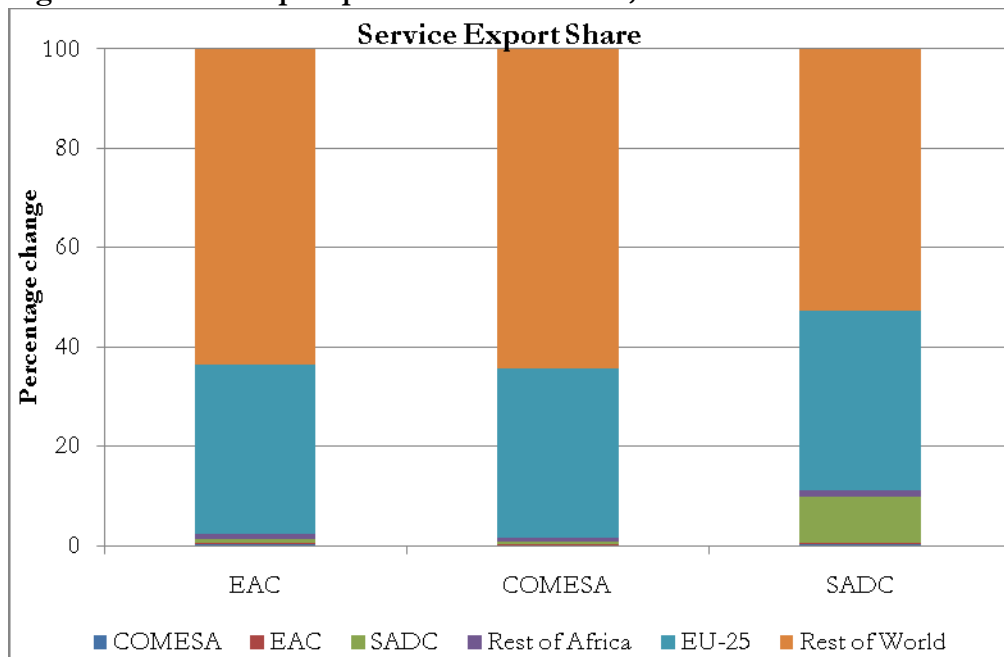
Source: GTAP Africa Database

Figure 4: Industrial Export pattern for COMESA, EAC and SADC in 2001



Source: GTAP Africa Database

Figure 5: Service Export pattern for COMESA, EAC and SADC in 2001



Source: GTAP Africa Database

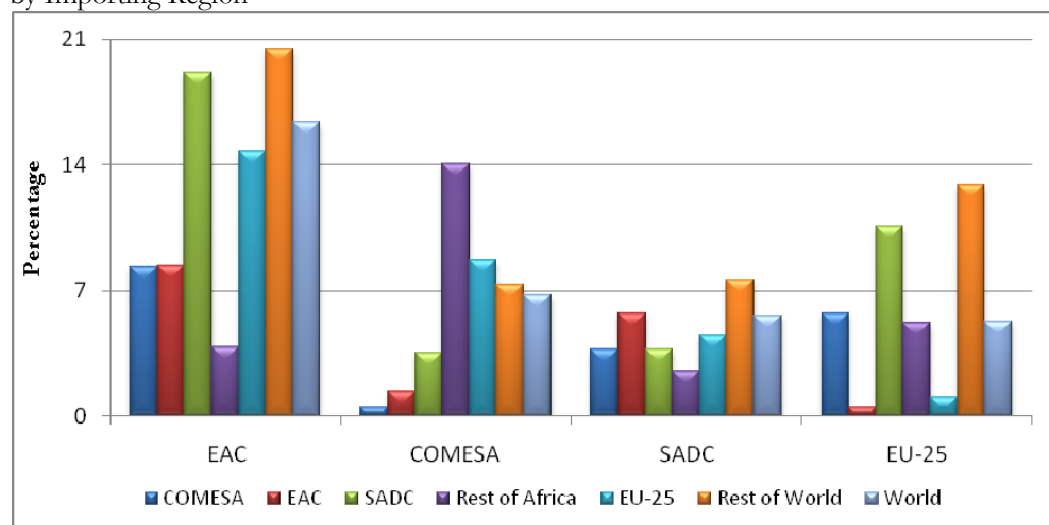
Protection pattern

Based on the GTAP Africa Database, the level of average tariffs rate is computed to have a glimpse picture on the protection level in agriculture and industrial commodities during the base year. Figure 6 and 7 shows the degree of protection in EAC, COMESA, SADC and EU-25 in 2001. In East Africa Community, agriculture is highly protected compared to manufacturing (see Figure 6 and 7). EAC levied higher tariff rate on agricultural imports from the rest of the world (20 per cent), SADC (19 per cent) and EU-25 (15 per cent). Agricultural tariffs on COMESA and intra-EAC are similar (around 8 per cent). With regards to industrial protection in EAC, imports from EU-25 (12 per cent), rest of the world (11 per cent) and SADC (11 per cent) are highly protected.

Unlike the EAC protection pattern, overall industrial protection on industries (25 percent) is higher than that of the agriculture (7 per cent) in COMESA. Agricultural tariff is very small within the COMESA members (0.5 per cent) and on EAC (1.5 per cent). The only noticeable high import tariff is observed on the rest of Africa (14 per cent) and EU-25 (9 per cent). COMESA industrial tariff is very small for intra-COMESA (6 per cent) and EAC (6 per cent). On the other hand, COMESA market is highly protected with regard to imports from ROW (31 per cent) and EU-25 (17 per cent).

