Chapter 2
Status of Regional Integration in Africa

This chapter provides the economic context for the Continental Free Trade Area (CFTA), with a focus on the major shifts in African regional integration since *ARIA VII*, published in April 2016. The chapter summarizes integration by country, and developments in mining, agriculture, health, peace and security, financial integration, free movement of persons, infrastructure integration, trade integration and trade trends.

During the period under review, Africa continued to take steps towards further integration, with national and regional policies in a range of areas.

Economic context[1]

Africa's gross domestic product (GDP) growth in 2016 was estimated at 1.7 per cent (ECA, 2017a), with economic performance among countries diverging: Côte d'Ivoire grew by 8 per cent, the United Republic of Tanzania by 7 per cent, Kenya and Senegal by 6 per cent, Cameroon by 5.3 per cent, Central African Republic by 5.1 per cent, Mozambique by 4.2 per cent, Ghana by 3.8 per cent, Mauritius by 3.6 per cent, Gabon by 3.2 per cent, Morocco by 1.7 per cent, Chad by 1.1 per cent and South Africa by 0.6 per cent. The oil-dependent Nigerian economy contracted by 1.6 per cent while that of Equatorial Guinea contracted by 4.5 per cent.

Over the last two years, inflation generally continued to decline in Africa, reflecting prudent monetary policies, decreasing global prices for oil and other commodities and good harvests, although some countries experienced a sharp rise due to currency depreciation, and they responded with tighter monetary policy.

Inflation in 2016 was 10 per cent and is expected to remain at around that rate in 2017. Inflation was 2.3 per cent in Central Africa in 2016, 5.3 per cent in East Africa, 8.7 per cent in North Africa, 11.4 per cent in Southern Africa and 13 per cent in West Africa.

North Africa has the largest fiscal deficit of Africa's subregions, although it declined slightly due to a narrowing fiscal deficit in Egypt. Central Africa's fiscal deficit increased from 5.1 per cent of GDP in 2015 to 5.8 per cent in 2016. This was mainly due to expansionary fiscal policies in the context of lower oil revenues in these countries: Cameroon (public expenditure on transport and power infrastructure), Equatorial Guinea (increased public investment in infrastructure) and Republic of the Congo (spending on public sector wages).

East Africa's fiscal deficit increased from 4.0 per cent of GDP to 4.6 per cent in 2016, owing to expansionary fiscal policies, mainly in Ethiopia (investment in infrastructure), Kenya (investment in a new railway line, sharply increased government salaries and transfers to new counties) and Uganda (investment in hydropower projects).

West Africa's fiscal deficit rose from 1.8 per cent to 2.8 per cent of GDP in 2016, largely reflecting increased public spending in Nigeria (especially on security), an increased minimum wage and higher spending on security and infrastructure in Côte d'Ivoire, and election-related expenses and greater spending on public sector wages in Ghana.

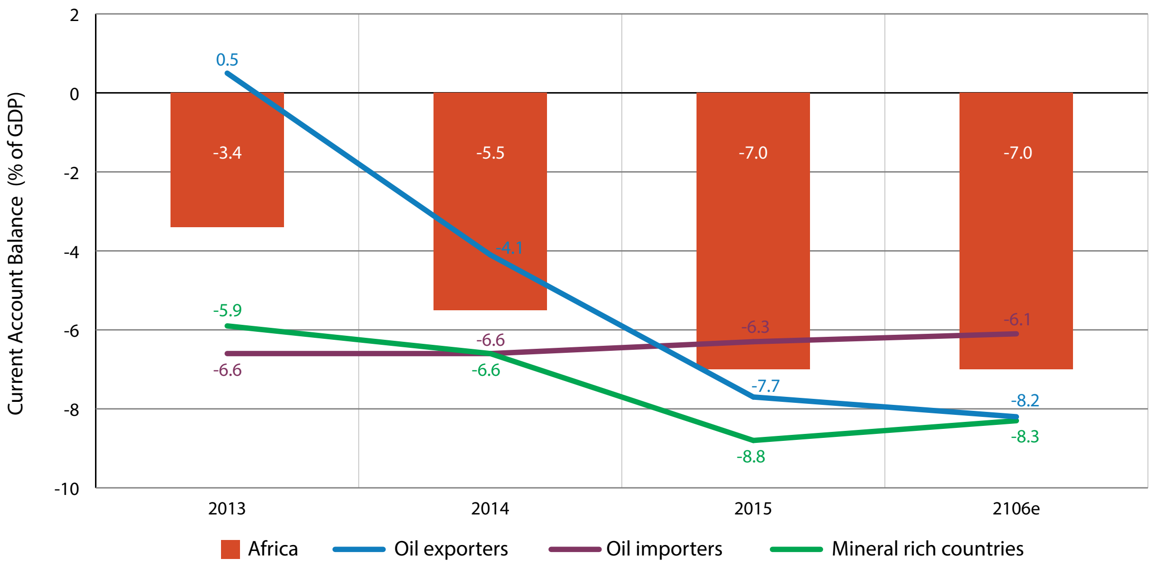
Southern Africa's fiscal deficit remained unchanged at 4.4 per cent of GDP. Though South Africa's deficit increased because of slow growth in revenue and heavier spending, this increase was counterbalanced at the regional level by declines in the fiscal deficits of Mozambique (which enacted capital spending cuts), Namibia and Zambia (which improved tax enforcement and postponed spending on large investment projects).

Figure 2.1. shows recent trends in Africa's current account deficits by country groupings. The decline in commodity prices has reduced the continent's export earnings, resulting in a much wider current account deficit.

African currencies continued to depreciate in 2016. Angola, Ethiopia and Nigeria devalued their currencies. The CFA franc is expected to depreciate gradually. Egypt floated its currency in 2016, a year in which the South African rand was volatile. The Ghanaian cedi was stable

Figure 2.1.

Africa's current account deficit



Note: "e" stands for estimates.

Source: ECA (2017a).

in 2016, after considerable volatility in recent years, though gradual depreciation is expected.

A sharper slowdown than anticipated in China could pose problems for African countries, as could geopolitical tensions, the policies of the new administration in the United States and the impact of the departure of the United Kingdom from the European Union (EU), especially as the EU is Africa's main trading partner. (Further details on these issues, and their implications for the CFTA, are in Chapter 9.)

Overall integration

While Africa has many policy initiatives that express commitments to continental integration, the framework that provides both legitimacy and inspiration is the Treaty Establishing the African Economic Community (the Abuja Treaty), which entered into force in 1994. The following subsection reviews the progress towards realizing the commitments of that Treaty. Roadmap towards an African Economic Community shows the stages of integration to which African countries committed themselves under the Treaty.

According to the Economic Commission for Africa (ECA) (2016),

> The first stage has now been completed, with eight RECs formally recognized by the African Union. These are the Arab Maghreb Union (AMU), Economic Community of West African States (ECOWAS), East African Community (EAC), Intergovernmental Authority on Development (IGAD), Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA), Economic Community of Central African States (ECCAS) and the Community of Sahel-Saharan States (CEN-SAD). The second stage has not been fully completed because progress by the RECs and by members within the RECs has been uneven. The third stage is under way in a number of RECs but not all. Only three of the eight recognized RECs have both a FTA and Customs Union (ECOWAS, EAC and COMESA), although with varying degrees of implementation. While a continental free trade area (CFTA) does not feature explicitly in the AU roadmap, in accordance with the sequential stages of regional economic integration, it is a stepping stone to the creation of a continental Customs Union.

Status of regional economic integration by REC summarizes the status of regional economic integration in each of the eight African Union (AU)-recognized RECs (Figure 2.3). The RECs are progressing at different speeds across the various components of the Abuja Treaty. The EAC has made the most progress across the board.

Figure 2.2.

Roadmap towards an African Economic Community

Stage 1: Strengthen existing RECs and establish new RECs in regions where they do not exist (by 1999)

Stage 2: Ensure consolidation within each REC (gradual removal of tariff and non-tariff barriers) and harmonization between the RECs (by 2007)

Stage 3: Establish FTAs and Customs Unions (CUs) in each REC (by 2017)

Stage 4: Coordinate and harmonize tariff and non-tariff systems among the RECs with a view to creating a continental CU (by 2019)

Stage 5: Create an African Common Market (ACM) by 2023

Stage 6: Establish an AEC, including an African Monetary Union and a Pan-African Parliament (by 2028)

Source: ECA (2016).

Table 2.1.

Status of regional economic integration by REC

REC	Free Trade Area	Customs Union	Single Market	Countries having implemented freedom of movement protocol	Economic and Monetary Union
EAC	✔	✔	✔	3 out of 5	✖
COMESA	✔	✖	✖	Only Burundi has ratified; Rwanda's ratification is in progress	✖
ECOWAS	✔	✔	✖	All 15	✖
SADC	✔	✖	✖	7 out of 15	✖
ECCAS	✔	✖	✖	4 out of 11	✔[2]
CEN-SAD	✖	✖	✖	Unclear	✖
IGAD	✖	✖	✖	No protocol	✖
AMU	✖	✖	✖	3 out of 5	✖

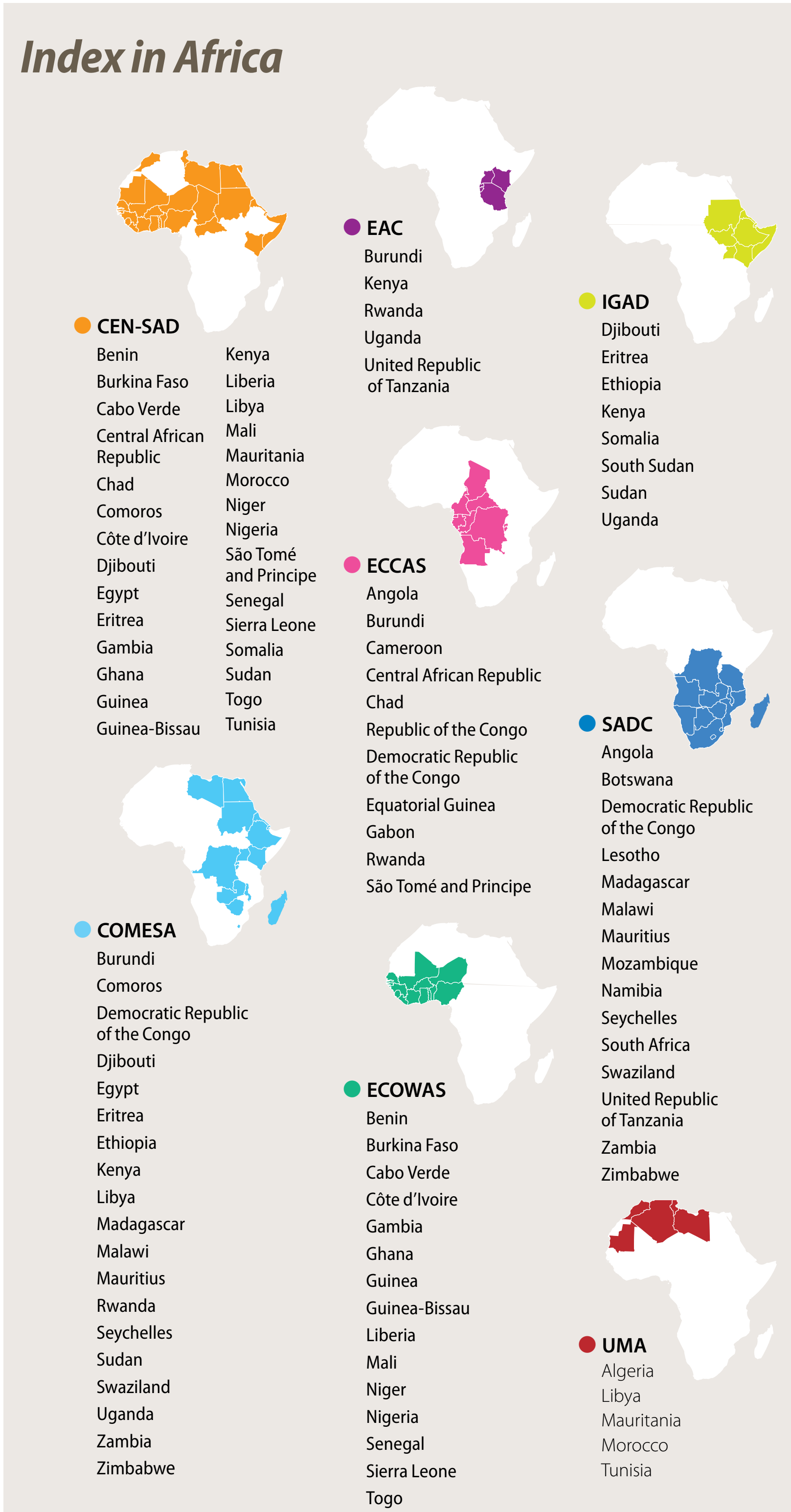
Source: ECA (2016).

The following extract from ECA (2016) shows how the CFTA fits into the achievement of the African Economic Community:

> The scope of the CFTA Agreement covers trade in goods, trade in services, investment, intellectual property rights and competition policy. This wide scope moves beyond the requirements of a traditional FTA, which requires only the elimination of tariffs and quotas on trade in goods. Therefore, similar to other trading bloc arrangements, it is difficult to neatly place the CFTA under one of the five stages of regional economic integration. The wide coverage of the CFTA is expected to ease the subsequent process of further regional economic integration in Africa.
>
> The harmonization of norms and regulations related to services typically takes place with the establishment of a [single market]. It is however important that trade in services is negotiated alongside trade in goods, since services are inputs into the production of trade in goods and the sector contributes a substantial share to the output of most African economies. The CFTA Agreement will therefore include a sub-agreement on trade in services on the basis of progressive liberalization,

Figure 2.3

Map of Africa and REC memberships



Some countries are members of more than one REC:

- CEN-SAD
- COMESA
- EAC
- ECCAS
- ECOWAS
- IGAD
- SADC
- UMA

Algeria
Angola
Benin
Botswana
Burkina Faso
Burundi
Cabo Verde
Cameroon
Central African Republic
Chad
Comoros
Republic of the Congo
Côte d'Ivoire
Democratic Republic of the Congo
Djibouti
Egypt
Equatorial Guinea
Eritrea
Ethiopia
Gabon
Gambia
Ghana
Guinea
Guinea-Bissau
Kenya
Lesotho
Liberia
Libya
Madagascar
Malawi
Mali
Mauritania
Mauritius
Morocco
Mozambique
Namibia
Niger
Nigeria
Rwanda
São Tomé and Principe
Senegal
Seychelles
Sierra Leone
Somalia
South Africa
South Sudan
Sudan
Swaziland
Togo
Tunisia
Uganda
United Republic of Tanzania
Zambia
Zimbabwe

Source: http://www.uneca.org/sites/default/files/PublicationFiles/arii-report2016_en_web.pdf.

consolidating and building on the RECs' achievements.

Some common investment rules are typically covered under the free movement of capital required by a [single market], whereas an [economic union] would usually contain a fully-fledged common investment policy. Investment issues are rarely covered in free trade areas (FTAs). The CFTA Agreement however is expected to include a sub-agreement on investment that is broad in scope, covering both goods and services. The provision of common rules for state parties in introducing incentives would help to encourage investment into African countries to accelerate development, and would also help to avoid any race to the bottom. A continent-wide dispute settlement system for investment disputes to be settled among state parties will also be key.

