Regional Integration and the Role of Donors

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1. Introduction

Integration has the potential to promote growth and reduce poverty through the increase of exports of domestic goods. Donor countries therefore support efforts at regional integration. This paper argues that whilst regional integration can increase growth, the gains are not evenly distributed between or within countries in SADC. Donors can play a role in regional integration by supporting efforts towards facilitating regional trade through the reduction of impediments at borders, through support for the development of complementary policies nationally, and can maximise the beneficial impact by support in assessing likely 'winners' and 'losers'. Whilst it is not the role of donors to compensate losers, they can also assist in developing systems for such support. Donor governments should ensure that their preferential trade agreements with regions do not impose restrictions that undermine integration. Finally, donor governments need to liberalise their markets for developing country goods, particularly on agricultural produce, and make the next trade round of the WTO negotiations truly developmental. This paper considers the role of donors and regional economic integration, with a special focus on the UK.

2. Regional Integration Agreements – What benefits does it bring to the Members?

A range of benefits can accrue to members of a Regional Integration Agreement (RIA) over the short and long term and can be of an economic, political and institutional nature. The chances of these benefits accruing increase with the degree of liberalisation undertaken. Yet for some members the costs may outweigh the benefits.

The two most common forms of RIA are free trade areas (FTAs) and customs unions. With an FTA, internal barriers are removed but member countries can retain their own external trade policy. A customs union is a more advanced form of economic integration, where internal barriers are fully removed and the RIA has a single external trade policy including a common external tariff.

In economic terms, the main benefits and costs can be divided into:

- Static or immediate gains - Trade flow effects;
- Dynamic gains over time - Competition and scale effects.

2.1 Static or Immediate Gains of Trade Liberalisation

Static gains tend to focus on the idea of comparative advantage, where one-off gains from dismantling barriers to trade will induce countries to focus on production of goods based on their major factor endowments. The Heckscher-Ohlin theory argues that trade liberalisation will then lead to higher returns to owners of the abundant factor, whether it be land, low- or high-skilled labour or capital. If a country is abundant in unskilled labour, the increased opportunities to export low skill intensive goods can have poverty reducing impacts. Wood (2002) through empirical analysis shows that the theory tends to stand in practice with a country's relative endowment of human capital and land being a good predictor of the composition of exports. In Africa the abundant factor is land and, in line with the theory, exports of primary products currently dominate.

2.2 Dynamic Gains from Trade Liberalisation

Dynamic gains relate to changes that may occur over time after the initial trade policy liberalisation. A dismantling of barriers reduces the amount of domestic protection, and subjects domestic firms to competition from other producers within the RIA, increasing the efficiency of production in the RIA and further reducing costs to consumers. In addition the increased size of the market allows firms to take advantage of scale economies, where the costs of production fall as the size of production increases. This can make firms within the RIA more competitive and enable them to compete more effectively outside the RIA. The increased market within the RIA can attract more foreign direct investment seeking to take advantage of scale economies and the reduction in costs of trading in the region.

Over time, countries can also influence their abundant factor and change their comparative advantage, revealing their dynamic comparative advantage. For instance, East Asian Newly Industrialised Countries (e.g. South Korea and Taiwan) invested heavily in education during the 1960s and beyond, and through this policy they accumulated human capital. There followed an increasing level of skill-based goods in their exports.

2.3 So is Joining a RIA always Beneficial?

2.3.1 Trade Creation and Diversion

The dismantling of tariff and non-tariff barriers to members of an RIA changes the costs of importing and exporting goods relative to the rest of the world. If the RIA countries are low cost producers of a particular product relative to the rest of the world, trade creation occurs: the amount of trade increases as costs of goods fall from the low cost producers. However, should the RIA cause demand to shift from relatively low cost producers outside the RIA to high cost producers in partner countries within the RIA, trade diversion occurs. The resulting gain to consumers from lower prices may not offset the loss in tariff revenue, and as a consequence may produce a net loss to the economy. (See for examples, Schiff and Winters (2003)). The importance of multilateral liberalisation alongside regional integration is underlined because trade diversion could dominate trade creation in RIAs.

2.3.2 Unilateral Liberalisation Brings Greater Benefits

Studies of impacts of RIAs show that net gains can accrue to the region in aggregate; however, the greater gains come from unilateral liberalisation.

Evans (2003) using GTAP data and a computable general equilibrium model finds that with unilateral liberalisation undertaken by Southern African countries by 2002 (under World Bank Structural Adjustment Programmes and WTO) welfare increased by 3.45% compared with expected gains of 0.37% from a SADC FTA by 2006. Under a Doha Development Round scenario of a 40% cut in tariffs, export taxes and production subsidies, the projected impact for Southern Africa countries would be a 1.03% increase in welfare by 2012. Finally, with a full SADC EU FTA, as is possible under the Cotonou Agreement, welfare could increase 0.12% by 2012.

In terms of poverty reduction, Evans's results show that in Zambia the headcount of poorest has fallen by 3.06% under unilateral liberalisation, and is predicted to fall only 0.7% with a SADC FTA, compared with a possible 1.66% in the Doha Trade Round of WTO and 1.11% in a SADC EU FTA.

Evans's analysis confirms what other comparative static models have demonstrated: that economic gains are greatest with unilateral liberalisation and through the multilateral liberalisation processes of the WTO, and increase with greater degrees of liberalisation.

2.3.3 Winners and Losers

A weakness of the static analysis based on once-off removals of tariffs - such as Evans's - is the fact that it does not address the dynamic changes that may result from RIAs. As scale economies, increased efficiency through competition and reinvested gains are realised, these dynamic gains could, in the medium term, be much higher than the static gains. However, gains may not be evenly distributed. If scale effects are dominant, capital production may shift to countries which are relatively capital abundant, since costs will be lower as a) the size of a firm increases or b) as the number of firms located in the same geographic area increases. Gunning (2001) relates the experience of the East African Community (the first EAC) where manufacturing became concentrated in Kenya at the perceived expense of Uganda and Tanzania, with Kenyan manufactures being exported to the other two partners. According to Gunning, this perceived uneven gain from membership of the EAC was a major factor in its collapse, leading to the border between Kenya and Tanzania being closed in 1977.