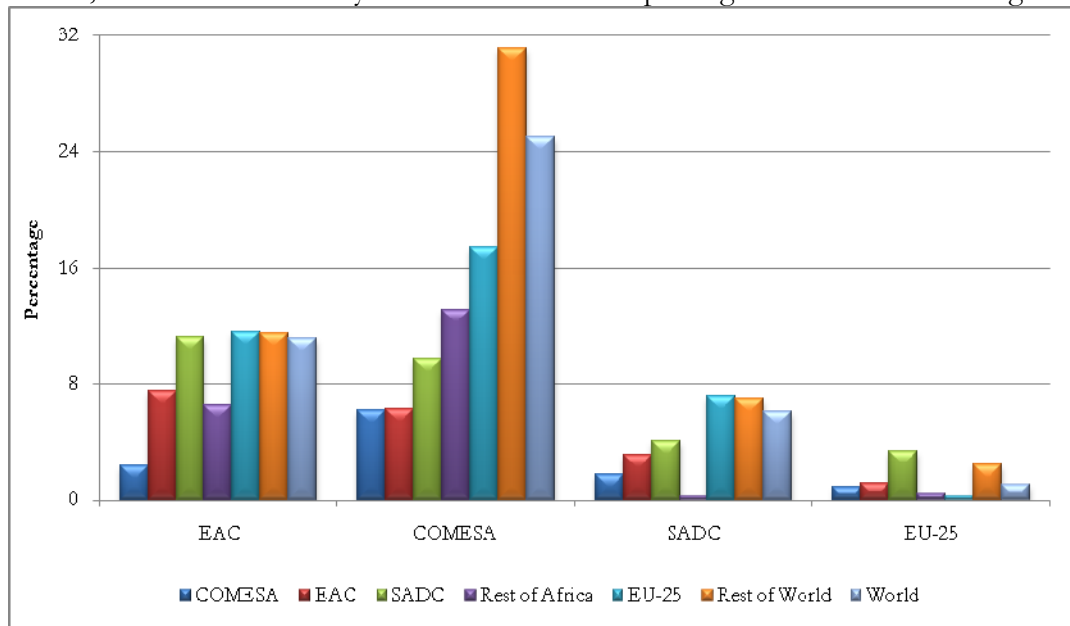
Protection in SADC as measured by average tariff rates is very small compared to EAC and COMESA implying considerable trade liberalization is undertaken in the region. Similarly, Figure 6 and 7 demonstrates the high openness of the EU-25.

Figure 6: Average Tariff Rate on Agricultural Commodities by EAC, COMESA, and SADC, by Importing Region



Source: GTAP Africa Database

Figure 7: Average Tariff Rate on Agricultural Commodities by EAC, COMESA, and SADC, by Importing Region



Source: GTAP Africa Database

5. The Simulations and Results

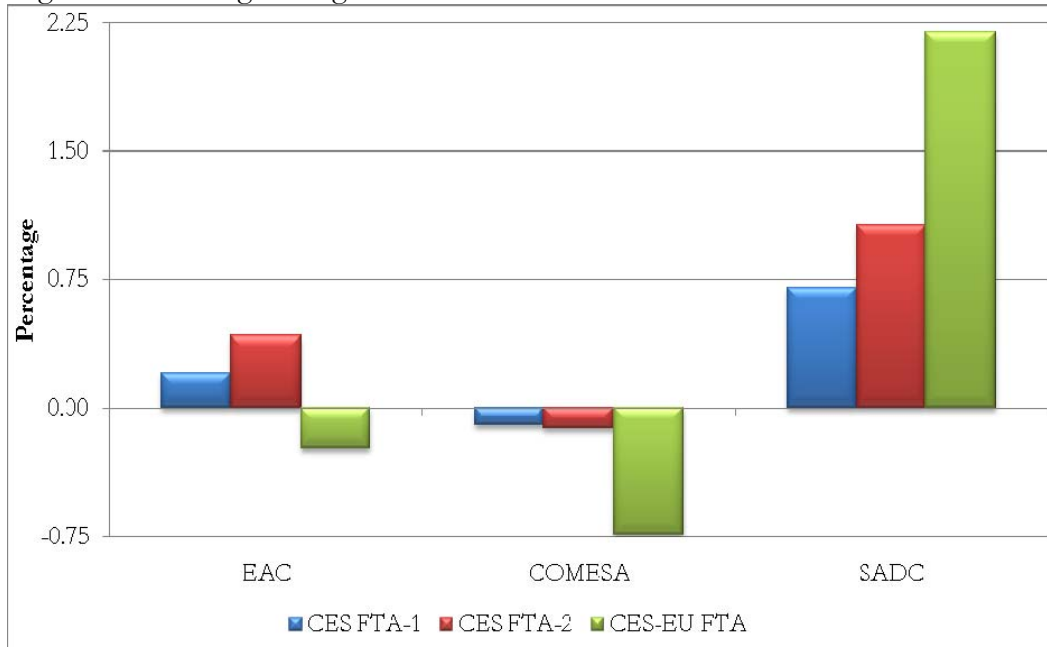
This study attempted to look at the cost and benefit of establishing a grand CES FTA. The GTAP model is used to simulate three scenarios constructed and defined in the preceding section. Below, we discuss the main results of the study.

Overall effect

As expected, the three scenarios considered in this study affect the economy of the three RECs differently. All the three scenarios constructed for this study suggested that COMESA GDP might shrink slightly while that of SADC might increase substantially (see Figure 8). The expansion of SADC economy mainly originated from the increased private demand and the likely flow of investment due to liberalization. This partly makes sense given the size of South Africa economy into account. Moreover, SADC economy bloc relatively has higher export propensity.

The effect on GDP can also further analyzed from the expenditure side of GDP. In scenario 1 and 2, for COMESA, investment, private and government consumption decline. Under scenario 3, investment increased while the consumption and import increases disproportionately. Even though, the aggregate export increases, it is wiped by the surge in import in each scenario.