Intellectual property and competition policy would typically only be required under an [economic union], the fifth and final stage of regional economic integration. Since few African countries have the institutional capacities and expertise to utilize trade remedy instruments such as anti-dumping, safeguards and countervailing measures, the scope of the CFTA however also covers these areas. Competition policy is a particularly important instrument for regulating unfair trade practices and providing clarity to businesses. Inclusion of a mechanism for regulating competition and facilitating dispute settlement early on will also help to build confidence in the CFTA.

The CFTA Agreement is also expected to include an appendix on the movement of natural persons involved in services and investment, an area of cooperation that is usually not covered until the establishment of a [single market]. This is needed to transform the opportunities provided through the liberalization of trade in goods, services and investment.

Finally, the CFTA project is being rolled out in parallel with the implementation of the Action Plan for Boosting Intra-African Trade (BIAT), which was adopted by the AU Heads of State in January 2012. This initiative goes significantly beyond the requirements of a traditional FTA and is aimed at addressing the constraints and challenges of intra-African trade which are organized under the clusters of trade policy, trade facilitation, productive capacity, trade-related infrastructure, trade finance, trade information and factor market integration. Effective implementation of the BIAT initiative will be crucial to minimizing the challenges and maximizing the gains of tariff liberalization, and ensuring that all African firms and countries are able to take advantage of the CFTA.

In April 2016, the African Development Bank (AfDB), African Union Commission (AUC) and ECA unveiled the Africa Regional Integration Index. The Index seeks to track African countries' progress in implementing their regional integration commitments to one another in the framework of the RECs. It measures each country's integration across five dimensions, which have a total of 16 indicators. The following tables capture, for each of the eight AU-recognized RECs, how its members integrate with the rest of the membership, in terms of the country's overall score and each of its dimensions.

Data updates, not available in AfDB, AUC and ECA (2016), include the most recent data from the African Development Bank's African Infrastructure Development Index (published in 2016). These data show the average scores for 2011–13 (rather than 2010–12). Work is under way on the second edition of the Index, which will include a sixth dimension on social integration and on gender and will, in addition to measuring within-REC integration, compare how all African countries integrate with the rest of the continent.

Table 2.2

Integration among Common Market for Eastern and Southern Africa members

COMESA						
	Overall rank	Trade integration	Regional infrastructure	Productive integration	Free movement of persons	Financial and macroeconomic integration
Country	Rank	Rank	Rank	Rank	Rank	Rank
Zambia	1	1	8	3	4	12
Uganda	2	5	15	2	2	6
Kenya	3	4	13	6	4	10
Egypt	4	2	7	1	18	11
Seychelles	5	17	2	10	1	1
Mauritius	6	11	14	12	3	4
Madagascar	7	12	4	4	10	8
Zimbabwe	8	7	10	15	6	9
Rwanda	9	9	16	9	8	5
Democratic Republic of the Congo	10	3	9	14	14	13
Swaziland	11	15	1	7	7	19
Comoros	12	14	6	17	10	2
Burundi	13	13	12	8	13	14
Malawi	14	10	11	11	9	17
Libya	15	6	3	19	19	7
Djibouti	16	19	17	5	12	3
Sudan	17	8	5	18	17	16
Eritrea	18	16	19	13	15	15
Ethiopia	19	18	18	16	16	18

Table 2.3

Integration among Southern African Development Community members

SADC						
	Overall rank	Trade integration	Regional infrastructure	Productive integration	Free movement of persons	Financial and macroeconomic integration
Country	Rank	Rank	Rank	Rank	Rank	Rank
South Africa	1	1	4	2	6	1
Namibia	2	3	1	12	6	2
Botswana	3	4	2	14	8	3
Swaziland	4	5	5	5	1	8
Zambia	5	2	8	3	3	11
Zimbabwe	6	15	7	1	5	5
Seychelles	7	14	6	9	1	4
Mozambique	8	7	11	4	11	9
Lesotho	9	6	3	15	8	7
Mauritius	10	8	14	11	4	6
United Republic of Tanzania	11	13	15	6	12	13
Madagascar	12	9	13	8	13	10
Malawi	13	10	12	13	8	15
Democratic Republic of the Congo	14	11	9	7	14	12
Angola	15	12	10	10	15	14

Table 2.4

Integration among East African Community members

EAC						
	Overall rank	Trade integration	Regional infrastructure	Productive integration	Free movement of persons	Financial and macroeconomic integration
Country	Rank	Rank	Rank	Rank	Rank	Rank
Rwanda	1	4	1	4	1	1
Kenya	2	1	3	3	1	2
Uganda	3	2	5	1	3	3
Burundi	4	5	2	5	3	4
United Republic of Tanzania	5	3	4	2	5	5

Table 2.5

Integration among Community of Sahel-Saharan States members

CEN-SAD						
	Overall rank	Trade integration	Regional infrastructure	Productive integration	Free movement of persons	Financial and macroeconomic integration
Country	Rank	Rank	Rank	Rank	Rank	Rank
Côte d'Ivoire	1	1	12	14	1	8
Benin	2	14	16	4	7	9
Togo	3	15	4	9	6	7
Senegal	4	4	15	10	11	3
Niger	5	10	13	15	2	1
Mali	6	6	17	18	2	6
Burkina Faso	7	11	8	20	5	2
Tunisia	8	3	18	7	15	15
Ghana	9	12	3	8	13	20
Morocco	10	17	1	3	18	11
Gambia	11	19	6	5	7	16
Guinea-Bissau	12	26	9	25	9	5
Nigeria	13	8	11	22	10	23
Egypt	14	2	14	6	29	22
Kenya	15	21	19	1	17	21
Central African Republic	16	20	27		22	10
Djibouti	17	22	23	2	21	14
Guinea	18	18	7	19	2	27
Libya	19	13	2	21	27	18
Mauritania	20	16	21	23	16	17
Chad	21	24	29	17	19	4
Liberia	22	28	20	11	13	19
Comoros	23	9	28		23	13
Sierra Leone	24	23	24	13	12	26
Cabo Verde	25	27	5		28	12
Eritrea	26	7	26	16	26	25
Sudan	27	5	10	24	25	28
São Tomé and Príncipe	28	29	25	12	24	24
Somalia		25	22	26	20	

Table 2.6

Integration among Economic Community of West African States members

ECOWAS						
	Overall rank	Trade integration	Regional infrastructure	Productive integration	Free movement of persons	Financial and macroeconomic integration
Country	Rank	Rank	Rank	Rank	Rank	Rank
Côte d'Ivoire	1	2	12	7	1	7
Togo	2	7	3	2	1	6
Senegal	3	3	13	4	1	3
Niger	4	8	8	9	1	1
Ghana	5	4	2	3	1	12
Burkina Faso	6	9	6	14	1	2
Benin	7	11	14	8	1	8
Mali	8	6	15	12	1	5
Nigeria	9	1	7	10	1	13
Guinea-Bissau	10	10	9	15	1	4
Gambia	11	14	4	1	1	10
Cabo Verde	12	12	1	13	1	9
Sierra Leone	13	5	11	6	1	14
Liberia	14	15	10	5	1	11
Guinea	15	13	5	11	1	15

Table 2.7

Integration among Economic Community of Central African States members

ECCAS						
	Overall rank	Trade integration	Regional infrastructure	Productive integration	Free movement of persons	Financial and macroeconomic integration
Country	Rank	Rank	Rank	Rank	Rank	Rank
Cameroon	1	1	4	3	4	3
Gabon	2	3	3	4	7	1
Republic of th	3	8	2	5	3	5
Central African Republic	4	6	5	9	2	4
Chad	5	4	11	6	4	2
Rwanda	6	5	8	2	6	7
Equatorial Guinea	7	7	7	10	7	6
Angola	8	2	1	11	11	11
Burundi	9	10	10	1	9	9
São Tomé and Príncipe	10	11	9	7	1	10
Democratic Republic of the Congo	11	9	6	8	9	8

Table 2.8

Integration among Arab Maghreb Union members

AMU						
	Overall rank	Trade integration	Regional infrastructure	Productive integration	Free movement of persons	Financial and macroeconomic integration
Country	Rank	Rank	Rank	Rank	Rank	Rank
Morocco	1	2	2	2	4	1
Tunisia	2	1	5	1	3	2
Algeria	3	4	4	4	1	3
Libya	4	3	1	3	5	5
Mauritania	5	5	3	5	2	4

Table 2.9

Integration among Intergovernmental Authority on Development members

IGAD						
	Overall rank	Trade integration	Regional infrastructure	Productive integration	Free movement of persons	Financial and macroeconomic integration
Country	Rank	Rank	Rank	Rank	Rank	Rank
Kenya	1	2	2	1	2	2
Uganda	2	1	8	2	1	3
Djibouti	3	5	1	3	5	1
Ethiopia	4	6	5	4	4	5
Eritrea	5	4	7	5	3	4
Sudan	6	3	6	6	8	7
South Sudan			3		7	6
Somalia		7	4	7	5	

Other areas of regional cooperation: Mining, health and peace and security

Mining

The Africa Mining Vision, adopted by African Heads of State in 2009, provides a framework for a diversified, inclusive and integrated African economy built around the responsible use of natural resources. Its seven pillars outline the fundamental and institutional shifts needed to realize mineral-based industrialization and job creation, which will lessen the continent's exposure to harmful boom- bust commodity cycles. Indeed, the large mineral rents accruing in the 2000s, followed by dramatic falls in prices and returns, make clear the imperative to develop value-added activities along regional mineral value chains. An institutional arrangement with mineral-based transformation at its centre is needed.

The African Minerals Development Centre (AMDC)—an AUC and ECA centre of excellence—was set up in 2013 as the custodian of the Africa Mining Vision. Their mandate is to assist African Member States with implementation and mainstreaming of the Vision in national frameworks.

Achieving the Vision's ambitious goals is contingent on stronger regional integration in Africa. Regional value chains (RVCs) for minerals are instrumental in both upstream and downstream mineral activities at the subregional and regional levels. Research by the AMDC is identifying potential in mineral RVCs throughout the SADC region, where established mining economies, new entrants to the sector, and countries with strong sectors in agriculture, transport and other areas all have a role in a regional approach to mineral-based industrialization.

Because the national demand for mineral sector inputs, and the critical mass of producers of those inputs, may be too small to reach efficiency and economies of scale, regional markets can pool production and demand to reach that threshold. Mineral RVCs also draw on comparative advantages in skills, mineral endowments, connectivity and existing industrial linkages, which are spread across subregions.

AMDC is also researching the potential of pooled markets for mining supplies and input products in ECOWAS. Regional infrastructure development—particularly for harnessing cross-border energy endowments and transport corridors—is crucial for these RVCs, as activities at the nexus of mining and manufacturing are inherently energy intensive and strain the already overburdened national power supplies. Regional cooperation can also help spread skills and best practices in mineral-based industrial sectors.

Another area of integration vital to building mineral linkages involves regional approaches to illicit financial flows. Of the more than $50 billion in such flows that exit the continent annually,[3] more than half are driven by the extractives industry. Several factors contribute to these outflows, including issues of transparency and tax administration capabilities. However, the features of the fiscal regime governing the mineral sector, and the poor extent of harmonization of fiscal regimes across countries, also has a deleterious effect. For example, many African countries continue to employ contractual approaches to mineral taxes, and so tax measures can vary from contract to contract.[4] Licensing systems should be pursued in which tax and royalty laws are consistently applied.

Fiscal regimes across countries remain incoherent and inconsistent, allowing external actors and multinational corporations to exploit these disparities. This situation triggers a race to the bottom of overly compensatory agreements and contracts. Fiscal harmonization, particularly through alignment and streamlining of policies, allows countries to coordinate their tax activities while recognizing the specificities of their own fiscal regimes, which might be glossed over by a uniform system.

There has been significant buy-in at the regional level of the need to develop an African framework for addressing illicit financial flows in the extractives sector through closer cooperation and greater harmonization of fiscal regimes; global frameworks and guidelines alone may not help in addressing very specific issues that occur along the mineral value chain across Africa, such as transfer mispricing, and the fact that regional fragmentation allows such conditions to persist. Coordinated training and capacity-building programmes are being implemented to ensure that authorities in various jurisdictions are "on the same page" in addressing and reversing these illicit flows.

Comprehensive mineral frameworks have recently been established at the subregional level, which seek to promote and harmonize policies conducive to mineral-based transformation. For example, ECOWAS has adopted a directive on harmonizing guiding principles and policies in the mining sector that would create a common mining code for West Africa, and support priorities such as value addition through linkages and beneficiation, environmental protection, good governance and respect for human rights.[5]

Adopting a regional approach to "onboarding" the Africa Mining Vision—particularly over policies for mineral-based transformation—will help African countries overcome the limitations and hurdles of unilateral economic policy making, contract negotiation, infrastructure development and other steps that are burdensome without cooperation. In isolation, mineral producers compete in a race to the bottom rather than pooling markets for value addition and increasing bargaining power in contract negotiations.

Implementation remains the most difficult part of mineral policy and governance; well-prepared policies exist and are being developed, but there is little enforcement, especially for regional and cross-border policies. To rectify this, AMDC support to Member States in writing "country mining visions"—the actionable, national forms of the Africa Mining Vision—is increasingly addressing the importance of RVCs, harmonization aspects and other regional approaches. AMDC is also beginning to embrace the fact that regional mining visions can boost opportunities for linkages (between the mining sector and the rest of the economy) and for new economic opportunities.

In addition, the development of the African Minerals Governance Framework, the Country Mining Vision Handbook, training, and policy and law reviews offer avenues to address a range of development issues in Africa's mining sector and to preclude the sector from exacerbating the existing imbalances and inequalities. Going forward, it will be important to consider the needs of those working in the informal mining sector (often considered illegal; see the section below on informal trade) and also the gender-disaggregated impacts of mining policy.

Public health

Following the Ebola crisis in West Africa in 2014–15, African countries are cooperating in the prevention and management of public health crises. The African Centre for Disease Control and Prevention launched a five-year strategic plan in March 2017. This plan and its accompanying roadmap set priorities for prevention, disease control and the response to public health threats and emergencies on the continent (AU, 2017a; AU, 2017b).

Peace and security

In this area, African countries have established extensive cooperation:

- ECOWAS Member States prevailed on the outgoing president of Gambia to leave office, following his defeat in the country's recent election, even though he refused to do so. Subsequently, regional military forces supported the incoming president by securing his passage into the country and providing protection during his initial period in office in 2017.

- African countries contribute 38,071 personnel across the nine United Nations peacekeeping missions in Africa (of which one, UNAMID, is a joint operation with the AU) (ECA calculations based on UN, 2017a, 2017b); this is fewer personnel than in June 2016 (as reported in the last edition of *ARIA*), although the number of peacekeeping missions has remained the same.

- The AU has its own military mission in Somalia to destroy Al-Shabaab strongholds in central Somalia and to cut its supply routes. As part of these operations, the mission liberated the town of Adan Yabal in the Shabelle Dhexe region and Galcad in the Galguduud region (ECA, 2017f).