On the other hand, Midelfart-Knarvik *et al* (2000) argues that whilst the location of some industries in the EU are becoming more geographically concentrated, others are becoming more dispersed. This suggests that whilst the industrial structures are becoming more dissimilar, as trade theory would predict, if comparative advantage and industrial linkages drive this, real income gains might result. In the case of the EU, structural adjustment has been slow. However, should the relocation of factories to other regional bloc countries become noticeable, this may not only create extreme political tensions and divergence of economic structures, but may create absolute losers within an RIA if fiscal transfers are not introduced.

2.4 Other Arguments in Favour of Regional Integration

Whilst the economic rationale for regional integration can attract governments to embrace RIAs, a number of other reasons can also motivate countries, such as:

- Locking-in reform – governments wish to bind themselves to better policies, and the RIA signals this commitment to domestic and foreign groups.
- Bargaining power - a desire to obtain more secure access to major markets and in multilateral agreements through increasing the size of negotiating strength, as the RIA has more bargaining power than the individual country.
- Security and stability – a desire to help neighbouring countries stabilise and prosper both for altruistic reasons and to avoid spillovers of unrest and population.
- Supplying Specific Regional Public goods – such as infrastructure provision, efforts to address disease, and negotiated shared access to natural resources e.g. water.
- Lock other countries in to own priorities – a country with greater negotiating power may opt for an RIA to impose its own policy priorities on weaker members, weaker members may need a carrot to buy in e.g. fiscal transfers.
- Fear of Being Left Out – "if everyone else is doing it shouldn't we?"

(Adapted by author from Schiff and Winters (2003) and Ahmed (2002)).

Whilst the author recognises the wider benefits and motivation of regional integration, this paper focuses on economic integration and the role of donors.

3. Complementary policies

To gain the full benefits from RIA membership, complementary domestic policies are necessary and non-tariff barriers such as strict rules of origin should not replace tariff barriers.

3.1 Domestic Policy

An RIA in itself does not guarantee an improvement in growth. A wide number of domestic policy actions must be addressed before gains can be realised. Jenkins et al. (2000) define the most important complementary policies for SADC countries as:

- Macroeconomic policies – including appropriate exchange rate policies and government deficit reduction, which in turn may require tightening of the fiscal stance.
- Taxation and fiscal adjustment – broadening of the revenue base (including switch to VAT) and increase in tax enforcement and compliance.
- Constraints on foreign direct investment – need to provide a positive enabling environment for FDI including a stable political and macro environment.
- Microeconomic policies – policies to alleviate job losses and unemployment absorption e.g. through micro, small and medium scale enterprises, streamlined procedures for investors and cellular phone network coverage.
- Export promotion of manufactures and harmonisation of rules of origin.
- Compensatory mechanisms – including fiscal distribution of benefits, such as is contemplated by SADC, removal of exchange controls on intra-regional flows of funds beginning with controls on foreign direct investment. However, freeing of labour markets, Jenkins argues, may not be appropriate for SADC given the high levels of unskilled labour unemployment across the region.

3.2 Rules of Origin (ROO) - a Barrier to Regional Integration

If non-tariff barriers such as may be posed by ROO replace tariff barriers, the gains from regional integration will be undermined. ROO are technical definitions which seek to determine where goods originate so only the country qualifying for a preference actually receives it. ROO are designed to stop imports from a country not receiving a preference, transhipping their goods through a preference country and thus cheating the system.

However, ROO can also be used for protectionist purposes, as the requirements to qualify for preferences may be bureaucratically costly or complex and overly onerous for poor countries with weak institutional capacity. These rules, as we discuss later, do not support the multi-country manufacturing that now dominates international trade.

Flatters (2002) argues that the “current rules of origin [in SADC] are both complex and restrictive…the continuation of this approach to rules of origin will seriously impede regional integration in SADC, even when tariff barriers on intra SADC trade disappear. Furthermore they will make SADC, at best, irrelevant in promoting

integration and competitiveness of SADC industries in the global economy." Flatters' argument is backed up by a wide number of case studies which illustrate that SADC industries will benefit from the simplification and relaxation of the rules of origin. He indicates two choices that member states within SADC have if they wish to improve their global competitiveness:

- They can go it alone – undertaking non-preferential trade liberalisation and domestic regulatory reform. This requires minimal coordination with SADC neighbours;
- or they can use the scheduled review in 2004 to re-examine rules of origin and other weaknesses in the Trade Protocol. This would be in parallel to unilateral measures to enhance competitiveness.

Flatters' work contributes to a growing body of analysis which, as we touch on later, shows that the benefits of regional integration and trade liberalisation are severely constrained by strict rules of origin.

4. The Role of Donors in Regional Integration

The UK, along with all other United Nations countries, has signed up to the Millennium Development Goals including that of halving global poverty by 2015. For the reasons cited above, many donors identify trade and regional integration as a means to facilitate growth and poverty reduction. This sections looks at the competing demands on donor funds and the questions that need addressing before a successful programme of support to regional integration can be implemented.

4.1 Regional Integration – A Priority Amongst Many

The question of how to reduce poverty and enable the world's poorer countries to catch up economically with the richest still remains unanswered. There are many theories and case studies of success stories but no reproducible template has been discovered. Thus although very good arguments exist to support regional economic integration, equally strong cases can be made to prioritise other interventions such as support to national health and education programmes, good governance, public sector reform and so on.