Figure 8: Percentage change in GDP



Source: Model Estimates

East Africa Community block exhibited mixed results. GDP slightly rises under scenarios one and two, while a marginal decline is observed under scenario three, in which unskilled labour supply is swapped by its price (see Figure 8). Both EAC and COMESA economy might contract under the CES-EU FTA scenario putting the two RECs in relatively disadvantage position, at least in the short-run. This is mainly due to low export propensity and high import penetration rates of the two blocs (see Table 7 in the annex). Furthermore, the high initial protection level of EAC and COMESA (see Figure 6 and 7) implies higher short-run adjustment cost for these RECs. Succinctly, the formation of a grand CES FTA generally might be very attractive proposal for SADC and EAC economy blocs while the FTA might be costly for COMESA in the short-run. Moreover, SADC clearly might gain from CES EU FTA.

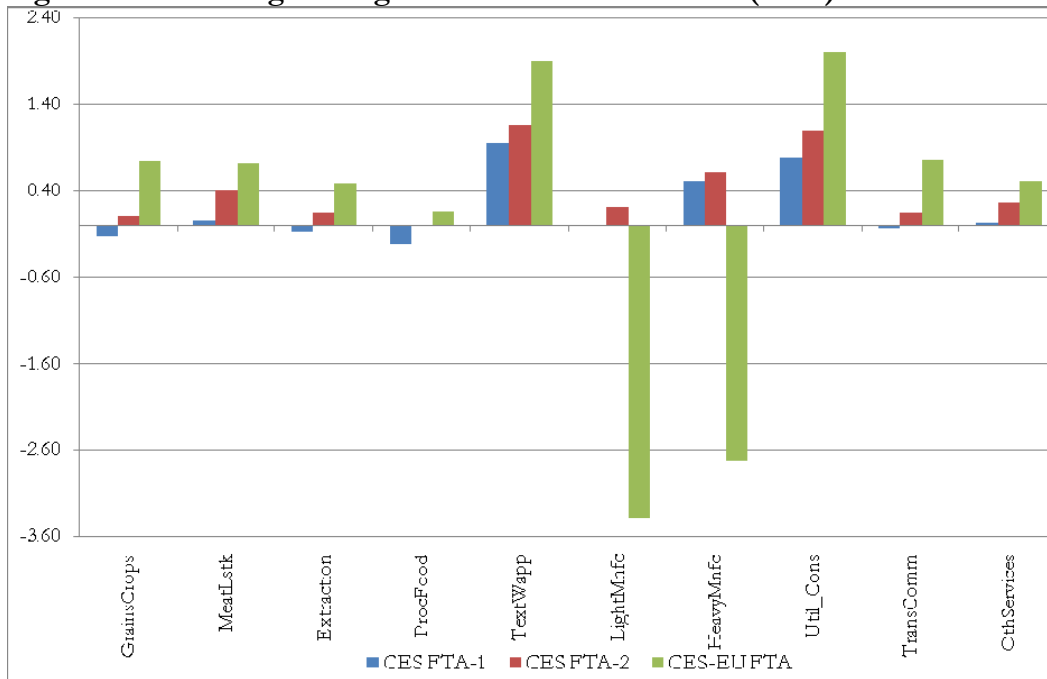
Effects on sectoral value-added

Theoretically, initially more protected sectors might be affected adversely due to the removal of distortions while the less protected ones gains. This efficient allocation of resources might lead to a contraction of the more protected sector and expansion of less protected economic sectors. In light of this, the effect of scenarios one and two on sectoral value-added is minimal (see Figure 9a, 9b and 9c).

The simulation results suggest that different sectors are affected differently under scenarios 1 and 2, though the impact is negligible. For EAC and SADC, the noticeable sign of gains come from textile and utilities & construction sectors (see Figure 9a and 9b). For COMESA, the impact is very small across all sectors (see Figure 9b). The overall small effect of CES FTA on COMESA, EAC and SADC economies is partly due to small and similar tariff structure among the three RECs (see Figure 6 and 7). Consequently, one would not expect a significant reallocation of resources from one sector to the other.

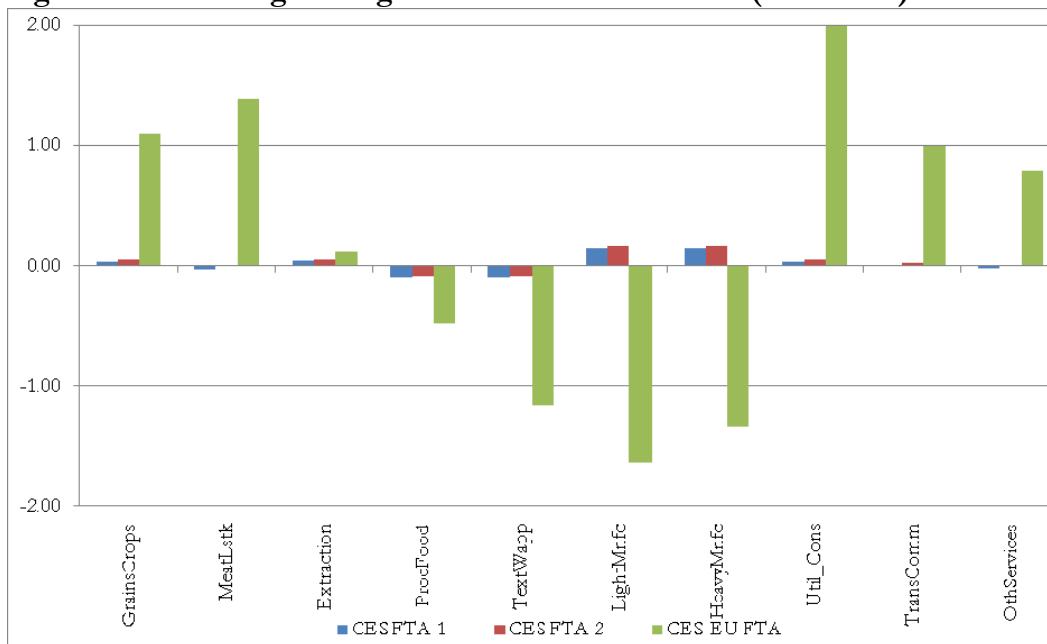
The most important changes come from the CES–EU FTA. Under this scenario, the simulation results consistently suggest that light and heavy manufacturing sector of EAC, COMESA and SADC will shrink highlighting the possibility of de-industrialization that might result from stiff competition due to liberalization. On the other hand, textile sector has the potential to take advantage of CES – EU FTA. Therefore, scenario 1 and 2 (CES – FTA) has limited impact on the industrial sectors of the three RECs while scenario 3 (CES-EU FTA) evidently affects the industrial sectors negatively.