- Multinational action against Boko Haram continued in West Africa (ECA, 2017e).

- Women have played an important role in peace-building across Africa, including in peace negotiations in Burundi, Democratic Republic of the Congo, the Mano River Women's Peace Network and Somalia.

Financial integration

Table 2.10. shows intra-African outward direct investment. A negative value shows that a country has reduced the value of its total direct investment position, either because the investments have declined in value or because investors from that country have withdrawn investments. The volume of investments in Mauritius, despite its small economy, suggests that a lot of foreign investments to Africa may be routed through that country to take advantage of its favourable tax regime and its status as an offshore financial centre.

Table 2.10.

Intra-African outward direct investment positions, 2015 ($ million)

Benin	-5
Botswana	1,386
Burkina Faso	362
Cabo Verde	87
Guinea-Bissau	70
Mali	502
Mauritius	21,380
Morocco	222
Mozambique	5,856
Niger	490
Nigeria	5,284
Rwanda	877
Seychelles	367
South Africa	3,341
Togo	1,251
Uganda	1,466
Zambia	1,988

Source: ECA calculations, based on IMF (2017).

Some regional groupings have partial-payment systems integration; for example, EAC, SADC (which has payment systems integration) and West and Central Africa (Karingi and Davis, 2017). The COMESA payment and settlement system is being operated in 9 of its member states (COMESA, 2017). In addition, EAC Partner States recently agreed on direct convertibility of their currencies.

In North Africa, ECA is working with Arab Maghreb Union to increase trade finance. ECOWAS is pursuing efforts to pave the way for a single currency, and it has six convergence criteria for Member States (West African Monetary Agency, cited in ECA, 2017b).

Free movement of persons and the right of establishment

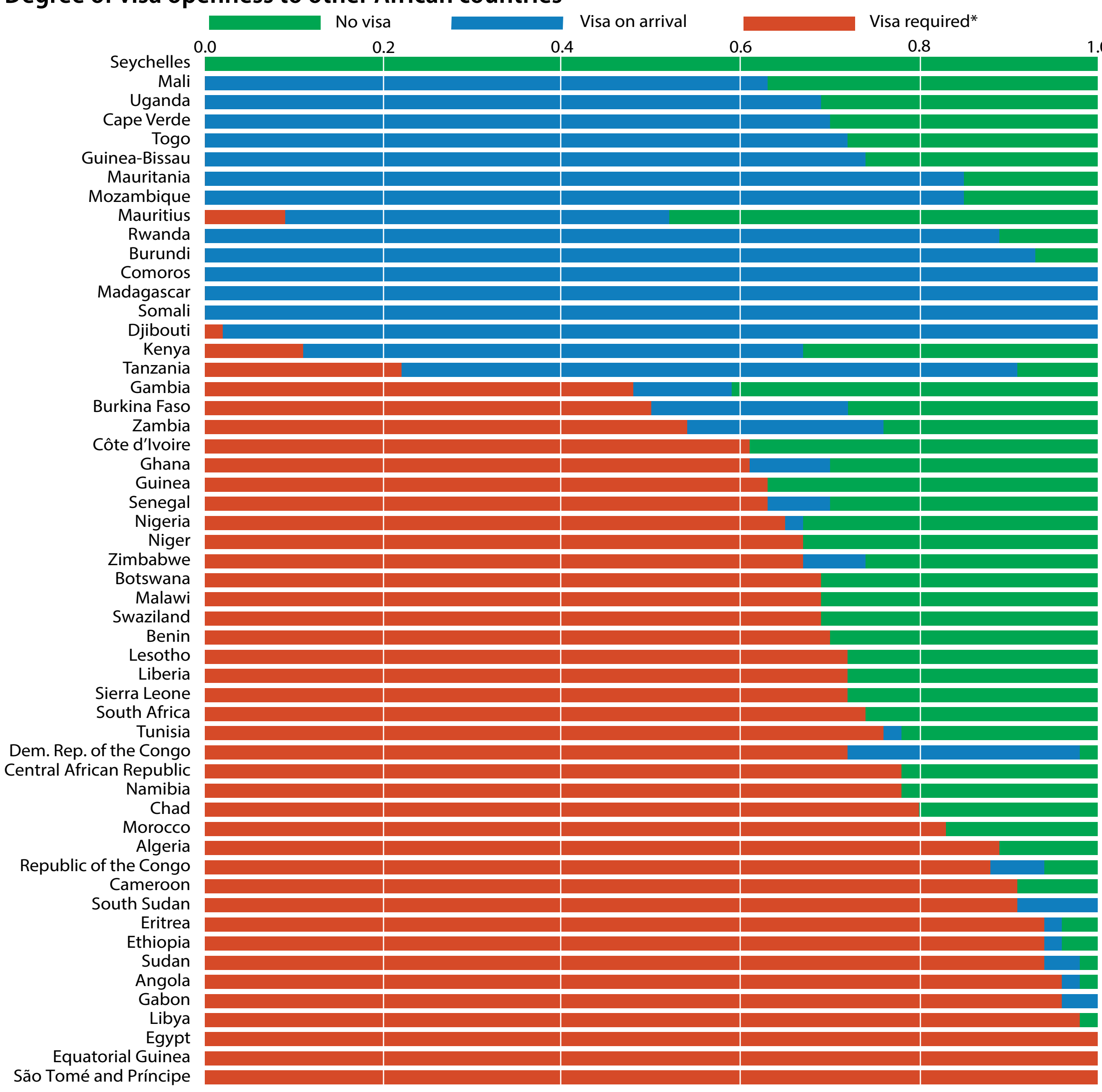
In 2016, the African Development Bank and McKinsey launched the Africa Visa Openness Report, which analyses visa openness in African countries. The report showed that there is still considerable room for African countries to liberalize their visa regimes. Figure 2.4. summarizes countries' openness across three dimensions.

The following entities have taken steps to support the free movement of persons:

- Rwanda has begun the process of ratifying the Common Market for Eastern and Southern Africa (COMESA) Protocol on Free Movement of Persons.

Figure 2.4.

Degree of visa openness to other African countries



Scores range from 0-1 (highest)

** Visa required means a visa has to be obtained before departure and is not an eVisa*

Source: Based on AfDB (2016).

- Benin, Ghana, Nigeria and Zimbabwe have all taken steps towards liberalizing their visa regimes for nationals of other African countries.

- Namibia and Rwanda plan to abolish visas for all Africans (Geingob, cited in *The Citizen*, 2016; *The East African*, 2017).

- The CFTA is expected to include an agreement on the movement of economic operators involved in trade and investment.

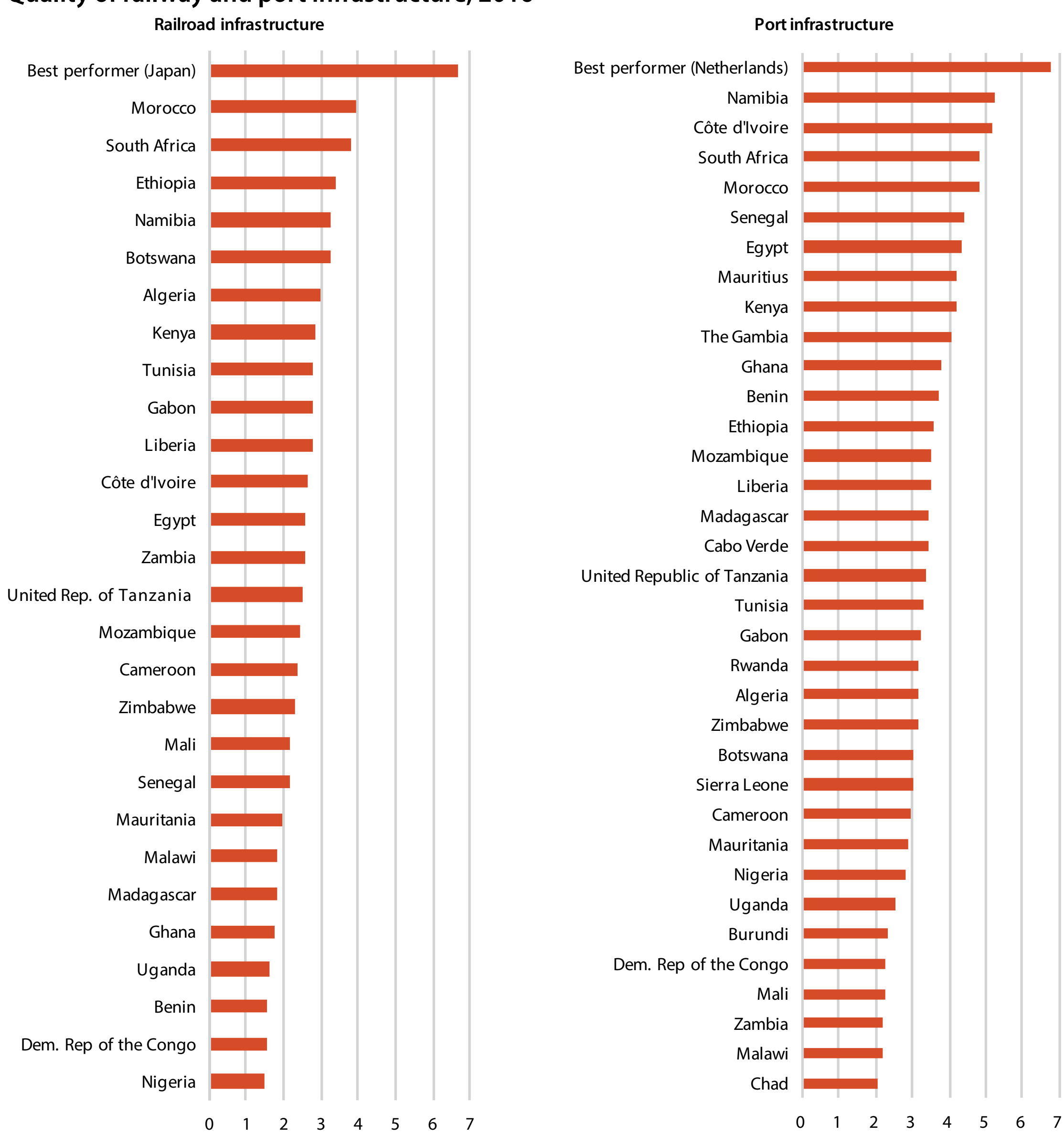
- The AU Assembly requested a draft protocol on the free movement of persons in Africa for consideration at its meeting in January 2018.

Infrastructure integration

Infrastructure remains one of the key factors for ensuring sustainable and inclusive development in Africa. It is also an important enabler of intra-African trade, particularly the development of RVCs within the continent. Improving the continent's infrastructure is essential to make the most of the potential of the CFTA (ECOSOC, 2017). The AU's Programme for Infrastructure

Figure 2.5

Quality of railway and port infrastructure, 2016

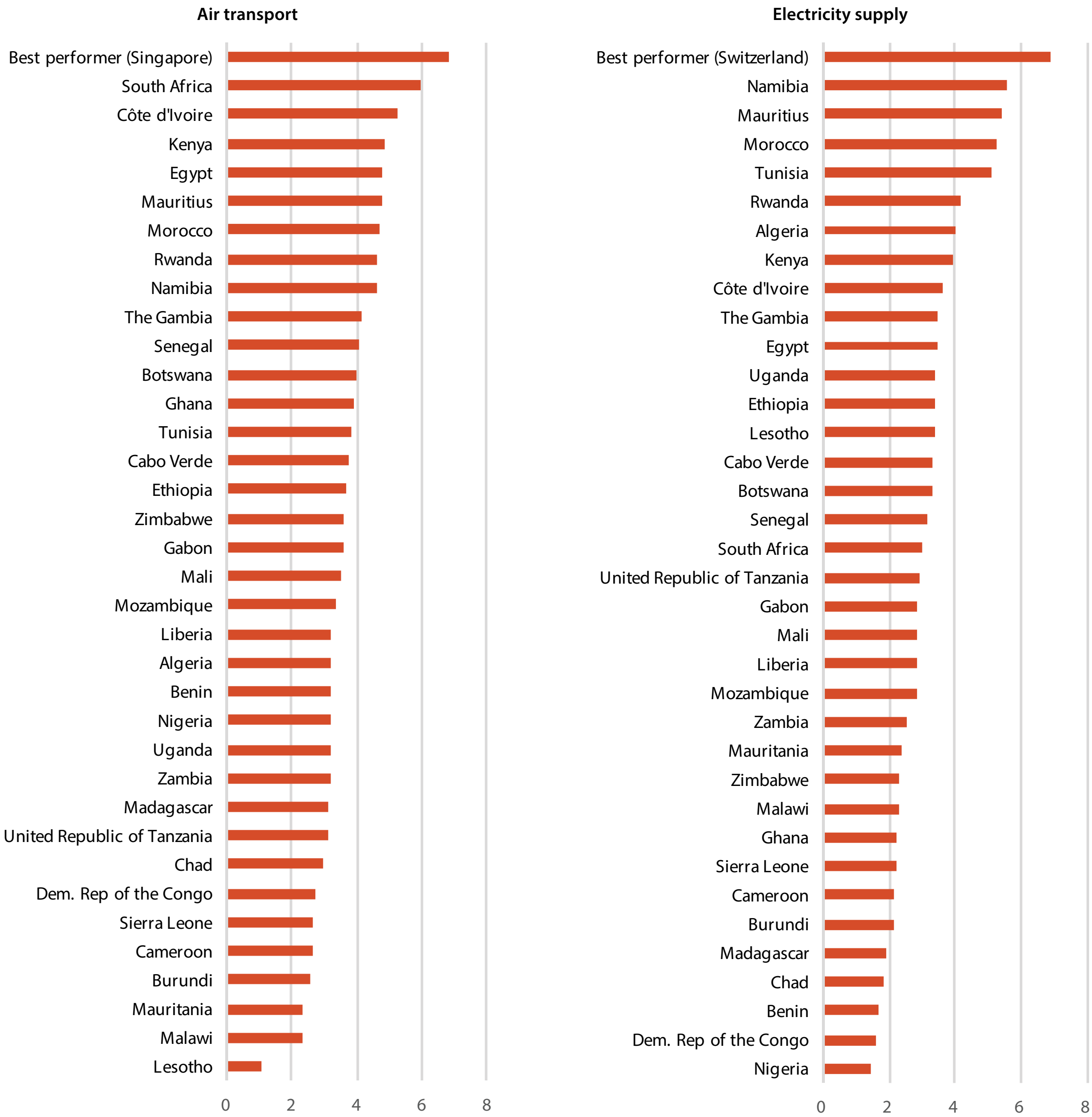


Note: Data were only available for a selection of African countries; the best performer of the dataset is included to show the distance to the global frontier. Ratings in the various categories of infrastructure quality are based on surveys of businesspeople.

Source: WEF (2016).

Figure 2.6

Quality of air transport and electricity supply infrastructure, 2016



Source: WEF (2016).

Development in Africa envisages a broad effort to improve the continent's infrastructure, which consists of 51 projects, including 16 priority projects.[6]

If one conceives of the degree of a region's integration as the ease with which persons, goods, services and capital can flow between its members, it is clear that high-quality infrastructure is essential for regional integration. Reliable cross-border transport infrastructure reduces the time and cost of transporting goods across borders. A functioning communications infrastructure facilitates communication within a region, across the continent and beyond. And a well-run energy infrastructure is essential for both transport and communications infrastructure.