The aid mechanism a donor country office favours may also influence the ability to support regional integration. Thus for example, financial transfers directly into a country's budget, so called "budget support" which is an increasingly popular aid mechanism, may limit funding directed towards regional integration, except where the partner country allocates donor monies to this end, or the donor country provides aid on a conditional basis.

While donors still tend to favour a bilateral approach to aid, donor prioritisation of regional integration seems to be increasing. Substantial sums of money and technical assistance are being devoted to Regional Integration Secretariats such as SADC and COMESA. Examples of the increasing emphasis bilateral donors are placing on this agenda include the USAID, through the establishment of its "regional hubs" in Botswana, Mali and Kenya, and DFID Southern Africa, through the development of its Regional Strategy.

A number of reasons may explain this trend. First the evidence of the potential benefits of regional integration is increasing as the number and duration of regional blocs increases. Donors are more aware of the transboundary nature of many

development issues: trade operates across borders, water resources, air pollution and HIV/AIDS do not respect borders and national issues such as conflict and poor policy environments often create externalities on neighbouring countries requiring regional and global solutions. As national countries see the benefits of regional integration and transfer greater powers to Regional Integration Secretariats, this also influences donor priorities.

4.2 Who should donors back in Southern Africa?

Donors face the daunting challenge of making sense of the various permutations of RIAs which exist in the region and determining how these might unfold in future.

As Figure 1 illustrates, of the 14 member countries of SADC, 9 countries also belong to COMESA, which has 20 members in total. Whilst SADC has agreed to a free trade area by 2012 (possibly to be brought forward to 2008) COMESA is committed to becoming a customs union by 2004. The inconsistency is clear if we look at Zambia, a member of both SADC and COMESA. Under the SADC trade protocol, Zambia has agreed to dismantle tariffs to SADC members (for simplicity we shall say to zero), and as South Africa is a member of SADC, it has also agreed to reduce tariffs to South Africa to zero.

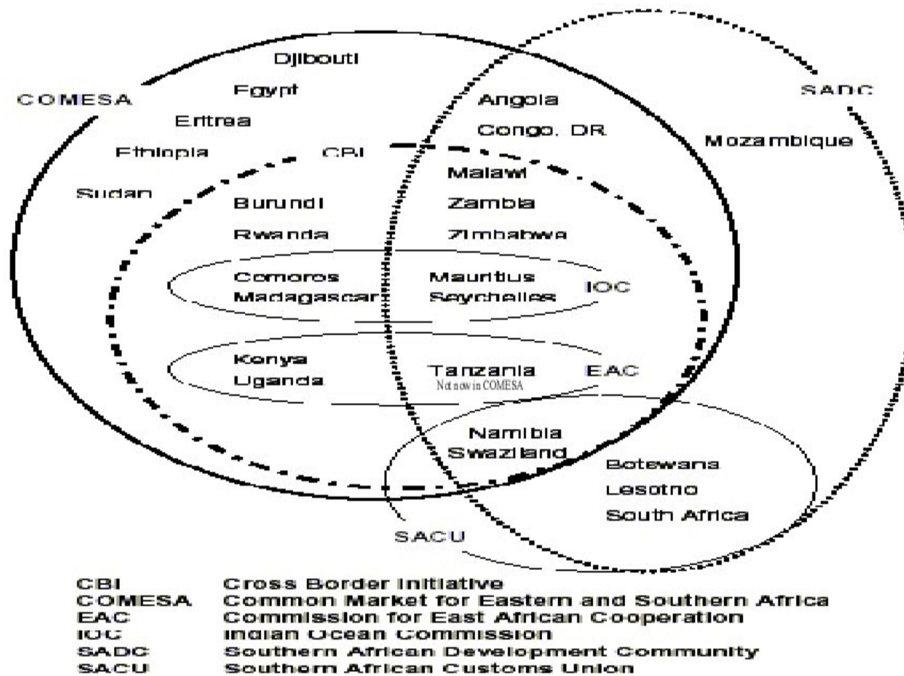

Figure 1: Regional Integration Agreements in Southern Africa
Source: SADC Tax Subcommittee Annual Report 2001

However, Zambia under the COMESA customs union has agreed to a common external tariff for countries that are not members of COMESA, and as South Africa is not a member of COMESA this does not include South Africa. So simultaneously Zambia has agreed to reduce tariffs with South Africa and to maintain tariffs with South Africa.

To complicate matters further, the Southern Africa Customs Union (SACU) is already established and has five members - Botswana, Lesotho, Namibia and Swaziland (BLNS) and South Africa. South Africa has already negotiated a Free Trade Agreement with the EU. As the BLNS are part of the SACU customs union, any agreement that South Africa reaches automatically includes them. SACU is moving ahead with a number of other regional agreement negotiations including with the US, Mercosur and possibly in the future with China. It has not been agreed that all SACU countries must negotiate and agree before an RIA is formed.

Namibia, a member of COMESA, SACU and SADC, has decided to leave COMESA. It seems likely that Swaziland, with its high financial transfer through the SACU Revenue Sharing Formula and its high trade dependence on South Africa, will also opt to remain with SACU and SADC and step out of COMESA.

Membership of overlapping agreements can have costs. Countries will have to negotiate in a number of forums and agree to implement a range of policies which may be conflicting or irrelevant. As an example, the SADC rules of origin on a number of products are more restrictive then those of COMESA. This means that companies trading in countries which are members of both RIAs may opt for the COMESA ROO, although customs officers will then need to be trained in both. The transaction costs of negotiating and attending meetings of SADC, COMESA, SACU and WTO for small countries such as Namibia are very high.

The Cotonou Agreement, under which countries have entered negotiations on forming Economic Partnership Agreements with the EU, may speed up decisions. Although certain stages of the negotiations can be done at African, Caribbean and Pacific (ACP) level and further issues can be negotiated with an affiliation of regional groupings, at some stage, clearly distinguished regional groups will have to identify themselves for final negotiations. As SACU already has an agreement with the EU, it will remain for non-SACU countries that are members of both SADC/COMESA to identify with which group they will negotiate.