Figure 9a: Percentage changes in sectoral value-added (EAC)



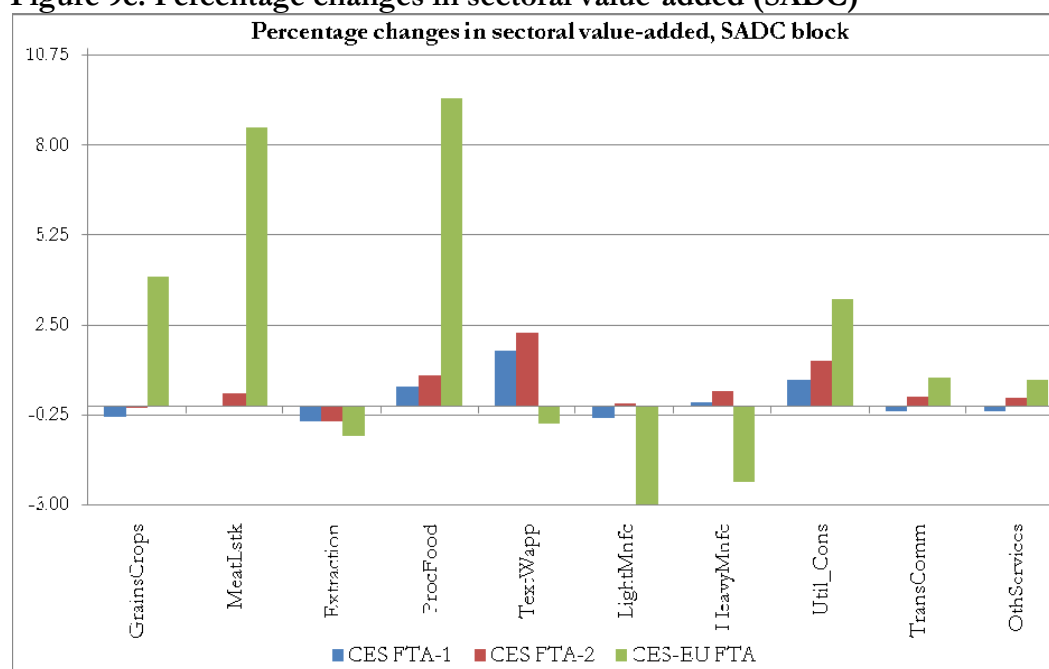
Source: Model Estimates

Figure 9b: Percentage changes in sectoral value-added (COMESA)



Source: Model Estimates

Figure 9c: Percentage changes in sectoral value-added (SADC)



Source: Model Estimates

Effects on commodity and factor demand

Commodity demand by households increases for EAC and SADC under the three scenarios while a marginal decline is observed for COMESA bloc under scenarios one and two (see Figure 10a, 10b and 10c). The fall in commodity demand for COMESA comes from the sharp decline in domestic commodity demand (as the domestic industries shrink) and relatively small growth in imported commodity demand. This is partly why the GDP of COMESA declines under these liberalization measures.

On the factor market side, the simulation results from the CES FTA highlights that the overall labour demand adjustment is small (see figure 11a, 11b and 11c). However, under scenario 3, there are indications that the manufacturing sector might shrink in the face of liberalization for the three RECs under considerations. This is expected as manufacturing sector is highly protected in Africa and liberalizing it might cause resources to flow to other sectors. On the other hand, there are evidences employment might increases in agriculture and textile sectors.

Effects on trade

The impact on export and import are shown in Table 8 and 9. Aggregate export increases for the three RECs, though some sectors export might decrease slightly in EAC and COMESA. However, EAC and SADC overall export increment is larger than that of COMESA. On the other hand, CES-EU FTA has greater impact on the export sectors as compared to that of CES FTA. Similarly, aggregate import increases for the three RECs. For EAC and COMESA, however, export increase by larger margin than imports almost under all the three scenarios. Exceptionally, for SADC, the gain in export is wiped out due to the surge of imports.

Table 8: Percentage change in the value of export

	EAC			COMESA			SADC		
	CES FTA-1	CES FTA-2	CES-EU FTA	CES FTA-1	CES FTA-2	CES-EU FTA	CES FTA-1	CES FTA-2	CES-EU FTA
GrainsCrops	1.11	1.7	5.01	1.29	1.33	10.9	0.16	0.32	7.54
MeatLstk	2.66	3.08	6.18	1.4	1.47	24.88	0.85	1	77.53
Extraction	-1.34	-1.76	0.41	0.25	0.2	2.85	-1.28	-1.8	-2.29
ProcFood	2.95	2.89	10.5	1.25	1.27	8.57	6.61	6.72	50.72
TextWapp	10.9	10.92	15.76	1.03	1.04	8.46	7.59	8.15	5.7
LightMnfc	14.11	14.08	14.13	3.79	3.8	15.66	0.57	0.86	-0.83
HeavyMnfc	11.79	11.66	11.62	1.89	1.89	15.29	2.16	2.34	-1.48
Util_Con	-0.18	-0.17	3.94	0.33	0.33	6.65	-1.16	-0.92	-1.78
TransComm	-0.97	-1.11	1.1	0.24	0.25	3.49	-2.65	-2.52	-4.65
OthServices	-1.03	-1.17	1.3	0.3	0.3	3.5	-3.03	-3.17	-5.7