It is not only cross-border infrastructure that supports regional integration; within-country infrastructure networks allow firms and individuals to more easily penetrate the interior of other countries in the region. Therefore, the quality of a country's infrastructure (international linkages and internal networks) is vital for boosting regional integration.

Figure 2.6 and Figure 2.6 show African countries' performance on quality of infrastructure indicators compiled for the World Economic Forum's Global Competitiveness Index. They reveal that African countries still have a way to go to meet the "global frontier," although some countries appear to be performing well (WEF, 2016).

Most African countries are upgrading their infrastructure.[7] The sections below give details on achievements recorded since the last edition of *ARIA*. World Bank (2017c) has a more complete list of projects with private participation in infrastructure. (That dataset has many projects not listed here, because there have been no updates to their status during the period under review.)

Energy

Many African countries continue to struggle with their energy infrastructure. Ghana, for example, has experienced load-shedding power outages that are thwarting the country's economic prospects (ECA, 2017c).

Still, a number of countries are upgrading their energy infrastructure. For instance, Angola has raised funds for investment in the 2,070 megawatt (MW) Lauca hydropower project, located on a section of the Kwanza River between the Cambambe and Capanda complexes and the Caculo Cabaça hydro facility. The Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development has allocated funds to mini-grid projects in Benin, Cabo Verde, Senegal and Sierra Leone, and more than 4,250 people in 850 households will reportedly directly benefit, as well as 123 commercial clients and small enterprises and 57 public buildings and services. Benin has raised funds for a 120 MW thermal power plant at Maria Gleta. Burundi, Côte d'Ivoire, Ghana and Guinea-Bissau have raised funds for rural electricity projects, and Côte d'Ivoire has worked on rehabilitating its electricity grid. Democratic Republic of Congo has mobilized funds for a distribution facility in Bandundu province and a transmission and distribution project in Kasai province (ICA, 2016). Djibouti increased its electricity production by 10.3 per cent from 2014 to 2015 (ECA, 2017g).

Egypt has mobilized substantial funds for its 1,800 MW combined-cycle gas turbine Damanhour power plant, alongside the 650 MW Cairo West Power project. The first of these projects will be supplied by the Egyptian Natural Gas Company and will be connected to the 500 kilovolt national grid via two new transmission lines: a 14 km connection to the existing Abu Qir/Kafr El-Zayat 500kV line, and a 60 km double-circuit 500kV line to connect Damanhour with the Abo El-Matamir 500/220kV substation. A project is also under way to create an interconnection between Egypt and Saudi Arabia's electricity grids, enabling an energy exchange between the two grids "during normal operating times, especially at peak time and during emergency conditions. The project also aims to reduce operating costs and reinforce the stability of both grids" (ICA, 2016). Also in Egypt, the construction of a wind farm at Gabal el Zeit was completed, with a capacity of 200 MW (World Bank, 2017a).

Ethiopia has opened the Gibe III hydroelectric dam, which has the capacity to double the country's energy output, and it is expected to produce 15,000 MW of electricity over the next five years (*The Economist*, 2016; Meseret, 2016). The country plans to raise the power output of hydropower, wind and geothermal sources to 17,436 MW (from the current 2,200 MW) under the 2015–2020 development plan (Maasho, 2016). In Ghana, gas from Sankofa is being developed for domestic energy production, so that 1,000 MW can be addeded to Ghana's capacity of 3,215 MW (ICA, 2016).

Kenya mobilized funds for a wind farm project at Lake Turkana. The Kenya Tea Development Agency raised funds to invest in hydropower for several of its tea factories, and for the country's Last Mile Connectivity Project to promote electricity access. Lesotho opened its Metolong dam, which "brings Lesotho's installed power generation capacity up to a level that should meet demand until 2025" and will electrify "75 villages previously without electricity," in addition to increasing its water supply. Morocco has mobilized funds for investing in rural electrification and a substantial investment in its solar power sector, as well as rehabilitating hydropower plants and dams and creating a 120 MW wind farm near Tangiers. In Mozambique, the Moamba-Major hydroelectric dam project is in progress and is expected to produce 15 MW of electricity to add to the national energy grid by 2019. Construction of this dam is also "expected to involve restoration of railways and new road building" (ICA, 2016).

Nigeria established a transitional power market in 2015 and achieved financial closure for investment in the construction of a 450 MW gas-fired power plant at Azura (World Bank, 2017a). Senegal has mobilized funds for investment in a power plant at Tobene and brownfield investment in the 135 MW oil-fired power plant in Rufisque. South Africa is upgrading its utility distribution network and power generation, including at least 1.5 gigawatts of new generation capacity through wind and solar power projects, such as the 40 MW Linde Solar Photovoltaic Plant, a 100 MW concentrated solar power plant in the Northern Cape, the 100 MW Karoshek Solar One project and a 138.9 MW wind farm in De Aar. Tunisia has raised funds for a 600 MW gas-fired power plant in Mornaguia (ICA, 2016; World Bank, 2017a). Uganda is continuing to invest in hydropower generation, including the 5.5 MW power plant in Paidha, the 5.6 MW Rwimi river small hydropower project and the 5 MW Siti Small Hydro Power Plant. Uganda also has a 10 MW solar power plant project under way in Soroti (ECA, 2017a; ICA, 2016; World Bank, 2017a). Zimbabwe is renovating its Bulawayo thermal power plant and has mobilized investment for the Gawanda solar project and the Hwange thermal power station (ICA, 2016).

In addition to the importance of upgrading national infrastructure, it is important to support the interconnection of national electricity grids. Cross-border interconnections "Allow countries to take advantage of significant hydroelectric potential in neighbouring countries, while also allowing the exporting of more expensive forms of generation to balance system costs" (ICA, 2016).

Some cross-border energy projects have continued during the period under review. These include the Central African power interconnection; the second Democratic Republic of the Congo–Zambia Interconnector; the Kenya–United Republic of Tanzania power interconnection; and the Ruzizi III hydropower project in Burundi and Rwanda. The last two projects raised additional funds in 2015. This transmission network is expected to be functioning in 2019. Côte d'Ivoire and Mali have planned an electricity interconnection project, while Mozambique, South Africa and Zimbabwe have raised funds for an energy interconnection project between the three countries.

The Côte d'Ivoire–Liberia–Sierra Leone–Guinea transmission programme (OMVG) (which is a priority West African Power Pool project), along with other projects under way, will see an extensive network of connections among the countries of West Africa, plus it will connect with the existing Côte d'Ivoire–Benin–Togo–Nigeria interconnection, the West African Power Pool Coastal Transmission Backbone, the Senegal River Basin Organization transmission grid and the above OMVG programme. Funding for the project is coming from participating governments and international donors. Feasibility studies have been carried out with technical assistance provided for preparation studies and environmental and social impact assessments. A 500 kilovolt interconnection line between Ethiopia and Kenya is progressing, with a critical substation expected to come online in December 2017. The Inga III dam project, which could eventually generate 50 gigawatts, remains under development (ICA, 2016).

Source: ICA (2016). shows existing energy generation plants in Africa, superimposed with selected new projects that received financial closure in 2015.

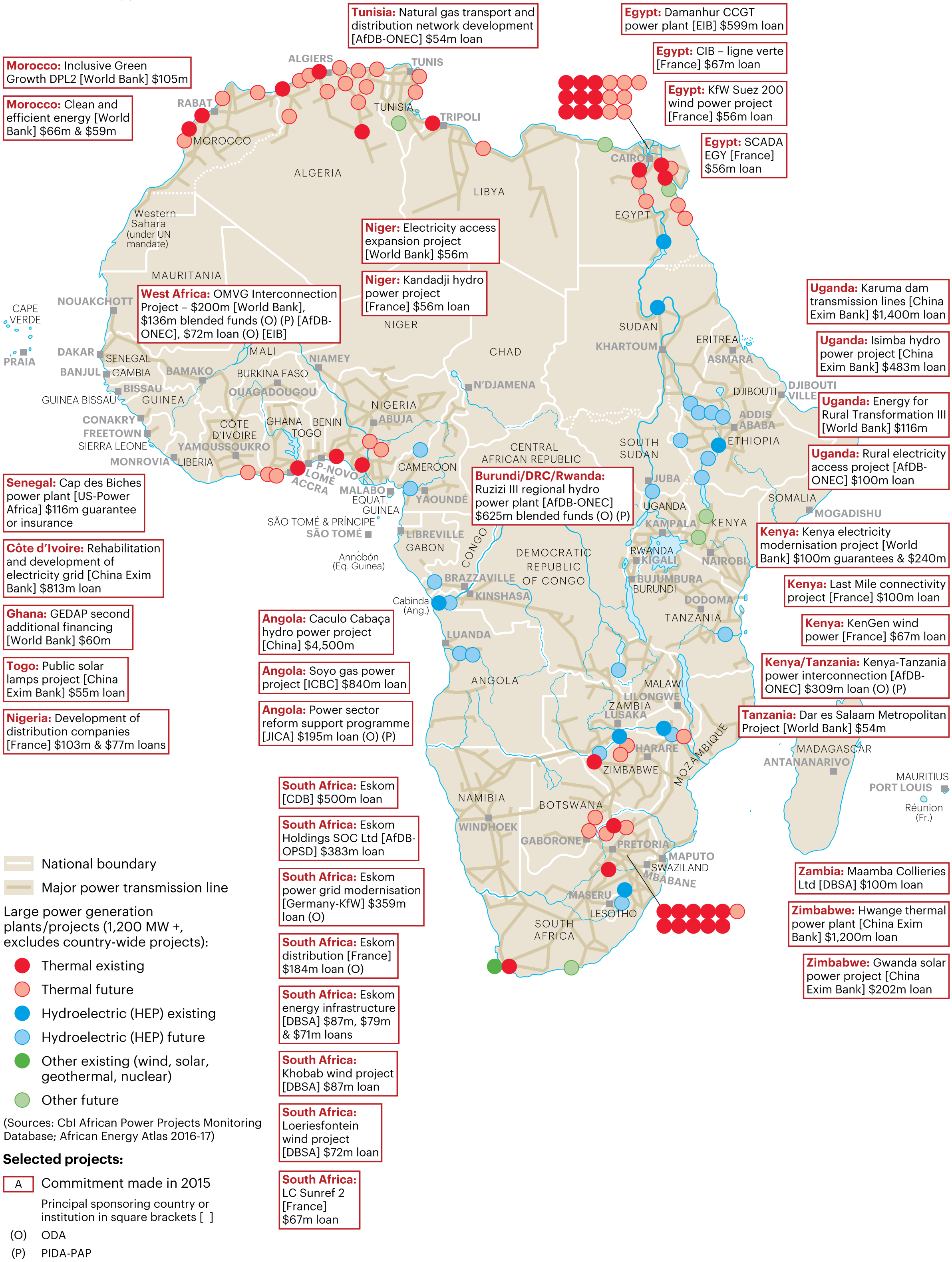
Communications

At the national level, Angola has a project to roll out high speed data transmission for corporate markets and individual customers; the cities of Lubango, Cabinda, Huambo and Soyo are expected to benefit. Benin is working to convert all of its television stations from analogue to digital and has raised funds to develop its broadband network. Cameroon has raised funds for the second phase of its National Telecommunications Broadband Network project (in country) and is planning to link Kribi, Cameroon with Fortaleza, Brazil by a submarine communications cable. International data traffic from Africa to the Americas "is currently routed via Western Europe... before going to America." This cable project will provide Brazil, Cameroon and neighbouring countries with improved communications, and add to Cameroon's other submarine cables, which link South Africa and France, Portugal, Spain and the United Kingdom (ICA, 2016).

Chad, Republic of the Congo, Democratic Republic of the Congo and the United Republic of Tanzania have investments committed for upgrading or constructing new telecommunications towers. An Egyptian telecoms provider signed a deal in 2015 that is likely to cut costs, and additional investments were agreed to for Uganda's telecoms sector. In Kenya, an ongoing project will provide 1,600 kilometres (km) of fibre optic cable (plus an additional 500 km for military use) and link to the existing 4,300 km of cable. Niger has mobilized further investment in its telecoms sector as well as funds for building a fibre optic backbone. Telecommunications towers are being built in Nigeria to improve coverage; Niger's telecoms sector provides an estimated 80 million people with internet access, including broadband, and there are almost 150 million active mobile phone

Figure 2.7.

Africa's energy sector, 2015



Source: ICA (2016).

subscriptions in the country. The Nigerian government plans to boost the information and communications technology sector and enable it to contribute more to the economy through reforming the sector's tax and regulatory framework (ICA, 2016).

In Zambia, investments in the telecommunications towers will improve accessibility and reliability of coverage. The government of Togo has awarded a contract to connect over 500 of its public buildings to fibre optic cable. In Zimbabwe's telecommunications sector, investors have been funding market consolidation, new services and network modernization (ICA, 2016).

At the subregional level, broadband infrastructure is being upgraded with the Djibouti Africa Regional Express submarine broadband cable, which will extend to Djibouti, Kenya, Somalia and the United Republic of Tanzania (World Bank, 2017a). The Economic Community of Central African States (ECCAS) is taking steps to implement a one-area network, similar to that in East Africa, that would reduce or eliminate roaming charges. A number of Economic Community of West African States (ECOWAS) member states have moved towards launching a similar one-area network. In addition, the private sector and international donors are setting aside further funds for investment in telecommunications across Africa (ICA, 2016).

Transport

Figure 2.8 shows a map of Africa's transport networks.

Railways

African countries are revamping their railway networks, including those with a regional dimension. For instance, the Addis Ababa light rail system and the Djibouti–Ethiopia railway have entered into service, with plans to expand this network to connect to Burundi, Djibouti, Kenya Rwanda, South Sudan, Sudan and Uganda (Appiah, 2015; Morylln-Yron, Scott, Kwok and Darvenzia, 2017). Gabon is rehabilitating the Transgabonais railway (World Bank, 2017a). Egypt has mobilized funds for investment in new rail stock (ICA, 2016).

Kenya is planning to build an underground rail system in Nairobi, and it will extend the Mombasa–Nairobi railway line to Naivasha (Parke, 2016).

Mozambique has a project to invest in railways in Nacala, which will also have its port and airport upgraded (ICA, 2016). Nigeria has completed a rail link between Abuja and Kaduna; it also signed a new memorandum of understanding in 2016 with a contractor for building a 1,400 km coastal railway between Calabar and Lagos, which will include an urban transit system for Lagos; and it has begun light rail projects for the Abuja and Kano metropolitan area (Barrow, 2016; Jacobs, 2017; Rogers, 2016; *Railways Africa*, 2016; Lu and Lau, 2016).

Malawi and Zambia together have launched a railway construction project that would connect with existing rail links to provide connections between the two countries and Mozambique (*Railway Gazette*, cited in Morylln-Yron et al., 2017). Senegal has raised funds for the Dakar–Kidira rail project. South Africa has secured funding to acquire new locomotive stock for its state-owned transport and logistics company, Transnet (ICA, 2016).