Finally, as the EU offers least developed countries (LDCs, under WTO classification) duty free access to its markets for all goods except arms, Zambia, Malawi and Mozambique could theoretically choose not to negotiate an EPA and retain preferential treatment while other non-LDC countries of the ACP would revert to the less preferential General System of Preferences of the EU.

It is likely that the membership and combination of Southern African RIAs may be significantly different in five or ten years' time. This has certain implications for donor countries. Donors should ensure their funding is neutral across RIAs to allow national governments to drive the configuration of RIAs. Support can be designed to increase interaction and harmonisation of policies where appropriate and ensure that support to one RIA is not undertaken in isolation from other RIAs.

4.3 Supporting Poverty Reduction and Key Mainstreaming Issues

The particular focus of donors on poverty reduction means that a greater understanding of the linkages between trade and poverty need to be developed. In developing programmes to support regional integration, a number of issues such as those pertaining to HIV/AIDS, gender and the environment need to be mainstreamed into programme design and implementation.

4.3.1 Trade Liberalisation and the Poor

The linkages between trade and poverty are complex and case specific, varying between countries and even different regions within countries. McCulloch (2001) shows that the main transmission channels through which trade can affect poverty are enterprises, prices and government institutions (see figure 2). At the *enterprise* level, trade liberalisation can affect the degree of competition firms face and change the level of prices at which they buy and sell goods. Profits can be affected and if wages are flexible, changes in profits and in the demand for different types of labour could cause wages to go up or down.

Similarly levels of employment may change: trade liberalisation may cause a firm which is no longer making a profit to close, thereby creating redundancies; while increased trading opportunities could also result in the creation of jobs.

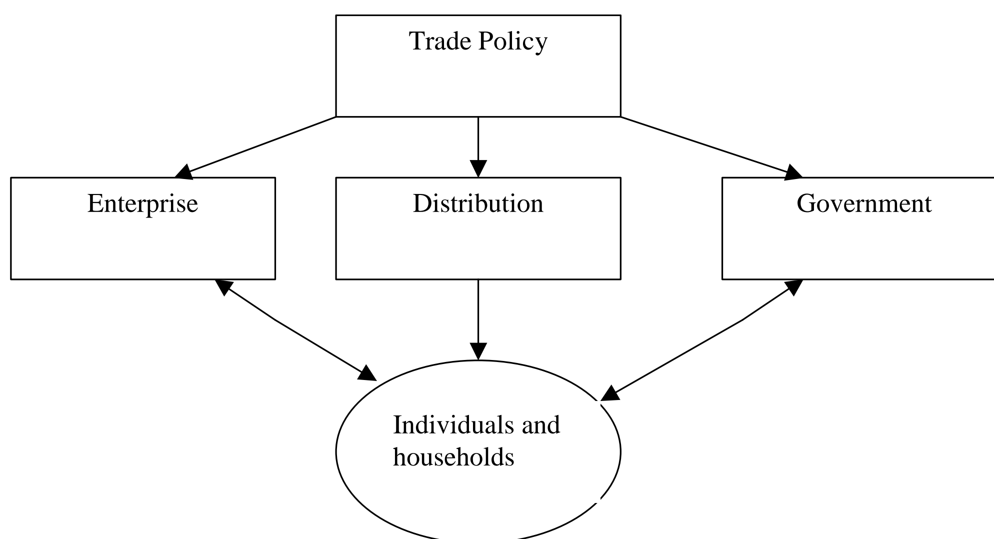

Figure 2: Trade and Poverty Linkages
Source: McCulloch et al. 2002: 66

Trade liberalisation will also impact on the poor differently, depending on how the reduction of *prices* of goods entering a country translates to the prices the poor face. If the market is competitive, price decreases will be passed onto the consumer; yet, if a small number of firms dominate sales, they may not pass on the full reduction. The market structure of the distribution sector is therefore crucial in determining the impact of liberalisation.

Implications on the *government* revenue through collection of taxes at the border are a third channel of impact on the poor. With member states of SADC collecting between 0.4% and 9.2% of their revenue from tariffs on SADC imports, this has been a major source of caution for removing tariffs as required under the FTA. Yet a reduction in tariffs won't necessarily reduce the overall revenue collected, since a fall in tariffs may increase demand for imports as these goods become cheaper. The long time span for introducing the FTA also gives countries time to plan, improving revenue collection and diversifying their tax base, by for instance, the introduction of Value Added Tax (VAT). If revenues do fall, the poor need not be adversely affected if policies are adopted to minimise the reduction of government expenditure on the poorest groups.

All of the above underlines the importance of identifying likely impacts of liberalisation on the poor, and taking measures to mitigate adverse consequences.

4.3.2 Poverty Reduction Strategies and the Integrated Framework

As with many other donors, DFID has committed itself to allocating its national support through national Poverty Reduction Strategies, and therefore efforts to support trade should be compatible with this thrust.

As Ladd (2003) explains, whilst "trade policy is too important to be omitted from national development strategies, because it can exert such a powerful influence on growth, development and poverty reduction…it needs to be underpinned by a comprehensive analysis of how changes in trade policy will affect the various aspects of poverty for different groups of poor people in the long and short term." Ladd goes on to define the responsibilities of various stakeholders, from national governments opening up debates on trade-offs with different groups of people, to civil society organisations who should contribute their views on the design and purpose of trade policy, the responsibility of donors to support locally owned evidence-based analysis and remove trade policy conditionality, and finally, the importance of northern governments removing trade barriers, supporting special treatment of developing countries within the WTO and of providing aid investments to strengthen transport infrastructure, health, education and regulation.