Source: Model Estimates

Table 9: Percentage change in the value of import

	EAC			COMESA			SADC		
	CES FTA-1	CES FTA-2	CES-EU FTA	CES FTA-1	CES FTA-2	CES-EU FTA	CES FTA-1	CES FTA-2	CES-EU FTA
GrainsCrops	7.71	7.64	6.78	0.17	0.18	-0.76	5.61	5.87	12.27
MeatLstk	10.25	10.4	8.48	0.08	0.08	-0.89	3.4	3.84	9.2
Extraction	1.53	1.73	-1.39	1.39	1.44	8.82	0.81	1.31	-0.85
ProcFood	9.24	9.51	15.76	0.91	0.93	9.74	5.8	6.19	13.56
TextWapp	3.6	3.86	5.19	4.5	4.54	29.73	5.06	5.4	9.8
LightMnfc	2.12	2.4	6.26	0.24	0.26	5.75	3.1	3.65	14.3
HeavyMnfc	2.46	2.77	5.72	0.27	0.3	5.58	2.99	3.52	8.07
Util_Con	0.79	1.05	-0.75	-0.12	-0.1	-1.23	0.66	1.13	1.94
TransComm	0.63	0.95	0.13	-0.11	-0.09	-1.46	1.48	1.9	3.87
OthServices	0.54	0.83	0.06	-0.09	-0.07	-1.17	1.52	2.08	4.2

Source: Model Estimates

Welfare effects

Table 10 depicts the estimated welfare changes in monetary terms under the three scenarios. In GTAP model, the source of welfare changed can be decomposed into allocative efficiency effect, capital good effect, endowment effect, terms of trade effects, technical change effects and tax pool effects. The results suggest that CES FTA and CES-EU FTA will have strong positive impact on consumer welfare for EAC and SADC. More specifically, consumer welfare increases by 108 and 2166 million USD for EAC and SADC, respectively, under CES-EU FTA scenario.

Table 10: Welfare Decompositions (Million USD)

	Aggregate Welfare	Allocative Efficiency	Endowment Effect	Terms of Trade Effect	Capital Goods Effect
CSA-FTA 1					
EAC	32.1	28.21	0	7.72	-3.84
EU 25	-155.4	-34.06	0	-132.05	10.71
North Africa	2.13	-0.45	0	2.19	0.38
WAEMU	-2.07	-1.03	0	-0.91	-0.13
Rest ECOWAS	0.36	-0.65	0	0.87	0.14
CAEMC	-0.32	-0.34	0	0.07	-0.05
COMESA	-72.79	-48.49	0	-14.21	-10.09
SADC	297.3	50.23	0	277.23	-30.16
Rest of Africa	-0.09	-0.04	0	-0.05	0
Rest of World	-170.9	-63.06	0	-140.87	33.04
Total	-69.67	-69.67	0	0	0
CSA - FTA 2					
EAC	90.54	39.83	47.56	6.73	-3.58
EU 25	-160.89	-38.1	0	-133.6	10.81
North Africa	3.45	-0.58	0	3.71	0.32
WAEMU	-1.72	-0.83	0	-0.8	-0.1
Rest ECOWAS	2.87	-0.29	0	2.94	0.22
CAEMC	0.32	-0.29	0	0.69	-0.08
COMESA	-47.55	-46.09	22.64	-13.98	-10.13
SADC	966.32	240.6	482.7	273.69	-30.67
Rest of Africa	-0.05	-0.04	0	-0.01	0
Rest of World	-172.26	-66.09	0	-139.37	33.21
Total	681.02	128.13	552.9	0	0
CSA-EU FTA					
EAC	116.00	72	106.00	-27.00	-34.00
EU 25	1909.00	990	0.00	875.00	44.00
North Africa	-15.00	-5	0.00	-12.00	2.00
WAEMU	-17.00	-6	0.00	-9.00	-2.00
Rest ECOWAS	-9.00	-3	0.00	-6.00	0.00
CAEMC	-5.00	-2	0.00	-4.00	1.00
COMESA	532.00	312	614.00	-191.00	-203.00
SADC	2401.00	811	1050.00	515.00	25.00
Rest of Africa	-2.00	0	0.00	-1.00	0.00
Rest of World	-1323.00	-351	0.00	-1139.00	167.00
Total	3588.00	1818	1770.00	0.00	0.00

Source: Model Estimates

Under CES-FTA 1 and CES-FTA 2, for EAC and SADC, the aggregate welfare impact is positive. EAC consumers' welfare increases by 32.1 and 90.54 million USD under CES FTA 1 and CES FTA 2, respectively. Under CES FTA 1, the gain comes from allocative efficiency and terms of trade gain. Under CES FTA 2, the welfare increased due to endowment effect as unskilled labour allowed to be determined endogenously in the model. Similarly, under CES FTA 1 scenario, welfare gain originated from allocative efficiency and terms of trade effect while capital goods effects declined. On the other hand, the results suggested that under both CES FTA scenarios welfare implications for COMESA are negative. More specifically, consumer welfare decreases by 72 and 47 million USD under CES FTA 1 and CES FTA 2, respectively. Under both FTA scenarios, COMESA exhibited a decline in allocative efficiency, terms of trade and capital goods effect.

The simulation results shows that the three RECs and the EU-25 might improve their consumer welfare (under CES EU FTA) though the gain by EU-25 might surpass that of the three RECs.