Railways planned, under construction or already completed in Eastern Africa shows additional railways in selected countries in Eastern Africa that are planned, under construction or already completed.

Air transport

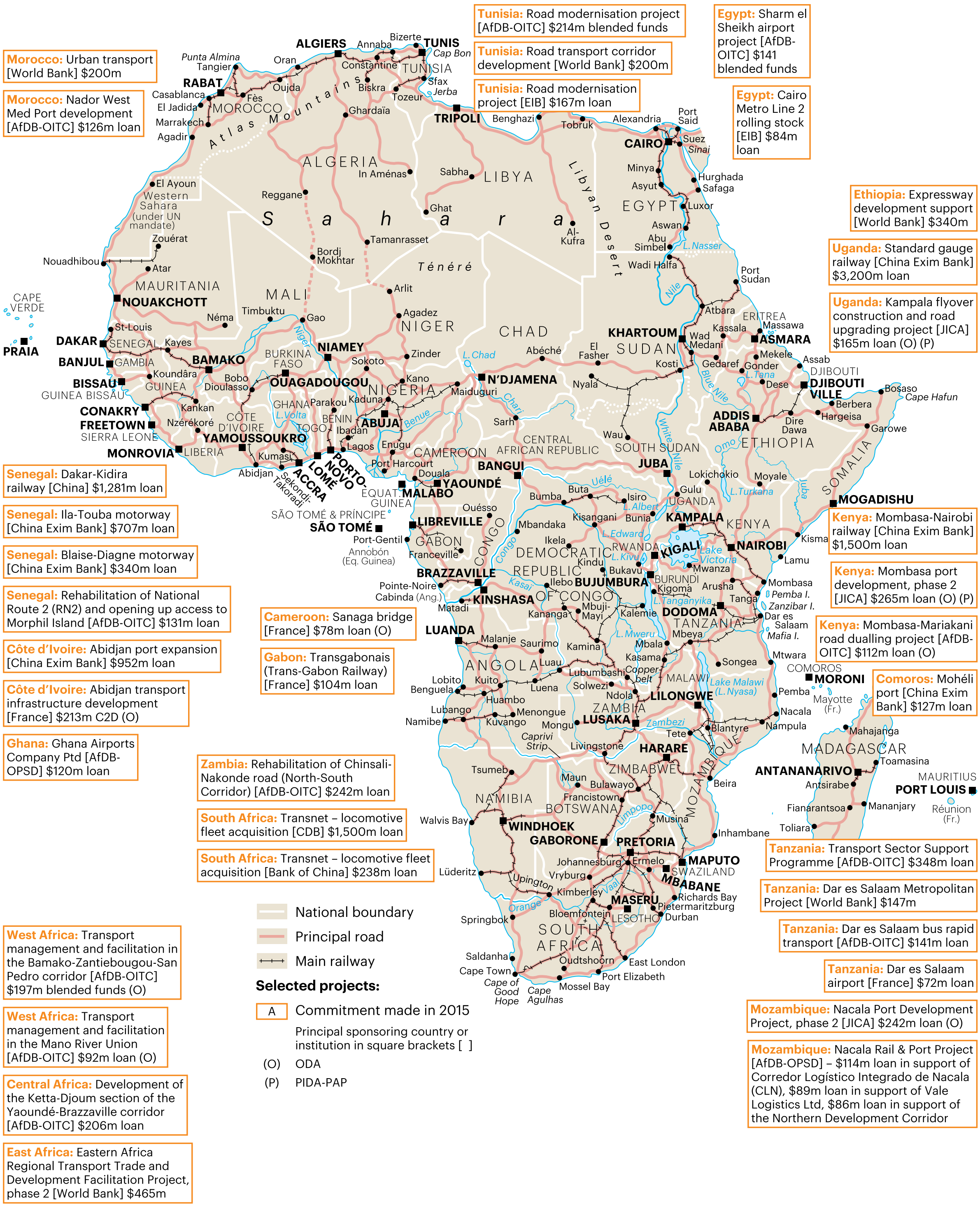
Cabo Verde and Senegal have signed an agreement on air transport links between them (ECA, 2017d). Air Djibouti, a public–private partnership, has launched cargo operations to capture a share of the regional market for such services. It has also resumed passenger flights to neighbouring countries (ECA, 2017g). The terminal expansion project for Ethiopia's Bole International Airport in Addis Ababa continues, and Nairobi's Jomo Kenyatta International Airport has also been upgraded in the period under review. Additional funds have been allocated for capital investment in Ghana's airports, including the construction of a new terminal at Kotoka International Airport in Accra and rehabilitation of other airports. With assistance from China, a new airport is under construction in Sierra Leone near Freetown. Mozambique has an ongoing project under review to rehabilitate Nacala airport. The Sharm el-Sheikh international airport in Egypt raised new investment funds (ICA, 2016).

Maritime and waterway transport

Additional funds have been mobilized for investment in Côte d'Ivoire's Abidjan port. Kenya continues to

Figure 2.8

Africa's transport networks, 2015



Source: ICA (2016).

mobilize resources for its Mombasa Port Development Phase 2 project, which is part of the Programme for Infrastructure Development in Africa's Priority Action Plan. Morocco has secured funds for its Nador West port, while Mozambique continues working towards developing Nacala port in combination with a rail project for that city: The Nacala port has a natural depth of 14 metres, the best natural harbour in southeastern Africa with very high potential. Senegal completed the final phase of its Maritime Infrastructure Establishment Project II, thereby opening the Ndakhonga harbour terminal. This creates a harbour that connects the central Ndakhonga region to the sea via the river, which

Figure 2.9

Railways planned, under construction or already completed in Eastern Africa

Source: Based on CPCS, cited in Morylln-Yron et al. (2017).

is a critical improvement. Togo mobilized investment for constructing the Lomé Container Terminal (ICA, 2016).

Among cross-border projects, Cabo Verde and Senegal have signed an agreement for a direct maritime link between Dakar and Praia (ECA, 2017d). Countries forming a line from Egypt to Lake Victoria are working on a feasibility study for a project to achieve waterway connectivity between the lake and the Mediterranean Sea (the VICMED project). African countries also concluded the Lomé Charter on Maritime Security during the period under review.

Multimodal transport

A multimodal Praia–Dakar–Abidjan corridor is planned under the Programme for Infrastructure Development in Africa. The Northern Multimodal Corridor has sought funding, and the Northern Corridor Trade and Transit Coordination Authority is working on a revised strategic plan with support from ECA's African Trade Policy Centre. The Lamu Port Gateway Project is continuing (ICA, 2016).

Pipelines

A project is planned to extend the Lake Victoria pipeline to Tabora, Igunga and Nzega in the United Republic of Tanzania. The extension is expected to benefit 89 villages in a 12 km radius of the pipeline.

Road transport

African countries are raising and committing funds for upgrading road infrastructure across the continent. Cameroon, for example, raised and committed funds for the Lena–Tibati road segment of the Batchenga–Lena–

Tibati–N'Gaoundere Corridor (which will also make trade between Cameroon, the Central African Republic and Chad easier) and the Sanaga Bridge. Côte d'Ivoire raised funds to construct an interchange in Abidjan on Boulevard Valery Giscard d'Estaing. Gambia plans to expand its road network to connect previously isolated areas of the country and to facilitate tourism; this expansion will include the installation of weighbridges. Ghana has a project to improve the N2 Eastern Corridor Road. Morocco has raised funds for the El Jadida–Safi Motorway project. Niger has assigned a new project for its dry port, and Senegal is planning to invest in two motorways (Aéroport International Blaise Diagne to Thiès and Ila to Touba) and has raised the financing for them. Togo has plans to construct a 60 km road from Katchamba to Sadori. In Uganda, the Kampala Flyover Construction and Road Upgrading Project has secured funds, while Zambia has done likewise for road improvements between Chirundu and Lusaka, and for the New Kafue Weighbridge (ICA, 2016).

At the regional level, work on the Abidjan–Lagos Corridor, the most heavily travelled West African corridor, is progressing. The 1,028 km road in the corridor (under construction) links West Africa's largest cities of Abidjan, Accra, Lomé, Cotonou and Lagos, which between them account for 75% of trade in the ECOWAS region. The corridor will link seaports to land-locked countries, facilitating intra- and inter-African trade. In 2014, the presidents of Benin, Côte d'Ivoire, Ghana, Nigeria and Togo approved the project, each pledging $50 million for preparatory activities. One-stop border posts are also being introduced. In addition to the impacts on trade and on the broader economy, travel corridors also help to develop rural and border areas (ICA, 2016).

Infrastructure financing

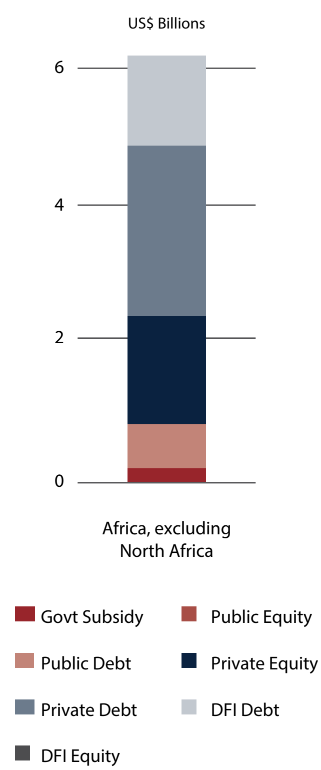
Public–private partnerships, and private finance more broadly, are important for financing infrastructure investments in Africa. The World Bank's Private Participation in Infrastructure Database listed 528 "active" (or "distressed") projects using private financing in transport, energy or communications infrastructure across 52 African countries (World Bank, 2017a). The projects involve a variety of different operating models, from those where the private contractor builds, owns and operates the project, to those where the facility is owned by the government. African countries are also using a range of financing vehicles to supplement state resources (Source: Based on World Bank (2015).).

Public–private partnerships help African countries to upgrade their infrastructure faster than would otherwise be possible, particularly for renewable energy projects. For example, 64 renewable energy projects reached financial closure over two years (to April 2016), committing $13.8 billion in private funding to construct nearly 4,000 MW of power-generating capacity. This is more than the total generating capacity of most African countries (ECA, 2016).

Private finance is also listed as being used for nine active multi-country infrastructure projects in Africa: the Abidjan–Ouagadougou Railway, the Beitbridge Border Post (between South Africa and Zimbabwe), the Dakar–Bamako Railway, the DARE submarine broadband cable (Djibouti, Kenya, Somalia and the United Republic of Tanzania), the Maghreb Gas Pipeline (Algeria and Morocco), Moov (Etisalat) (Central African Republic and Togo), the Mozambique–South Africa Gas Pipeline, the N4 Toll Road linking Mozambique and South Africa, and the West African Gas Pipeline (Benin, Ghana, Nigeria and Togo). In addition, "blended finance" and development funds are increasingly being used to

Figure 2.10.

Sources of financing for public–private partnership investments, end-2015



Source: Based on World Bank (2015).

Table 2.11.

New investment commitments in Africa's infrastructure by end-2015 by economic sector

Economic sector	Transport	Water	Energy	Information and communications technology	Multi-sector investments	Unallocated investments
Amount ($ billion)	34.7	8.1	34.7	2.5	2.2	1.2
Share of total commitments (per cent)	41.6	9.7	41.6	3.0	2.7	1.4

Source: ICA (2016).

Table 2.12.

New investment commitments in Africa's infrastructure in 2015 by funder

Funder	Amount committed in 2015 ($)
44 African governments[8]	28.402 billion
China	20.868 billion
Private sector	7.442 billion
ECOWAS Bank for Investment and Development	7 million
World Bank Group	6.039 billion
East Africa Development Bank	5 million
AfDB	4.166 billion
France	2.455 billion
Islamic Development Bank	2.166 billion
Japan	1.768 billion
European Investment Bank	1.414 billion
Germany	1.139 billion
Arab Fund for Economic and Social Development	984 million
Development Bank of Southern Africa	929 million
European Union bodies	897 million
Other European funders	876 million
India	524 million
Brazil	500 million
Saudi Fund for Development	392 million
Banque Ouest Africaine de Développement	352 million
Kuwait Fund for Arab Economic Development	342 million
OPEC Fund for International Development	312 million
United States	307 million
United Kingdom	287 million
International Finance Corporation	246 million
Canada	195 million
Arab Bank for Economic Development in Africa	135 million
Republic of Korea	88 million
Abu Dhabi Fund for Development	81 million
Banque des États de l'Afrique Centrale	55 million

Source: ICA (2016).

finance infrastructure investment projects in Africa (ICA, 2016).

Sectorally, infrastructure financing in Africa in 2015 is delineated by sector in Table 2.11.

New commitments in 2015 to funding African infrastructure are listed by funder in Table 2.12., which shows that African governments' own resources (together) comprise the largest source of funding, followed by China, and multilateral development banks (combined).

Trade integration

This section examines trends in formal trade followed by a review of intra-African trade data and progress on liberalizing tariffs, facilitating trade, and removing non-tariff barriers (NTBs).

Currently there are four functioning free trade areas by AU recognized RECs: COMESA, ECOWAS, EAC and SADC. Further intra-African trade is liberalized through mechanisms beyond the AU-recognized RECs, including the Pan-Arab free trade area, the Central African Economic and Monetary Community (CEMAC) and the Southern African Customs Union (SACU). The Tripartite Free Trade Area (TFTA) will liberalize more intra-African trade. This is also the expectation for the CFTA.

Most intra-African trade occurs between African countries that are members of the same regional grouping. For instance, the average country in the EAC sources 86 per cent of its African imports from other EAC countries. For ECOWAS, the comparable figure is 64 per cent, for SADC 90 per cent, and for COMESA 78 per cent.

Figure 2.11 to Figure 2.15 show the makeup of intra-African imports by country, with a breakdown of imports that are already traded under FTAs, those that would be covered by the TFTA, and those from other African countries that would be additionally covered by the CFTA. Though imports are covered by these REC free trade areas, several REC free trade areas exclude certain products. Free trade area utilization rates are also less than 100 per cent: For instance, the ECOWAS Trade Liberalization Scheme is cumbersome for traders, meaning that many still pay tariffs (OECD, 2010; Bossuyt, 2016). The figures therefore do not show the level of liberalization, but merely reflect REC free trade area coverage.

EAC countries already have considerable coverage through their EAC single market and the COMESA FTA. Including the TFTA, the EAC countries would on average cover 99 per cent of their intra-African trade.

As ECOWAS coverage is much lower, the CFTA would add considerable value. It could also help to solidify free trade in ECOWAS given the reported constraints to traders regarding the ECOWAS Trade Liberalization Scheme.