Yet, most countries in Southern Africa do not have a strong dialogue between the private sector, civil society and government on trade policy issues, while even inter-departmental discussion is absent or weak. Donors could assist in fostering this dialogue.

The Integrated Framework process for capacity building was initiated within the WTO and backed by multilateral and donors alike to provide a framework of assistance for supporting the mainstreaming of trade through Poverty Reduction Strategy Papers (PRSPs). Donor support to regional integration should recognise such processes operating in national governments, and ensure that support to regional integration either nationally or to regional organisations is consistent. Likewise national governments need to identify the importance of increased regional integration alongside increased participation in international debates such as in the WTO. Limited capacity may mean they have to prioritise where and how to participate and negotiate. Donor support in this area should be independent and impartial.

4.3.3 Mainstreaming HIV/AIDS, gender and the environment

Donors should consider the linkages with such issues and, where appropriate, develop ancillary projects to their main programme objective. Southern Africa as a region has the highest prevalence of HIV/AIDS. With the purpose of facilitating regional integration, donors could support transport corridors. Programmes could be designed to promote understanding of the dynamics of how HIV/AIDS is affected by increased trade and undertake interventions, for example at border crossings, which may inhibit the further transmission of the disease (see USAID Corridors of Hope programme). Similarly, consideration can be given to the implications of gender and environment on and by the programme.

4.3.4 Small scale cross border traders

Although small scale traders are among the poorest groups of traders, they constitute a very significant sector in terms of both size and gender. A large part of this sector

comprises women as both employers and employees. Analysis has shown that at some border posts, this small scale trade sector contributes 50% of overall trade (Peberdy: 2000: 361). Clearly then there is a need for the policy concerns of this sector to be recognised. This could for example be in the form of special consideration for these traders in analysis and support provided by donors. Cost benefit analysis could also be undertaken to assess whether revenue collection from these groups at border crossings is cost efficient. The time taken by customs officers to collect these small fees plus the delays caused to other larger traders may nullify the revenue gain.

4.4 The Generic Challenges of Donor Support

In many ways, the challenges facing programmes of support to regional integration are the same as with any other form of donor intervention. A donor wants to see that outputs and outcomes are reached; for instance, enabling government officials to negotiate effective trade agreements rather than measuring success on inputs such as the number of workshops undertaken. Recognising that partner funds are fungible, in that funds may be diverted to interventions a donor does not feel is a priority, the donor programme should add value rather than replace activities that would have been undertaken by partners in any case.

Programmes should also be sustainable. So for instance, should infrastructure be funded by donors, they need to ensure it will be maintained after the donor withdraws so that benefits do not cease when the programme ends.

Ownership of programmes by the partner must be strong. If a donor forces its own ideas onto a partner, the programme is unlikely to succeed and it undermines the accountability of the partner to its own constituency. Ideally, national governments and regional integration secretariats should coordinate donors in terms of a work plan agreed with the public or member states respectively. This is what the Poverty Reduction Strategies seek to do in low income countries. However in many cases, the public doesn't hold government accountable – either because the systems are not in place to do so, or the partner may not be able to spend money effectively against what is agreed.

Although ownership is fundamental, a donor has the right to refuse to contribute funds to a work plan or strategy it feels may be a waste of money. There is the danger that if a country or agency wants donor money it may 'bend' its priorities to suit those of the donor. To counteract this, donors could seek to strengthen the systems of internal accountability and work with partners to strengthen the evidence base upon which work plans are developed. This may mean funding the private sector and civil society as well as governments and regional integration secretariats.

Donors should be aware of the distorting nature funding can play at regional as well as national level. In this way, whilst donors may support regional integration for the benefits described, caution should be applied in trying to push the Regional Integration Secretariats to move more quickly than accountability allows. While implementation of many of the SADC protocols may seem slow, it must be remembered that it has taken the European Commission over fifty years to achieve its current level of integration, and the three-year horizon of a donor officer may not be a realistic or desirable time span.

5. Consistent Donor Country Policy

It is important to distinguish between donors and donor governments. The position a donor government develops is usually a compromise between the demands of a number of different ministries such as Agriculture, Trade and Industry, the Treasury, Foreign Affairs and the Prime Minister's or President's office. Donors often find themselves in a situation in which there are competing national priorities fought over by ministries. Often larger ministries hold sway, which may weaken the emphasis placed on development issues and lead to contradictions at the overall government level. This explains why donor governments may advocate and support trade liberalisation by developing countries through their donor programmes but do not pursue sound liberalisation in their own trade agreements with developing countries.

This section discusses the main weaknesses currently existing in OECD donor trade policy.

5.1 Generosity of Preference Schemes

Anderson et al. (2002:227) argue that the cost of industrial country protection post-Uruguay Round of WTO negotiations is US$43 billion per year, and the cost of developing countries' own protection is US$65 billion per year. Both sides have a long way to go before reaping benefits.

Sub Saharan Africa's (SSA) share of world exports between 1962 to 1964 and 1991 to 1993 fell by an equivalent of US$11 billion. Whilst supply side issues remain a major constraint to increased trade in SSA, trade preference schemes given to African countries may be less generous then they first seemed. Stevens et al. illustrates (see Table 1) that with respect to trade agreements with Africa, all major donors still have a long way to go before free trade with Africa is realised.