6. Conclusion

This paper has analysed the implications of rationalizing the trade regime of the COMESA, EAC and SADC groupings through the formation of a Grand CES FTA. The paper has also taken into account the implication of the EPAs being negotiated with the EU by countries in the three groupings on the proposed CES FTA, by creating the CES-EU FTA, which is the ultimate objective of the EPAs. The empirical results clearly show that overall, for the group of 26 countries, there are benefits to be derived from the formation of the Grand CES FTA. However, the benefits are not balanced in the sense that the SADC region, appears to derive take most of the gains, followed by EAC and then COMESA. This as the paper has argued depends largely on the initial conditions that the three RECs currently have in which case the SADC region is least protected and with the most diversified economy. The imbalance of the positive gains derived in the harmonization and rationalisation of the trade regime implies that as the three RECs move towards the creation of the Grand CES FTA, they should in parallel initiate cooperation in other areas that would optimize and help balance the Grand FTA gains. In other words, the CES Tripartite Framework should not only focus on the realisation of a harmonized trade regime, but should work towards measures that would address supply side constraints in each of the RECs, e.g. through joint infrastructure projects among other measures. .

Reference

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Annexes

Table 3: Countries/regions included in the GTAP Africa database

No.	Country/Region	No.	Country/Region
1	Egypt	16	Sudan
2	Morocco	17	Rest of COMESA
3	Tunisia	18	Botswana
4	Rest of North Africa	19	South Africa
5	Cote d'Ivoire	20	Rest of South African CU
6	Senegal	21	Congo Democratic Republic of
7	Rest of WAEMU	22	Madagascar
8	Ghana	23	Malawi
9	Nigeria	24	Mauritius
10	Rest of ECOWAS	25	Mozambique
11	Cameroon	26	Tanzania
12	Rest of CAEMC	27	Uganda
13	Rest of SADC	28	Zambia
14	Ethiopia	28	Zimbabwe
15	Kenya	30	Rest of Sub-Saharan Africa

Table 4: Sectoral Aggregation

Sectoral code	Description
GrainsCrops	Grains and Crops
MeatLstk	Livestock and Meat Products
Extraction	Mining and Extraction
ProcFood	Processed Food
TextWapp	Textiles and Clothing
LightMnfc	Light Manufacturing
HeavyMnfc	Heavy Manufacturing
Util_Cons	Utilities and Construction
TransComm	Transport and Communication
OthServices	Other Services

Table 5: Regional Aggregation

Region code	Description
EU_25	European Union 25
NorthAfrica	North Africa
WAEMU	WAEMU
RestECOWAS	Rest of ECOWAS
CAEMC	CAEMC
EAC	EAC
COMESA	COMESA
SADC	SADC
RoA	Rest of Africa
RestofWorld	Rest of the World

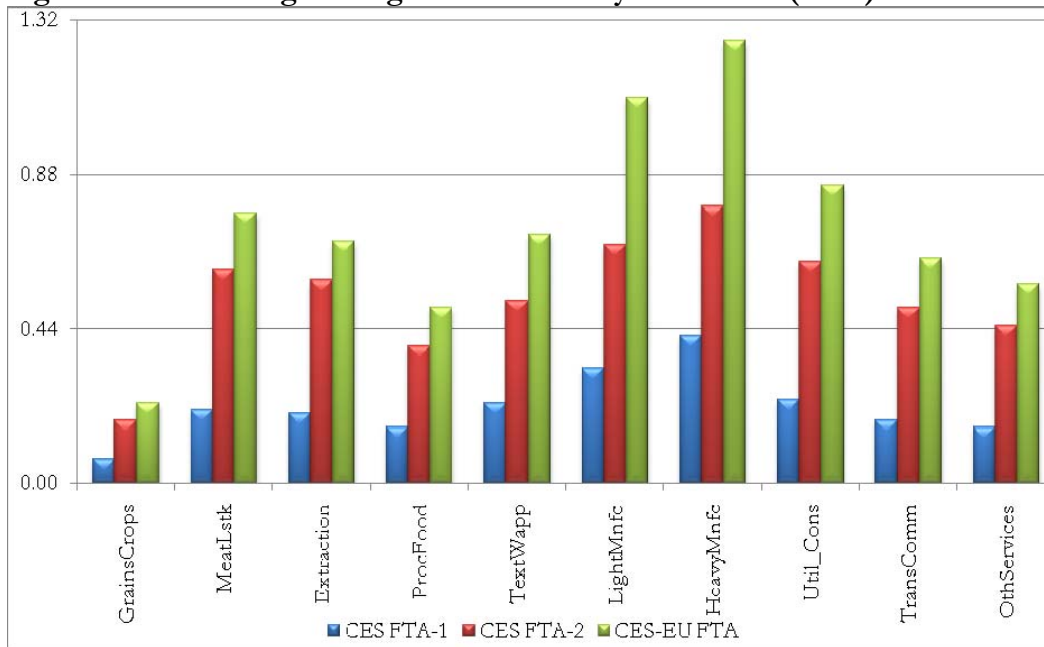
Table 6: Country grouping

EAC	COMESA	SADC
Tanzania	Egypt	Botswana
Kenya	Ethiopia	South Africa
Uganda	Sudan	Rest of South Africa CU
	Madagascar	D.R.C.
	Rest of COMESA	Malawi
	Madagascar	Mauritius
		Mozambique
		Zambia
		Zimbabwe
		Rest of SADC

Table 7: Import penetration and export propensity (2001)