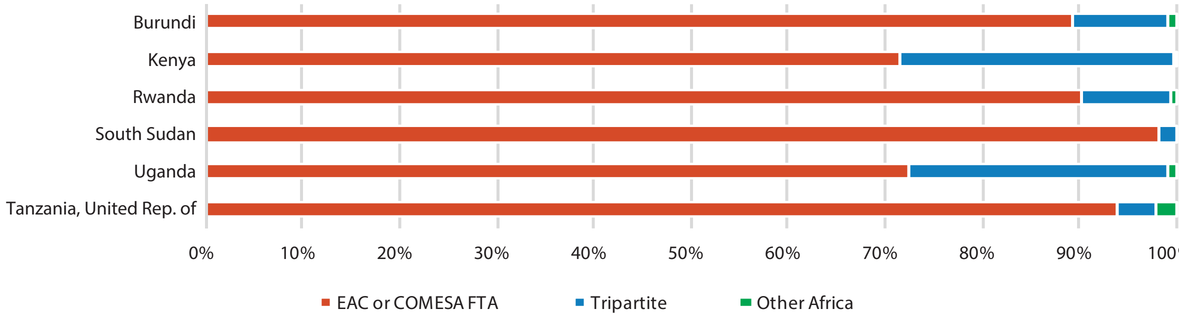
The TFTA will be especially important for the COMESA countries that are not in the EAC and are not operating the SADC FTA, as well as for several countries that are not yet implementing other REC FTAs, including Angola, Djibouti, Eritrea and Ethiopia. It will also be valuable for Sudan, which has only a small amount of its intra-African trade captured by the Pan-Arab FTA. For the remaining African countries that are not party to an operating REC FTA, the CFTA is expected to contribute to a large amount of intra-African trade liberalization.

These characteristics of intra-African trade are relevant for the CFTA for two reasons: They show that the tariff revenue losses expected of the CFTA are low, because for many countries a large proportion of intra-African trade is already covered through REC FTAs; and the CFTA will help cover intra-African trade for those countries that do not have operating FTAs within their RECs.

They also suggest that the immediate effects of the CFTA—positive and negative—are unlikely to be dramatic in many countries. The CFTA amounts to a step, rather than a leap, forward for African integration, which will help advance all countries to an improved level of trade integration. (As Chapter 5 highlights, the incremental approach can reduce the structural adjustment costs associated with trade liberalization, and still lead to the trade gains identified in Chapter 4, including improved conditions for forming RVCs, permitting better economies of scale, diversifying exports and facilitating the trade growth forecast by numerous trade models.)

Figure 2.11

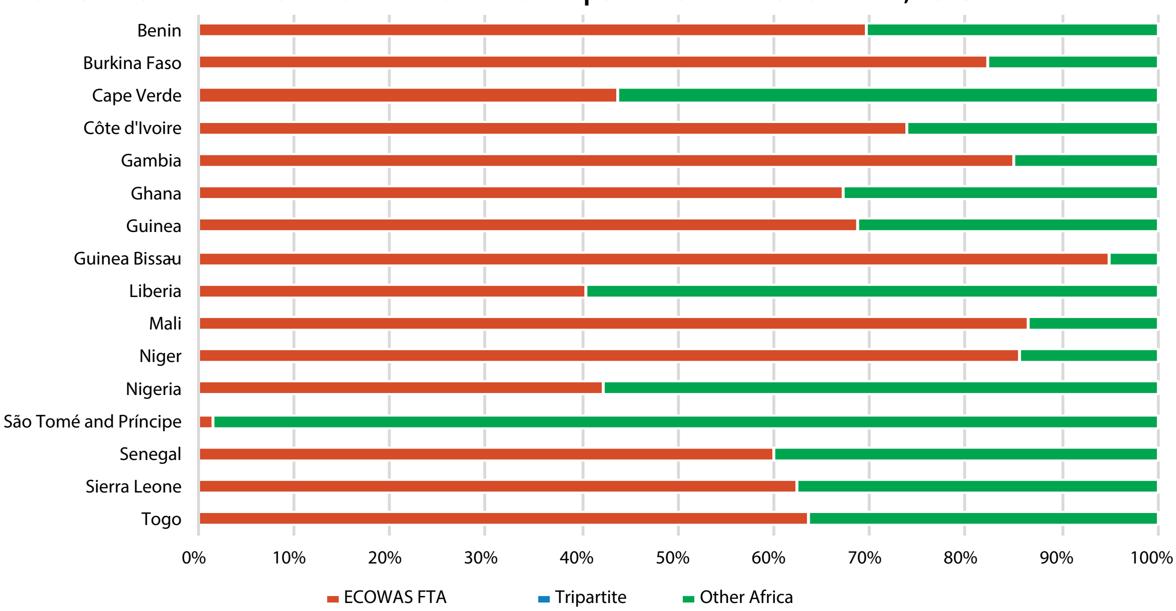
Share of EAC Member States' intra-African imports that enter under FTAs, 2015



Source: ECA calculations.

Figure 2.12

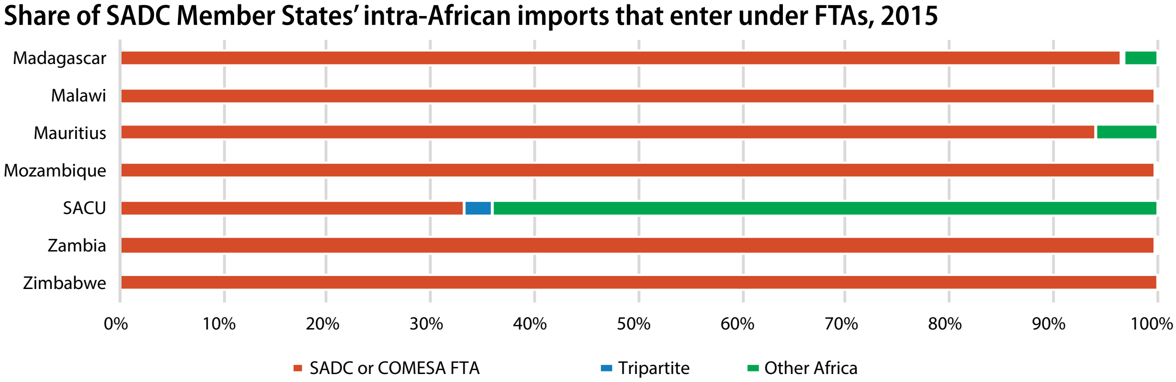
Share of ECOWAS Member States' intra-African imports that enter under FTAs, 2015



Source: ECA calculations.

Figure 2.13

Share of SADC Member States' intra-African imports that enter under FTAs, 2015

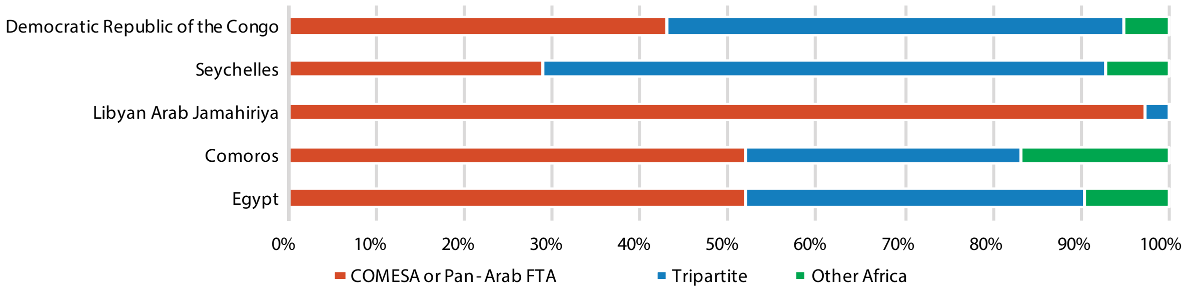


Note: Angola, Democratic Republic of the Congo and the Seychelles have not yet implemented the SADC FTA.

Source: ECA calculations.

Figure 2.14

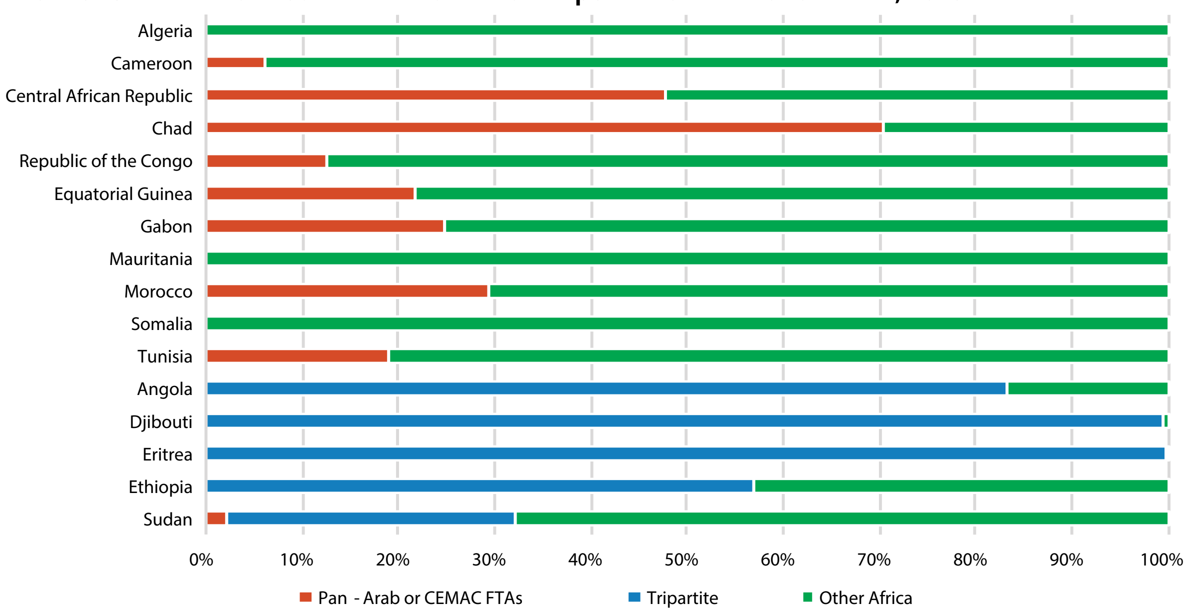
Share of remaining COMESA (those not operating SADC or EAC FTAs) Member States' intra-African imports that enter under FTAs, 2015



Source: ECA calculations.

Figure 2.15

Share of Other African countries' intra-African imports that enter under FTAs, 2015



Note: Djibouti, Eritrea, Ethiopia, Sudan and Swaziland have yet to fully implement the COMESA FTA.

Source: ECA calculations.

Formal trade arrangements

Since *ARIA VII*, Africa's RECs have made further advances in liberalizing trade.

COMESA

Democratic Republic of the Congo joined the COMESA free trade area in 2016 through an Act of Parliament, taking the total number of countries to 16. The country will reduce tariffs on imports from other COMESA members over a three-year period, with a 40 per cent reduction on duties in 2016 followed by a 30 per cent reduction in 2017 and another 30 per cent in 2018 (COMESA, 2016).

EAC

South Sudan has completed its accession to the EAC, having received approval from the EAC Heads of State in March 2016 and having signed the accession treaty in April 2016.

ECOWAS

The ECOWAS customs union, which came into force in January 2015, applies a common external tariff at the following rates:

- Zero per cent on essential social goods, covering 85 tariff lines.

- 5 per cent on goods of primary necessity, raw materials, capital goods and specific inputs, covering around 2,100 tariff lines.

- 10 per cent on intermediate goods, covering around 1,400 tariff lines.

- 20 per cent on final consumer goods and goods not specified elsewhere, covering 2,200 tariff lines.

- 35 per cent on specific goods for economic development, covering 130 tariff lines (ECOWAS Commission, 2015a, cited in ECA, AUC and AfDB, 2016).

ECOWAS has created the following mechanisms to ensure that their member states implement the common external tariff:

- A customs valuation mechanism, to ensure that all member states apply the same system of customs valuation.

- Regulations to ensure that inputs for the manufacture of zero-rated products do not face tariffs significantly above those placed on the final product.

- Safeguard, trade, defense and anti-dumping measures: These include supplementary protection measures allowing member states to deviate from the common external tariff for a maximum of 3 per cent of the tariff lines identified in it.

The ECOWAS Common External Tariff came into force on 1 January 2015. Ten out of 15 ECOWAS members were implementing it by 2016 (Obideyi, cited in *Daily Post*, 2016; Ghana Revenue Authority, 2016). In 2017, ECOWAS member countries authorized the ECOWAS Commission to coordinate members' negotiating positions in the discussions for the CFTA.

Tripartite Free Trade Area (TFTA)

The following developments took place in the negotiations of the TFTA since *ARIA VII* was written:

- Eighteen of 26 TFTA member states have signed the Agreement, with a 19th due to sign by 10 June 2017, and one (Egypt) has ratified it.

- Rules of origin for product types covering more than 60 of the 96 Harmonized System chapters had already been agreed on by end-May 2017.

- Annexes on trade remedies, dispute settlement and rules of origin have been finalized.

- The start of the second phase of negotiations has been delayed from its original date.

- TFTA member states are discussing whether to drop separate TFTA-level negotiations on trade in services and simply to focus on CFTA negotiations on services trade.

Continental Free Trade Area

The CFTA negotiations continued during 2016 and 2017, including the first meeting of technical working groups and discussions on modalities. (A more detailed review is in Chapter 4.) As shown in ARIA V, and supported by a more recent study by UNCTAD, the CFTA is expected to bring significant economic benefits to Africa via deeper regional integration and higher incomes and GDP (ECA, AUC and AfDB, 2012; UNCTAD, 2017a).

Intra-African trade in goods

Such benefits are needed, as intra-African exports fell steeply in absolute value from $85 billion in 2014 to $69 billion in 2015 (UNCTAD, 2017b). Intra-African trade as a share of the continent's GDP also declined, from around 3.4 per cent to around 2.9 per cent over the period (Figure 2.16).

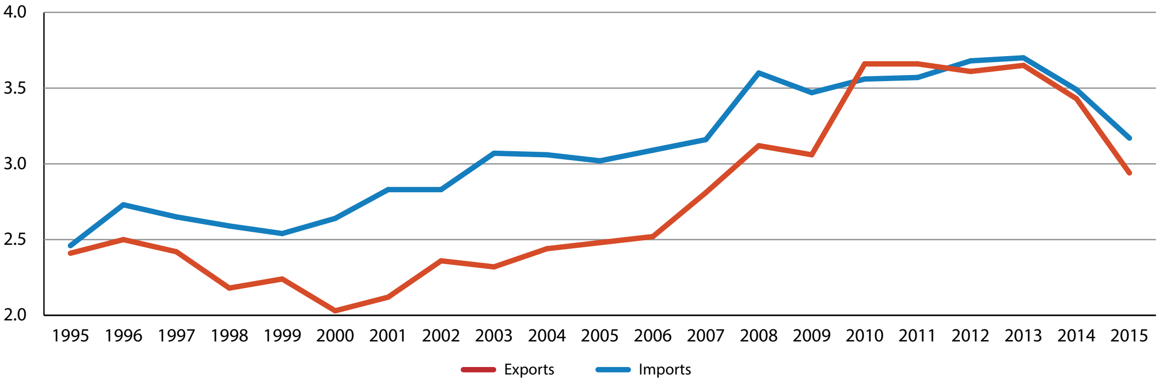
As a share of Africa's total imports, intra-African imports stood at 14 per cent in 2015 (UNCTAD, 2017c). As a share of Africa's total exports, intra-African exports stood at 18 per cent in 2015 (UNCTAD, 2017c).