	EU	**USA**	**Japan**	**Canada**
# tariff line imports from Africa >$1mn in 2000	1,710	498	172	116
# for which no tariff data in TRAINS	8	7	9	—
Items for which tariff data available	1,702	491	163	116
<u># for which various prefs applicable to African countries available</u>				
GSP [a]	1,452	118	35	11
LLDC [b]	1,710	71	38	33
ACP	1,612			
AGOA		61		
South Africa	1,439			
Egypt	1,379			
Morocco	1,571			
Tunisia	1,550			
Algeria	1,497			
# of lines for which MFN is zero	453	207	88	75
Percentage of lines for which MFN is zero	27%	42%	54%	65%
# of lines for which no preference available and MFN > zero	—	92	39	8
# of lines for which at least one preference available	1,692	192	38	33
% for which some preference exists	100%	39%	23%	28%
Notes:				

(a) Figures do not take account of revised EU GSP in 2002 and revised Japanese GSP in 2003.
(b) EU figure assumes all items free under EBA (even those for which phase-out not yet started). Canadian figure does take account of revised GSP for LLDCs effective 1 September 2000 (even though not included on TRAINS).

Sources:
Trade data: EU – Eurostat 2001; Canada – UNCTAD TRAINS/WITS; Japan – Japanese customs (http://www.customs.go.jp/toukei/ info/index_e.htm); US – USITC (http://dataweb.usitc.gov/scripts/user_set.asp).
Tariff data: UNCTAD TRAINS/WITS.

Table 1. G8 imports from Africa: the broad picture (all items imported from Africa in 2000 to a value of $1 million or more)
Source: Stevens 2003

The table indicates a number of interesting points. First the EU has a far wider number of schemes open to Africa than the other G8 countries examined. The EU offers Africa the General System of Preferences, which is the common EU trade agreement for all developing countries. More relevant to Southern Africa is the LDC or Everything But Arms Agreement (EBA) which gives duty free access to all countries classified as least developed, and the ACP Cotonou Agreement which provides preferential access to Africa, Caribbean and Pacific countries. Separate bilateral agreements exist with South Africa, Egypt, Morocco, Tunisia and Algeria.

The number of tariff lines under which African countries export more than US$1million into the EU is the greatest; 1,710 against the USA at 498, Japan at 172 and Canada at 116. This is perhaps unsurprising given that the EU is Africa's closest market geographically and has the closest historical ties. African goods entering the EU market will face zero duties for 453 tariff lines, while they number 207, 88 and 75 for the USA, Japan and Canada respectively. Some preference under the EU agreements exists for 100% of tariffs compared with 39% for the USA, 28% for Canada and 23% for Japan.

It is also not surprising to note that the goods that tend to be excluded from these preference schemes are agricultural goods, which are the main exports of developing countries. Under the Lomé Agreement with the EU, ACP countries do not have duty-free access on a range of products including bovine meat, certain milk products, onions, garlic, temperate fruit and wine. The AGOA also excludes a number of key agricultural goods. For instance for the 7 COMESA countries eligible for AGOA, only four agricultural products have been approved for export, namely, onions, pineapples, snow peas and yams. The EU will need to honour its commitment to agricultural liberalisation in the WTO trade negotiations and reform of the Common Agriculture Policy before world agriculture barriers are likely to fall. A trade policy that omits agriculture liberalisation cannot be said to be development-friendly.

5.2 Low Utilisation of Preferences

Low take-up of preferences has been symptomatic of preference schemes in general. Doherty (2002), reviewing the usage of EU preferences, found that few countries utilise more than 50% of their potential preferential entitlements. They find that existing barriers include the increase in health and safety regulations to be met for imports into the EU. The standard of training of officials responsible for verifying and certifying validity of documents submitted by exporters in terms of the ROO is weak, resulting in bottlenecks. Finally, the EU importers' liability in terms of the ROO, to repay duty concession monies in the event of customs subsequently finding errors in the export documentation, deters them from importing under preference.

5.2.1 Rules of Origin as a Barrier to Trade Preference Utilisation

Brenton (2003) shows that only 50% of EU imports from non-ACP LDCs which are eligible actually request preferential access to the EU, and the "prime suspect of these low levels of utilisation are the rules of origin, both the restrictiveness of the requirements on sufficient processing and the costs and difficulties of providing the necessary documentation." Brenton (2002) finds a similar story for the Balkan countries. Finally Mattoo et al (2002) argue that "the medium term benefits [of the USA Africa Growth and Opportunity Act] estimated at about US$100-$140 million, - an 11 percent addition to current non-oil exports – would have been nearly five times greater (US$540 million) if no restrictive conditions had been imposed on the terms of market access. The most important of these conditions are the rules of origin with which African exporters of clothing must comply to benefit from duty free access."

Rules of origin are therefore a major impediment to countries in Southern Africa and elsewhere utilising preferences of G8 countries. One argument of the complexity of these rules of origin is that they were developed at a time when manufacturing was largely a single country/multi-process operation whilst the current global trading environment is characterised by multi-country processing with assembly/finishing occurring in a country providing the best advantage in terms of labour and/or energy costs.

The importance of flexible rules of origin to support this new paradigm of trading and manufacture and to encourage increased FDI into developing countries is witnessed by the experience of Lesotho under the AGOA. As an LDC, Lesotho is allowed more flexible ROO than non-LDCs where it is allowed to source textiles from anywhere in the world to use in its garment manufacture, and these exports still classify as originating from Lesotho. Since 2001, Lesotho has seen its exports to the USA increase by 63% to US$130 million, and the garment sector is now the largest employer in the country. What this derogation in the ROO allows is for Lesotho to source from the cheapest producer of fabric and therefore its exports are more competitive. A glance at historical figures (Salm 2002) of garment exports from Lesotho under the Lomé Agreement with the EU show that a similar derogation on the ROO was offered and the sector expanded considerably, though once the derogation was removed and stricter ROO were introduced, the sector contracted because Lesotho couldn't source competitively and still remain eligible for preferences.

Table 2 illustrates the main architecture of G8 country agreements. Cumulation (row 7) defines from which country a producer can source inputs for the product to still classify as an originating country product. Although the type of ROO is difficult to compare across agreements, in general cumulation provisions are more liberal the wider the range of countries over which cumulation can be allowed. Therefore an ACP country like Lesotho can use cloth from another ACP country and still receive the ACP preference. However under the Japanese agreement, a country can only source from Japan for the preference to be valid. Thus in this respect the EU and Canada have the most liberal rules, USA is in the middle (excluding for clothing under the AGOA) and Japan is the least liberal.