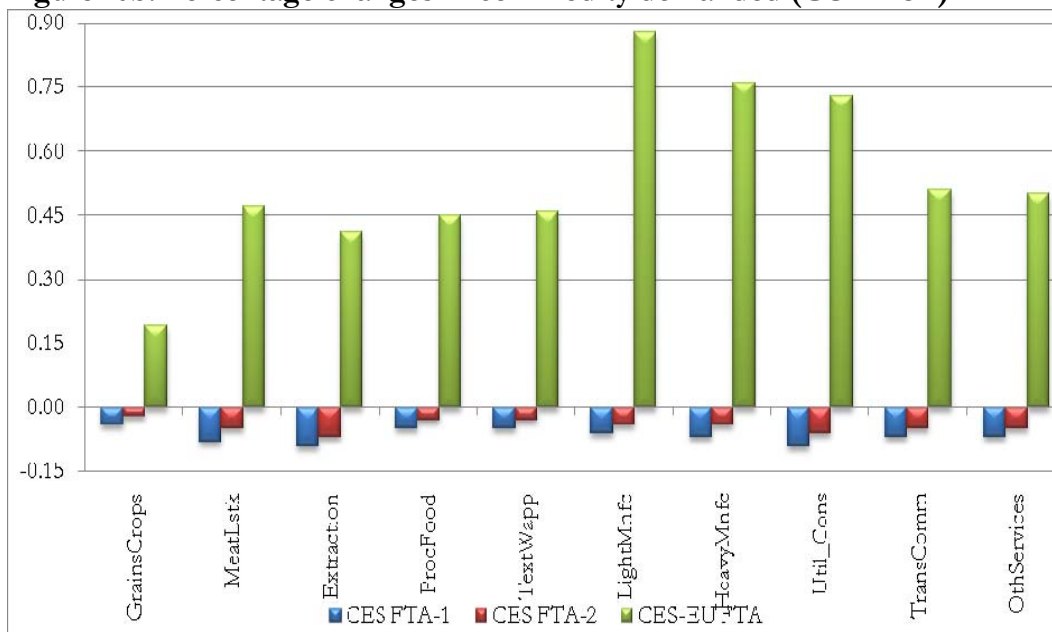
	Export propensity (Export / production)				Import penetration (Import / Consumption)			
	EAC	COMESA	SADC	EU 25	EAC	COMESA	SADC	EU 25
GrainsCrops	14.85	7.19	28.87	24.83	3.54	13.12	9.87	40.71
MeatLstk	4.26	3.53	6.24	11.13	1.48	8.56	6.24	11.78
Extraction	11.14	21.67	44.49	21.35	18.75	3.55	12.60	109.54
ProcFood	4.83	2.88	16.23	18.03	3.91	8.42	12.20	17.39
TextWapp	14.59	10.82	31.48	41.16	24.98	7.75	26.70	54.39
LightMnfc	11.29	6.02	37.61	35.93	67.92	41.27	31.05	33.66
HeavyMnfc	22.73	12.83	41.22	45.33	97.10	57.81	38.55	43.32
Util_Con	0.82	0.85	3.08	2.17	0.85	0.44	3.06	2.22
TransComm	11.94	12.60	7.15	8.04	7.44	3.85	6.13	8.28
OthServices	5.80	7.36	3.45	5.51	9.97	8.95	7.37	5.57

Figure 10a: Percentage changes in commodity demanded (EAC)



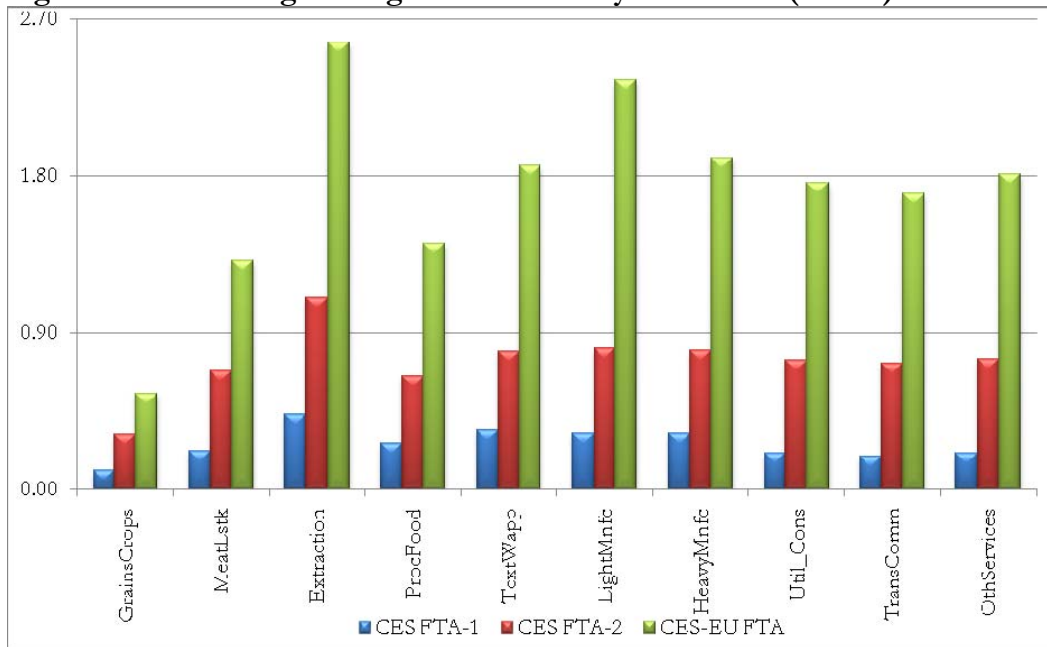
Source: Model Estimates

Figure 10b: Percentage changes in commodity demanded (COMESA)