Intra-REC trade

Figure 2.17 shows the share of intra-regional trade in GDP among 25 selected regional trade agreements

Figure 2.16

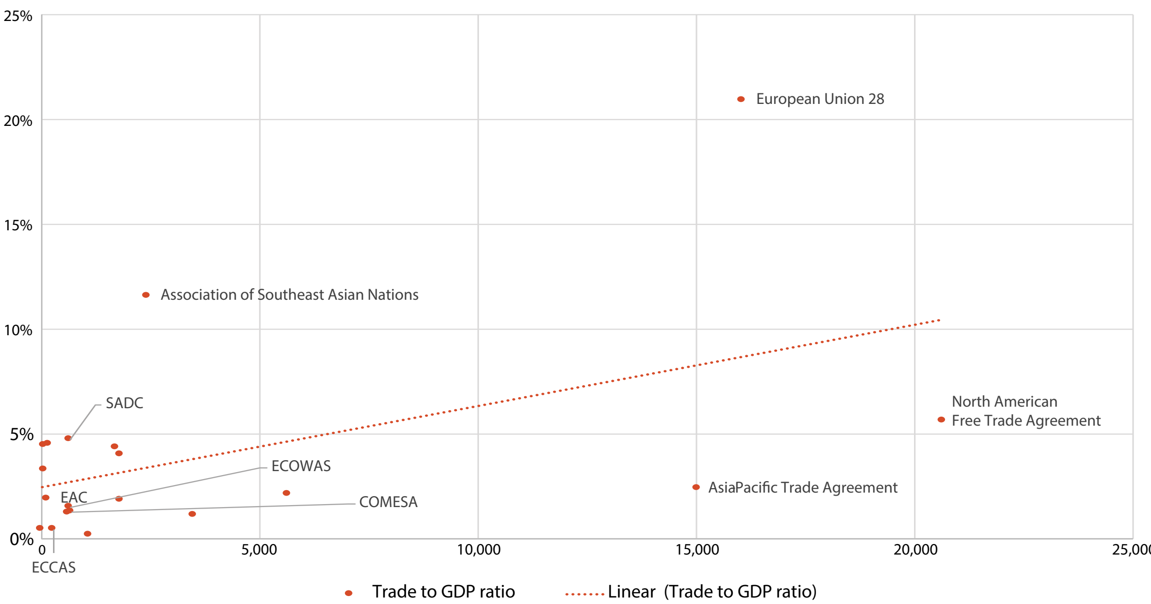
Growth in share of intra-African trade in Africa's GDP, 1995–2015



Source: ECA calculations based on UNCTAD (2017b and 2017c).

Figure 2.17

Intra-regional exports as a share of regional GDP plotted against GDP, 2015 ($ billion)



Source: ECA calculations based on UNCTAD (2017c) and WTO (2017a).

in force worldwide and reported to the World Trade Organization (WTO), relative to the total GDP of the bloc (since economic blocs with larger GDP may have greater economic diversity within them, creating greater potential gains from trade and therefore a higher share of intra-regional trade in GDP). Based on this comparison, Africa's RECs that have regional trade agreements (that is, COMESA, EAC, ECCAS, ECOWAS and SADC), tend to underperform in terms of the share of intra-regional trade in GDP (except for SADC).

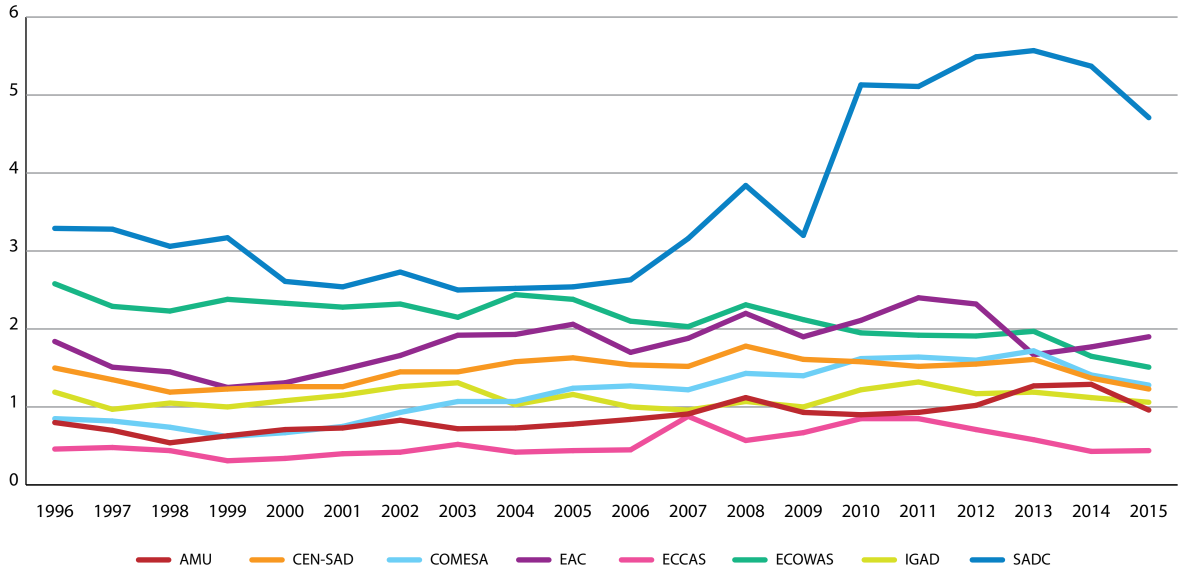
Among the eight AU-recognized RECs, SADC consistently has the highest share on this metric (Figure 2.18), even though it does not have the lowest intra-regional economic community average–applied tariffs. Other factors, such as trade complementarity, may explain the pattern of trade within SADC.

Non-tariff barriers and trade facilitation

Africa remains far behind the world on its efficiency of document and border processing requirements for

Figure 2.18

Intra-regional economic community exports as a share of GDP, 1996–2015



Source: ECA calculations based on UNCTAD (2017c).

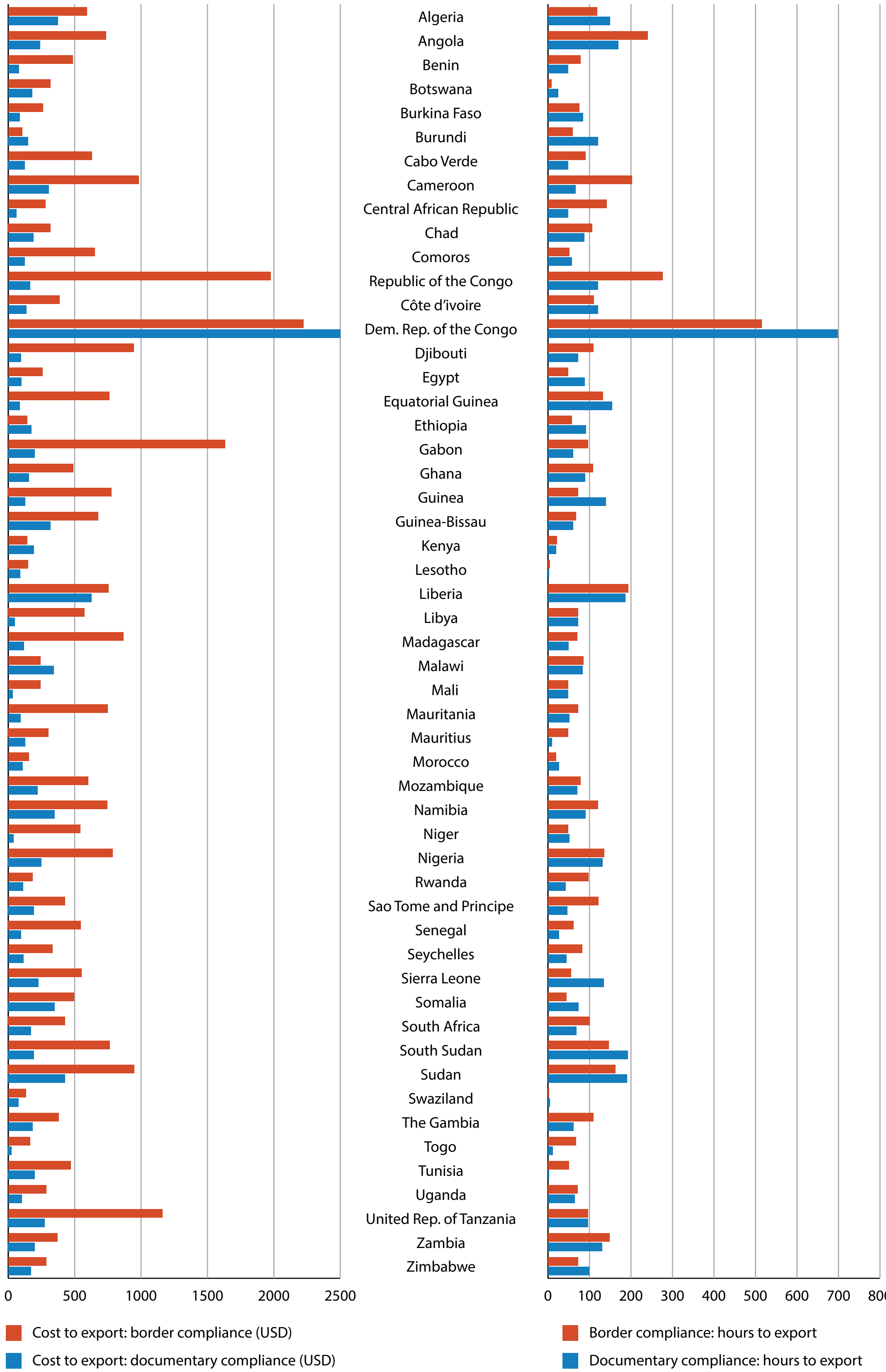
trading across borders (ECA, AUC and AfDB, 2016; World Bank, 2017a), despite significant recent progress. The following figures show the time and cost of importing and exporting for various African countries. For both document and border processing requirements, the best-performing countries and territories in the global dataset achieved a cost of less than one U.S. dollar and a processing time of one hour or less (World Bank, 2017b and 2017c).[9]

For the TFTA, great effort has been put into eliminating NTBs. A mechanism for reporting, monitoring and eliminating them was developed to address eight categories: government participation in trade and restrictive practices tolerated by governments; customs and administrative entry procedures; technical barriers to trade; sanitary and phyto-sanitary measures; specific limitations; charges on imports; other procedural problems; and transport, clearing and forwarding. As of June 2017, 527 complaints have been resolved and 57 remain active.[10]

On 22 February 2017, the World Trade Organization's (WTO's) Trade Facilitation Agreement (TFA) entered into force. It commits members to taking measures to reduce the cost of international trade by simplifying, modernizing or harmonizing the country's rules and procedures for exporting or importing. While the Agreement obliges developed countries to implement all measures from the date at which it takes effect, developing and least-developed countries will have longer. Each developing or least-developed country will apply an individual list of measures from countries from the date at which the Agreement takes effect, to be decided by the country in question; these are called "category A" measures. A second individual, nationally determined list of measures ("category B") will be implemented after a transition period (which can be different from measure to measure), to be decided by the country in question. A third individual, nationally determined list of measures ("category C") will be implemented by the country after a transition period to be determined by the country (which again can be different from measure to measure) and only once it receives capacity building support to do so. Each developing or least-developed country must notify each measure included in the Agreement in one of these three categories (WTO, 2017b, 2017c, 2017d).

Figure 2.19

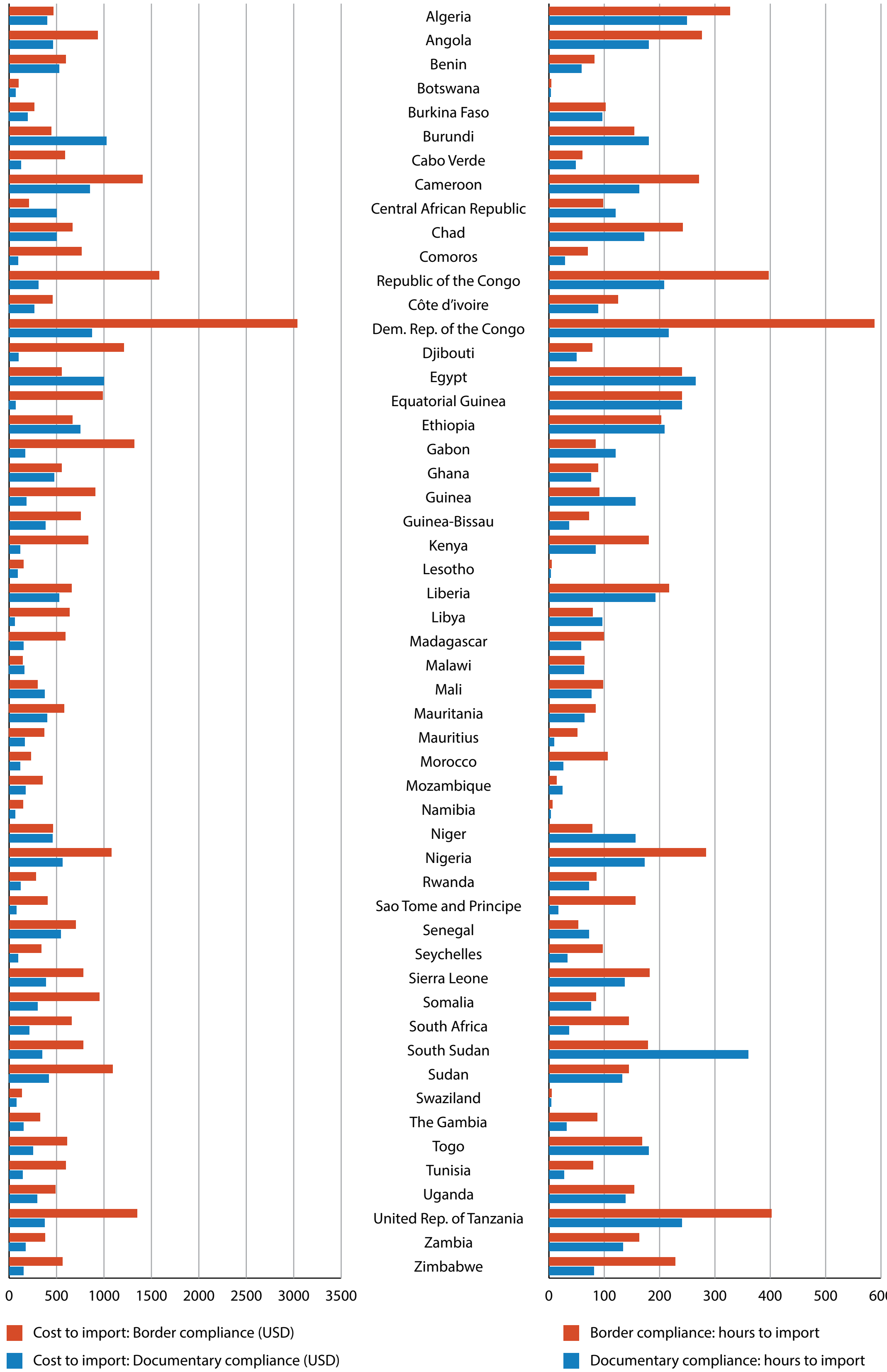
Time and cost to export for African countries, 1 June, 2016



Source: World Bank (2017b).

Figure 2.20

Time and cost to import for African countries, 1 June, 2016



Source: World Bank (2017b).