Yet even the EU Agreements are restrictive, as ACP producers are unlikely to be the least cost producers under a wide range of products, and although ability to source from the EU may allow improved competitiveness it still constrains ACP countries' chances of maximising their competitiveness. This may explain the falling share of

ACP exports in EU imports over the past thirty years despite fairly generous preferences.

Aspect		EU	Canada	Japan	USA
1	Main agreement	Cotonou	GPT	GSP	AGOA
2	Other relevant agreements	EBA	? CDCRO	—	? GSP
3	Geographical coverage [a]	All except South Africa	All	All	38 [b] (out of 48)
4	Product coverage [c]	Most	Excludes sensitive manufactures	Excludes sensitive agriculture and manufactures, and has some ceilings	Most
5	Depth of preferences [c]	Duty-and quota-free except for some CAP products	Variable	Variable	Duty- and quota-free
6	Rules of origin – type [c]	Mixture	60% domestic value added	Change of tariff heading	35% domestic value added + extra rules on clothing
7	Rules of origin – cumulation	Full ACP and EU	Full GPT and Canada	Japan only	SADC, WAEMU + extra cumulation for clothing
8	Legal basis	Contractual	Autonomous	Autonomous	Autonomous
9	Overt political conditionality	Low	Low	Low	High
10	Expiry	2008	2004	2011	2004 for some clothing preferences
11	Formalities	Customs declaration on prescribed form	Exporter declaration	Customs declaration	USTR-approved visa system

Notes:
(a) Of main agreement.
(b) But one (DRC) does not yet benefit from duty-free trade.
(c) Of main agreement for least developed states.

Table 2. Preferences for sub-Saharan Africa: main architecture
Source: Stevens 2003

If developed countries are serious about supporting developing countries, and regions such as Southern Africa, to trade their way out of poverty, liberal rules of origin should be introduced, and ideally full cumulation across all developing countries and even developed countries should be adopted.

5.2.2 Other non-tariff barriers to trade - Standards

Most countries require technical standards to be met on products such as agricultural goods before they can be sold. These standards are meant to ensure health and safety for consumers are maintained. However, increasingly these seem to be serving as a non-tariff barrier on imports from developing countries.

Approximately US$5.9 billion of OECD imports from Africa were subject to these measures in 1995. Wilson and Otsuki (2001) find that the new aflatoxin B1 - a common contaminant affecting agricultural products - is estimated to cost African producers over US$670 million per year in lost nut and grain exports. South Africa's beef exports could be boosted by US$160 million a year according to research at the World Bank if science-based international standards for minimum residue levels of veterinary drugs were applied. Overall Wilson and Abiola (2003) estimate that Africa could gain up to US$1billion a year from higher exports of nuts, dried fruits, and other agricultural commodities by implementing accepted international rules and abiding by international standards.

It would seem that standards are among the greatest non-tariff barriers that African exporters face in expanding trade into OECD markets. Donors can play a role through financial support to help develop countries' capacity to meet these international standards. Donor governments should also ensure that the standards which are set are not introduced for protectionist purposes, but only where and at a level which protects the consumer.

Finally, many African exports face additional standards set by private buyers such as supermarket chains. These standards are consumer driven. Whilst there are no legal requirements for these to be met, supermarkets will only buy from producers who adhere to their health, packaging and supply chain rules and standards. There may be a role for donors in assisting suppliers in meeting these more rigorous standards in a sector which has the potential to export many high value added products from Africa.

6. What types of activities could donors support?

As we have discussed above, programmatically there is significant scope for donor support to regional integration in Southern Africa. Whilst a number of donors are already involved, the range of constraints and size of the region means there is significant space for additional funds and effort.

At the same time, it is clear from the above that donor coordination is paramount and there is a need for donors, governments and RIA Secretariats to ensure this in partnership.

Table 3 from Iwuji-Eme (2003) and adapted by the author outlines possible types of programmatic support which can be undertaken in the region.

DFID will primarily hope to action these through the Africa Trade and Poverty Programme, the Regional Trade Facilitation Programme and national programmes such as support to revenue authorities.

Each regional organisation is given a mark between 1 and 4 to represent the significance of each constraint to regional integration within its group. The marks are interpreted as follows:

- 1= Not significant, 2 = fairly significant, 3 = significant, 4= very significant (markings are subjective).

In addition to existing programmatic support, the table identifies a number of policy areas DFID can pursue to benefit Southern Africa.

The range of policy areas identified for future work is also a reflection of the unusual position among donors of DFID as an independent ministry within the British government with the sole objective of poverty reduction. DFID is therefore able to engage with other British departments on trade policy debates, advocating the development case to colleagues. It is also fortunate that the different ministries within the UK government generally give strong support towards trade liberalisation, thus developmental and trade interests overlap.

Constraints	**SADC**	**COMESA**	**ACTION**
Internal Issues Influencing Regional Integration			
Lack of Political Will	3	2	Research quantifying long term benefits of regional integration
Weak national revenue system	3	4	Provide technical assistance to revenue authorities in the region to broaden the tax base and improve tax collection efficiency whilst minimising the burden of tax collection on the private sector and trade facilitation. Provide technical assistance particularly as far as improving data collection in trade statistics is concerned
Lack of strong supra national Institutional framework	4	2	Encourage better use of Regional Integration Support Programme (RISP). Provide technical assistance to support strengthening of framework.
Barriers to free movement of goods across borders (tariffs and bureaucratic customs procedures)	4	4	Support implementation of SADC Trade Protocol and COMESA Customs union through the Secretariats. Review of DFID revenue authority support programmes to ensure they support trade facilitation objectives Support tax harmonisation through SADC/COMESA – technical assistance to secretariats.
Poor Infrastructure and Communication	3	4	Assistance to identify and promote specific infrastructure development projects including capacity to undertake feasibility studies.