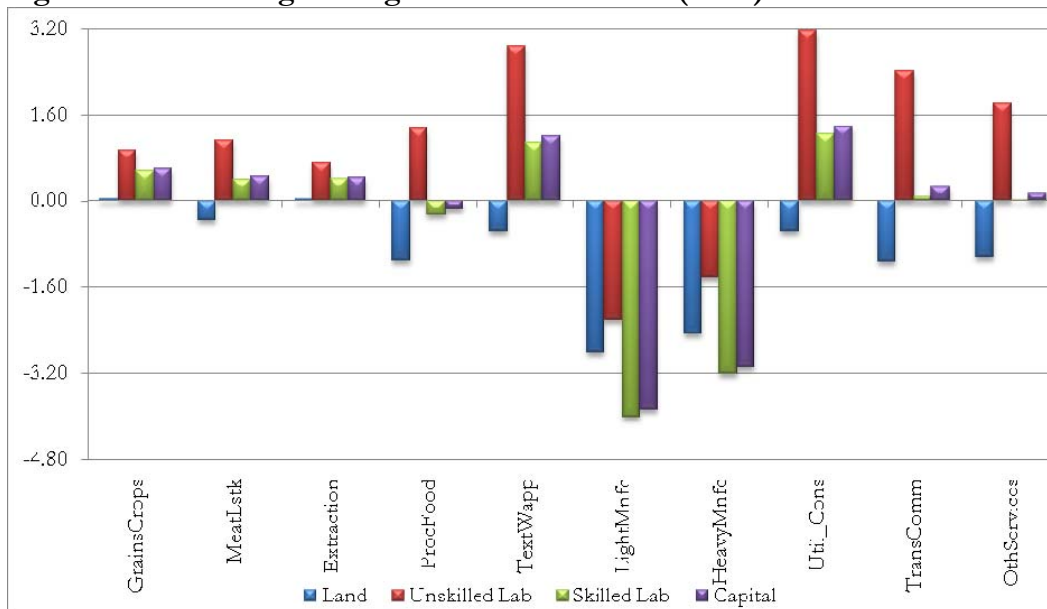
Source: Model Estimates

Figure 10c: Percentage changes in commodity demanded (SADC)



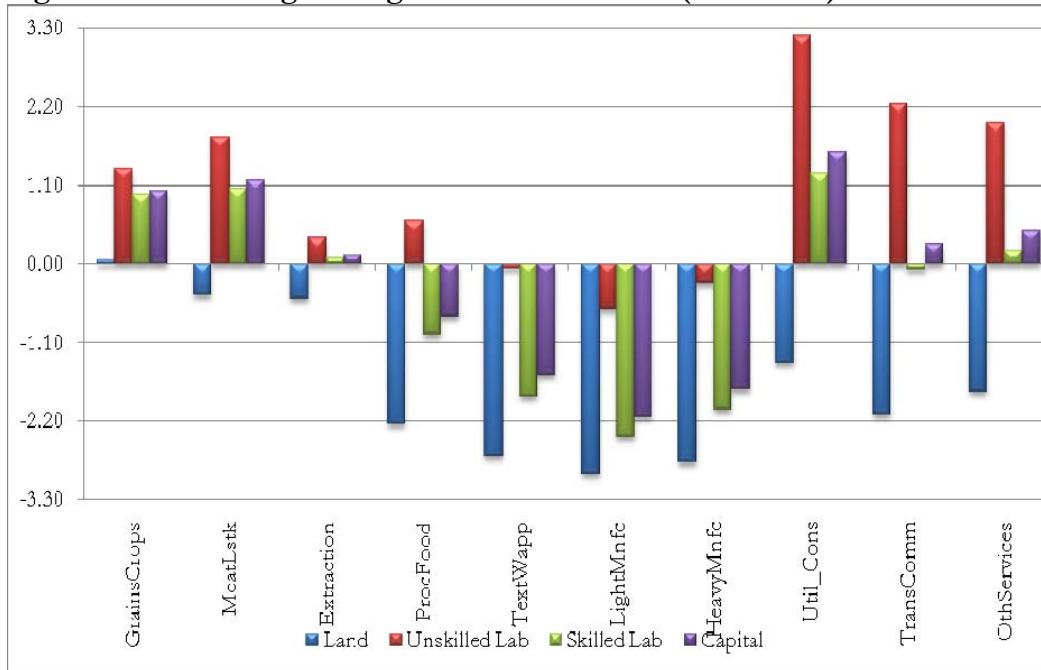
Source: Model Estimates

Figure 11a: Percentage changes in factor demand (EAC) – scenario 3



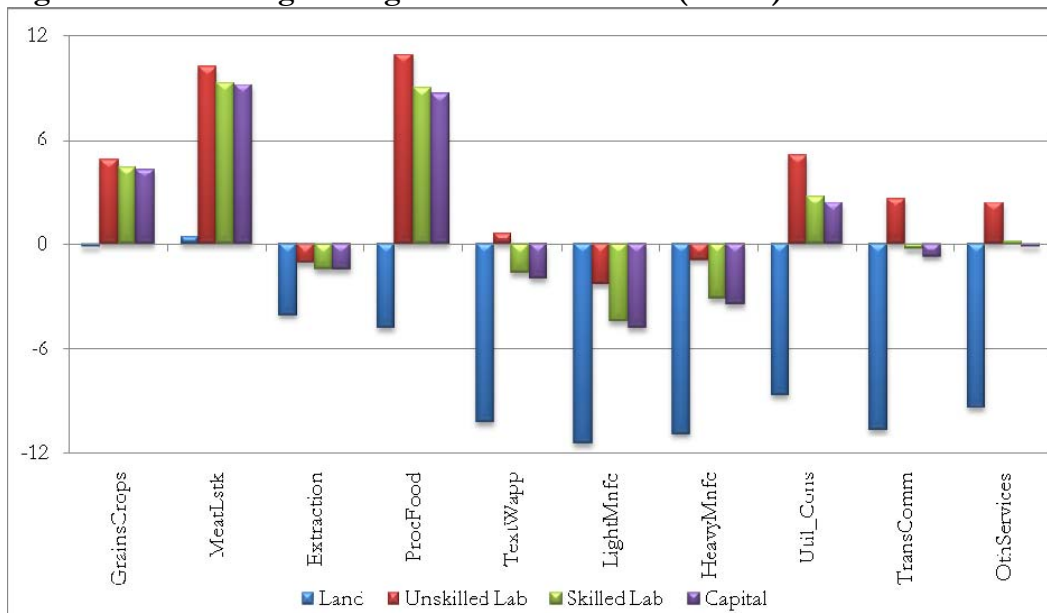
Source: Model Estimates

Figure 11b: Percentage changes in factor demand (COMESA) – scenario 3



Source: Model Estimates

Figure 11c: Percentage changes in factor demand (SADC) – scenario 3



Source: Model Estimates