As African countries start to implement the TFA, trade is expected to be facilitated and boosted, not only among African WTO members likely to become parties to the Agreement, but also between African countries party to the Agreement and non-party African countries. This is because traders from any country (whether party to the Agreement or not) should be able to benefit when trading with a country that is party to the Agreement from measures taken to simplify or modernize export/ import rules and procedures.

As of 20 April 2017, of 44 African WTO members party to the TFA, 19 had ratified it (WTO, 2017e). By the same date, 27 had submitted at least some notifications as to which measures will fall into which categories. However, only five (Chad, Malawi, Mauritius, Mozambique and Zambia) had already notified for all of the measures under the Agreement (WTO, 2017f).

The African Corridor Management Alliance, which will promote information and experience sharing and joint projects among Africa's corridor management agencies, was inaugurated in February 2017. This inaugural meeting included discussion of the Alliance's work plan and related issues. ECA has provided funding and substantive support for start-up activities.

Trade in services

Data on services trade are notoriously weak, with woefully poor coverage on both what is being traded and with whom, and questionable reliability of the meagre data that are available. Moreover, drawing on balance-of-payments data, services trade data essentially ignores investment flows. Notwithstanding improvements in the collection of services trade data over the past 15 years, the macro- and micro- level services data needed for meaningful economic analysis simply do not exist—a challenge exacerbated in Africa (Primack, 2016).

One technique commonly used for filling (services) trade flow gaps is to make use of "mirror data," i.e. look at what, for example, the United Kingdom reports as services imports from Ethiopia as a proxy for what services Ethiopia exports to the UK. While helpful to fill certain gaps, the technique is biased towards understanding North–South trade (as it relies on better reporting from countries in the North). But no public bilateral mirror data exist on intra-African services trade flows, so the oft-cited African share of trade with itself (14% of imports or 18% of exports) does not account for services trade in any way. Case study literature (e.g. AUC, 2015) and experience from African services firms strongly suggest that the majority of business for most African micro, small and medium-sized enterprises (MSMEs) is intra-African.

For barriers to services trade—found "behind the border" in the form of regulatory measures—the World Bank's Services Trade Restrictiveness Index offers a unique snapshot of prevailing discriminatory restrictions in a subset of 27 African countries, sectors and modes.[11] While there is significant diversity among countries, in aggregate the continent scores relatively well relative to high-income Organisation for Economic Co-operation and Development (OECD) countries, with an average overall index score of 33 compared with 19 for the latter. By mode, Africa scores reasonably well, at 31–21 in mode 1, 31–18.6 in mode 3, and 60.7–58.4 in mode 4 (World Bank, 2017d).[12] This aggregation masks significant diversity at the country and sector levels, notably where African countries maintain fairly restrictive regimes, for example in professional, retail and transport services.

This seemingly good performance contrasts with broader narratives about the restrictiveness of African economies, as well as with anecdotal evidence that suggests that services barriers and regulations in African countries still heavily impede services trade opportunities for firms. Data issues notwithstanding, this highlights the fact that non-discriminatory barriers (which are not captured in the Services Trade Restrictiveness Index) are no doubt significant. As increased trade and integration take place between African services markets, this emphasizes the importance of looking at the role of discriminatory barriers and non-discriminatory regulations in intra-African services trade.

Informal trade

Much trade between African countries is not recorded in official statistics because it is informal. For example, an estimated 20 per cent of Benin's GDP is based on informal trade with Nigeria alone (World Bank, cited in Banque de France, 2016). However, data on informal trade are, by its very definition, very limited.

The following graphs show informal and formal trade in some agricultural commodities in Eastern Africa.

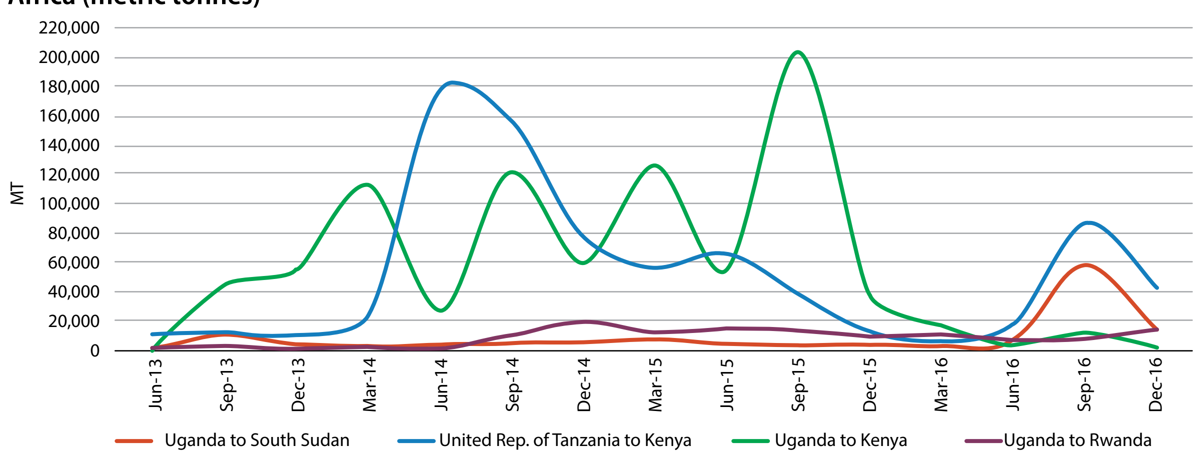
The lack of information on informal trade in Africa makes it difficult to evaluate the impact of policies on informal traders and their livelihoods. And while some policies or economic challenges are known to harm informal traders (e.g. cumbersome customs procedures), it can be hard to estimate their economic impact and the importance of changing these policies without accurate data on the extent of informal trade. If these policies are worsening the livelihoods of informal traders, they may also worsen gender exclusion, since women are known to make up 70 per cent of informal cross-border traders. All of this underlines the need to collect and produce better information on informal cross-border trade in Africa, extending to understanding which products and services are being traded informally, and who (men or women) is trading in them.

Economic Partnership Agreements

After negotiating for 12 years, African countries have recently made progress towards signing Economic Partnership Agreements with the EU, though only a handful have started provisionally applying them. Such agreements with Côte d'Ivoire, Ghana and SACU have entered into provisional application since the publication of *ARIA VII*. Kenya and Rwanda have also signed them with the EU since then, but they have not yet entered into provisional application (EU, 2017).

Figure 2.21

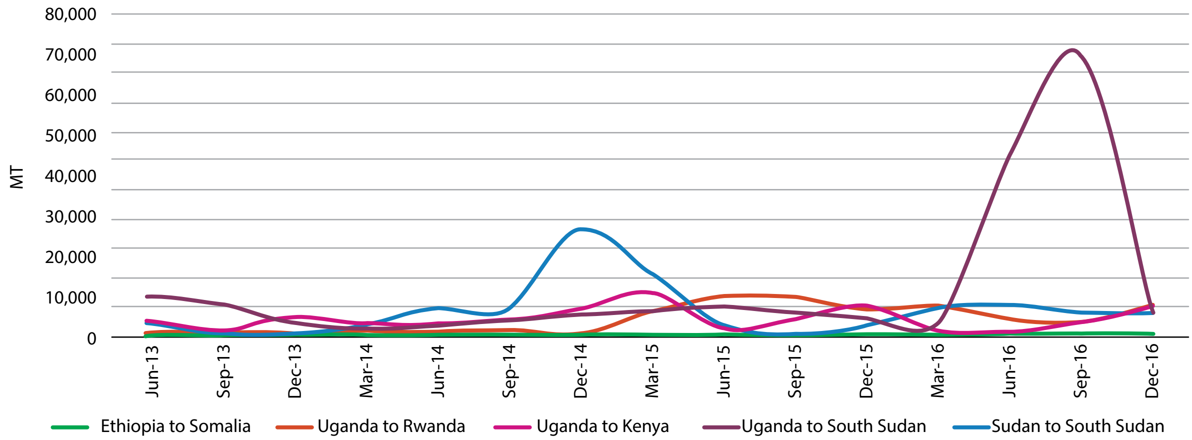
Sum of formal and informal cross-border trade in maize grain in selected trade corridors in Eastern Africa (metric tonnes)



Source: FEWS NET and EAGC, cited in FSNWG (2017).

Figure 2.22

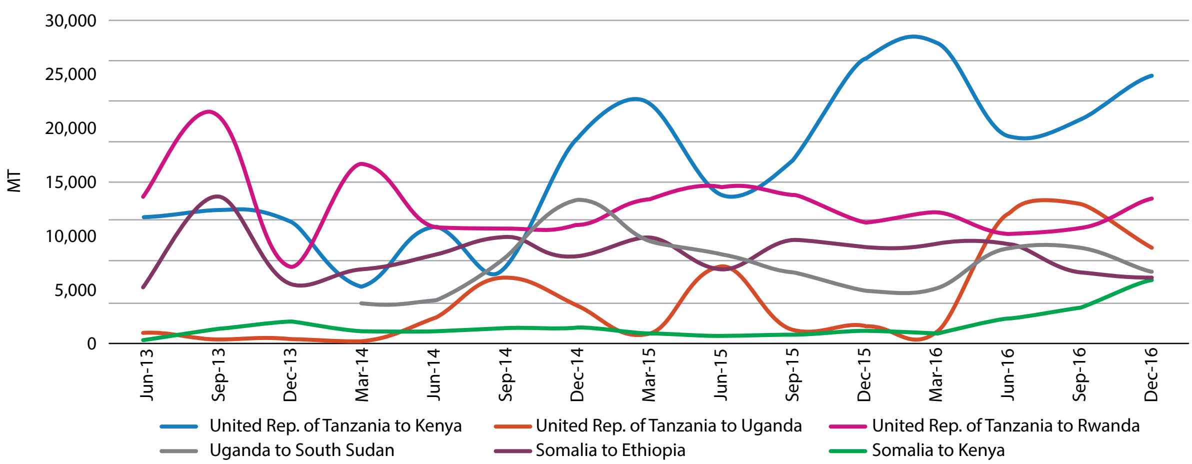
Sum of formal and informal cross-border trade in sorghum grain in selected trade corridors in Eastern Africa (metric tonnes)



Source: FEWS NET and EAGC, cited in FSNWG (2017).

Figure 2.23

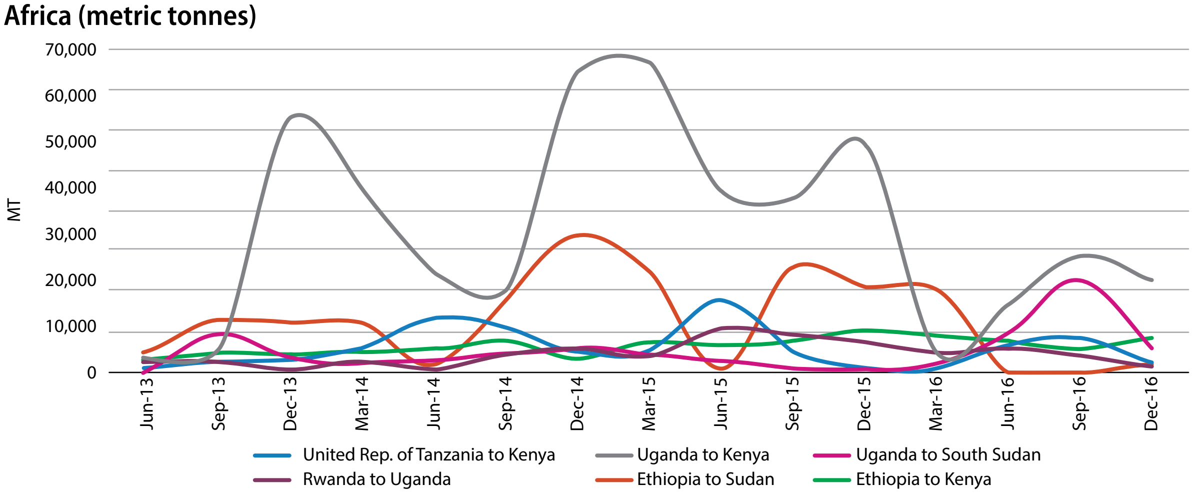
Sum of formal and informal cross-border trade in rice grain in selected trade corridors in Eastern Africa (metric tonnes)



Source: FEWS NET and EAGC, cited in FSNWG (2017).

Figure 2.24.

Sum of formal and informal cross-border trade in dry beans in selected trade corridors in Eastern Africa (metric tonnes)



Source: FEWS NET and EAGC, cited in FSNWG (2017).

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Endnotes

1 This section draws on the *Economic Report on Africa 2017* (ECA, 2017).

2 Only six members (i.e. the Economic and Monetary Community of Central Africa, CEMAC) of the 11 members of ECCAS are members of the EMU.

3 According to the Mbeki High Level Panel on Illicit Financial Flows.

4 AMDC (2017). Impact of Illicit Financial Flows on Domestic Resource Mobilization: Optimizing Revenues from the Mineral Sector in Africa.

5 AMDC (2016). Optimizing Domestic Revenue Mobilization and Value Addition of Africa's Minerals – Towards Harmonizing Fiscal Regimes in the Mineral Sector.

6 The Ruzizi II hydropower project; Dar es Salaam port expansion; Serenge-Nakonde road (T2); Nigeria-Algeria gas pipeline; modernization of the Dakar-Bamako rail line; the Sambagalou hydropower project; the Abidjan-Lagos coastal corridor; the Lusaka-Lilongwe ICT terrestrial fibre optic; the Zambia-Tanzania-Kenya transmission project; the North African transmission corridor; the Abidjan-Ouagadougou road-rail link between Côte d'Ivoire and Burkina Faso; the Douala Bangui Ndjamena corridor road-rail link between Cameroon, Central African Republic and Chad; Kampala-Jinja road upgrades between Kampala and Jinja in Uganda; Juba-Torit-Kapoeta Nadapal-Eldoret road between Uganda and Kenya; the Batoka Gorge hydropower project on the border between Zambia and Zimbabwe; and the Brazzaville Kinshasa road–rail bridge between the Republic of the Congo and the Democratic Republic of the Congo and the Kinshasa Ilebo railways.

7 For just two examples, see Djibouti (ECA, 2017f) and Côte d'Ivoire's investments in transport (ICA, 2016).

8 Data were available for 2015 for 44 African governments only.

9 These countries and territories include a range of EU member states, plus Belarus, Hong Kong SAR, Kazakhstan, Norway, the Republic of Korea, San Marino and the State of Palestine.

10 http://www.tradebarriers.org/about.

11 The data are mostly circa 2009–2010, covering five sectors (financial, transport, retail, telecoms and professional services) and modes 1, 3 and 4, and scored out of 100 (being the most restrictive). The data are highly aggregated and biased to some extent in emphasizing those barriers most easily identifiable (i.e. investment related).

12 In services trade Mode 1 is cross-border trade, which is defined as delivery of a service from the territory of one country into the territory of another country; Mode 2 is consumption abroad, which covers supply of a service of one country to the service consumer of any other country; Mode 3 is commercial presence, which covers services provided by a service supplier of one country in the territory of any other country; and Mode 4 is presence of natural persons, which covers services provided by a service supplier of one country through the presence of natural persons in the territory of another country.