			In addition identify means of raising funding for infrastructure projects. Monitor progress of SADC's Spatial Development Initiatives programmes (SDI)
Membership of multiple regional organisations	4	4	Promote greater complementarity, and harmonisation of trade policies and procedures between COMESA and SADC, in order to avoid unnecessary duplication of efforts and drain of resources.
Uneven levels of economic development/ resource endowment	4	3	Research into most effective means of development focused regional compensation mechanisms e.g. Structural Fund Assist in promotion of outward looking regionalism. Encourage short term use of two tier approach to liberalisation, with richer countries liberalising faster than poor countries e.g. SADC Monitor progress of South Africa's SDIs.
Undiversified Export base	3	4	Research into sectors with real potential for diversification and value added growth, highlight constraints to this growth and way forward
Rules of Origin/anti dumping/import substitution policies (within region)	4	2	Promotion of the benefits of outward looking regional integration in trade policy advice and assistance provided. Again research quantifying potential benefits would be useful. Technical assistance and support in developing the most appropriate means of implementation of harmonised technical standards and procedures for approval, certification and monitoring movements of goods.
Poor communication between regional organisations private and small scale cross border sector operators	2	2	Promote and monitor continued dialogue with business representatives Research into dynamics of small scale cross border regional trade, strengths and weaknesses and address the best manner to formalise this trade. Improved dialogue between Regional organisations and key operators in this sector e.g. women.
Poor coordination of macro economic policies compatible with regional	3	3	Continue to promote (through International Financing Institutions, EU) the importance of a stable macro economic environment and need to ensure that domestic macro economic policy does not conflict with or compromise regional economic objectives.

integration objectives			
Donor Trade Policy and External Market Issues Influencing Regional Integration			
Standards set by OECD countries (or private sellers within those markets e.g. supermarkets) act as a barrier to African exports	3	3	Increase countries capacity to meet international standards Engage with supermarkets to explore ways of minimising the possibility that standards set by supermarkets inhibit African exports
Negotiating asymmetry in multilateral and bilateral trade agreements	4	4	Technical assistance and capacity building for trade policy and negotiating at member state level and SADC/COMESA level. Support Africa group and regional organisations to take a stronger lead if member states support this e.g. increased voice through single policy stance in Southern Africa
Rules of origin in OECD trade agreements act as a non-tariff barrier	4	4	Encourage donor countries to adopt simple and flexible rules of origin e.g. full cumulation across all developing countries. Support case study work of costs/benefits.
Development issues are often ignored by OECD and developing countries when setting trade policy.	2	2	Engage with other British government departments on WTO, Cotonou and key bilateral trade issues to ensure the development perspective from Southern Africa is heard and pass relevant analysis and ideas to Southern African partners.
Donor support at national, regional and HQ level may be conflicting and uncoordinated.	2	2	Encourage regional organisations to develop clear work plans for donor engagement Donor trade support at national and regional level to be consistent with PRSP and Integrated Framework support.

Table 3: Summary Table/Policy Action
Source: Iwuji-Eme 2002 and adapted by author 2003

This far, I have argued that in general, regional integration is beneficial for the region as a whole in terms of accruing economic prosperity and poverty reduction. However some caveats remain. Donors such as DFID believe that the wider gains will only be realised through multilateral liberalisation. If donor support distracts attention away from the multi- or unilateral liberalisation agenda and towards the regional, this may undermine poverty reduction objectives.

To counteract this possibility donors may seek to strengthen national analytical understanding of the issues involved so countries can suitably prioritise between competing negotiations and agreements. Donors may also support the Regional Integration Secretariats to contribute to strengthening their members' interaction in

the multilateral arena to overcome limited capacity or develop increased negotiating strength. This may mean that countries will be in the position eventually to mandate the Regional Integration Secretariat to negotiate agreed positions on their behalf. Donor governments must also commit themselves to a substantive development round of trade negotiations, for if the multilateral arena is not perceived to offer the promised benefits, countries may lose enthusiasm and increasingly resort to bilateral trade agreements in which developing countries are almost inevitably in a weaker negotiating position than OECD countries.

Finally, the Nepad Agenda is a vision pioneered by Africa which outlines the role that RIAs play as building blocks towards increased African growth and integration, emphasising that Africa is herself one part of the global "region" of the world. It is important not to fall into the trap of focusing on a regional bloc or RIA as an end in itself. RIAs are themselves vehicles to achieve the goals of prosperity and poverty reduction for the continent as a whole.

7. Conclusion

This paper has sought to argue that regional integration is important to donors because of its importance for stimulating growth and reducing poverty. Yet for benefits to be fully realised, complementary policies are needed as well as a focus on trade-creating rather than trade-diverting regional integration blocs, and in parallel to multilateral trade participation. This support should be neutral with respect to the existing regional organisations. Independent support can be given to national governments to help decide where their trade interests lie.

Donors can also play a role in promoting the perspective of the conventionally weaker voices of the poor, such as those of small cross border traders and women. Simultaneously, donors could also assist in the mainstreaming of issues such as HIV/AIDS, gender and the environment through infusion of these issues into their regional integration programmatic support.

Finally this paper seeks to show that for donor country governments to be serious about supporting developing countries to 'trade their way out of poverty', donor governments should liberalise their tariff barriers, particularly on agricultural products. Non-tariff barriers such as those pertaining to strict rules of origin should be revised, and other means found to allow developing countries to maximise the opportunities preferences offer. Both developed and developing countries have a long way to go before the benefits of regional integration can be reaped. Donors and donor governments have a crucial part to play in this process.

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