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## The Africa Continental Free Trade Area: An opportunity to deepen cooperation on Regional public goods

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The Africa Continental Free Trade Area (AFCFTA) signed in March 2018 aims to establish a single market across the continent. This challenge is also an opportunity to extend the provision of regional public goods beyond hard infrastructure. Peace and security, mining, and energy are such examples covered in the Africa Economic Outlook 2019.



Until now, evaluation of the progress at regional integration across Africa has centered around the eight AU-recognized Regional Economic Communities (RECs)—and seven other economic organizations (see table below)—all primarily aimed at deepening intra-regional trade (here). But regional integration has always been about more than an exchange of market access and if cooperation has always been important, if only because of the need for rail, road, and other means of communication, it is only now that it is starting to attract greater attention (Newfarmer (2017)). In its assessment of progress and prospects for the recently signed African Continental Free Trade Area (AFCFTA), the Africa Economic Outlook 2019 concentrates on progress at cooperation to develop Regional Public Goods (RPGs).

Increasing physical linkages across the continent have spread environmental externalities beyond national jurisdictions. The curse of small markets across the continents calls for exploiting economies of scale in production through increased market integration but also to the extent possible through the provision of public goods on a regional basis. The table above shows that the majority of African regional organizations deal with RPGs. Five deal with energy, fifteen with the management of rivers and lakes, three with peace and security, and one with the environment.

A Public Good is any good, service, system of rules or policy regime that is public in nature (in the sense that it would be under-provided and

### Regional Organisations in Africa

| <b>U-recognized regional economic communities</b>             | <b>River and lake organizations</b>                                 |
|---|---|
| Arab Maghreb Union (AMU) [ 5 ]                                | Niger Basin Authority [ 9 ]   |
| Common Market for Eastern and Southern Africa (COMESA) [ 19 ] | Integrated Development Authority of the Liptako-Gourma Region [ 3 ] |
| Community of Sahel-Saharan States (CEN-SAD) [ 24 ]            | Lake Chad Basin Commission [ 6 ]                                    |
| East African Community (EAC) [ 6 ]                            | International Congo-Ubangui-Sangha Commission [ 6 ]                 |
| Economic Community of Central African States (ECCAS) [ 11 ]   | Limpopo Water Course Commission [ 4 ]                               |
| Economic Community of West African States (ECOWAS) [ 15 ]     | Lake Tanganyika Authority [ 4 ]                                     |
| Intergovernmental Authority on Development (IGAD) [ 7 ]       | Lake Victoria Basin Commission [ 5 ]                                |
| Southern African Development Community (SADC) [ 16 ]          | Nile Basin Initiative [ 10 ]  |
| <b>Other economic organizations</b>                           | Permanent Okavango River Basin Water Commission [ 3 ]               |
| Central African Economic and Monetary Union (CEMAC) [ 6 ]     | Organization for the Management of the Gambia River [ 4 ]           |
| Economic Community of the Great Lakes Countries (CEPLG) [ 3 ] | Organization for the Development of the Senegal River [ 4 ]         |
| Gulf of Guinea Commission (GGC) [ 8 ]                         | Orange-Senqu River Commission [ 4 ]                                 |
| Indian Ocean Commission (IOC) [ 4 ]                           | Tripartite Permanent Technical Commission [ 3 ]                     |
| Mano River Union (MRU) [ 4 ]                                  | Volta Basin Authority [ 6 ]   |
| Southern African Customs Union (SACU) [ 5 ]                   | Zambezi Watercourse Commission [ 8 ]                                |
| West African Economic and Monetary Union (WAEMU) [ 8 ]        | <b>Peace and security organizations</b>                             |
| <b>Energy-based organizations</b>                             | Eastern Africa Standby Force [ 10 ]                                 |
| Maghreb Electricity Committee [ 5 ]                           | International Conference of the Great Lakes Region [ 12 ]           |
| Eastern Africa Power Pool [ 10 ]                              | G5 Sahel [ 5 ]  |
| West African Power Pool [ 14 ]                                | Environmental organizations   |
| Central African Power Pool [ 10 ]                             | Central African Forest Commission [ 10 ]                            |
| Southern African Power Pool [ 14 ]                            |   |

\*Source: AEO 2019, table 3.5. Number of countries in brackets

often over-used if governed by the market alone) that generate shared benefits for the participants and whose provision is the result of collective action. The key distinctive feature of RPGs is that, unlike national public goods, no single body with the authority of a state exists to ensure the supply of the good. Since collective action refers to a situation where there are more than two providers, all RECs having more than two members have to muster some collective action to provide RPGs. Governance (implementing shared standards and policy regimes) is the intermediate public good necessary to generate the desired RPGs. RPGs across the RECs include: knowledge (education and scientific research), construction and operation of cross-border infrastructure, environment, health, peace and security.

4 From an economic perspective, application of the principle of subsidiarity requires that the scope of the established regional institutions should match the region benefitting from the spillover. This is not an easy task across Africa's landscape where the benefits of common policies are high because of widespread cross-border physical (i.e. environmental) spillovers and also policy spillovers (air transport, corridors). The costs are also high because of policy preference differences across member countries are important. Common decision-making internalizes the spillovers but it moves the common policy away from its preferred national policy (i.e. a loss of national sovereignty).

In Africa, spillovers are important as transport and communications infrastructure are underprovided while the ethno-linguistic diversity across 'artificial' borders suggests strong differences in policy preferences. Collective action by governments across the continent should then create positive spillover effects across the region that are greater than the spillover effects that individual governments acting alone could generate. But establishing a regional body that has real authority over member states to deli-

ver these RPGs requires that States are willing to cede significant amount of authority to the body. Because of low trust in Africa, but also in other regions, most regional cooperation is intergovernmental. Each state then retains veto power and the regional organization is a secretariat that coordinates and/or harmonizes policies, sets standards, or provides services. These organizations have no authority.

In Africa, cooperation on Cross-Border Infrastructure investment, development corridors, and spatial development initiatives are part of the 'developmental regionalism' pursued by the Africa Economic Community. The action plan for Boosting Intra-African trade (BIAT), and now the AFCFTA, are also steps in the direction of delegation of national sovereignty necessary for closer cooperation. The AEO 2019 gives evidence on cooperation in four areas: (i) peace and security; (ii) mining and energy; (iii) hard infrastructure (roads, ports, railways and corridors); (iv) soft infrastructure (logistics markets including regulatory policies and customs management). Here we summarize progress and challenges for peace and security, and mining and energy.

**Peace and security.** Regional integration affects international security through two channels. First, when trade-creating exchange takes place, the opportunity cost of war increases. Second, as political scientists have argued, the creation of supranational institutions when regional integration is deep, reduces international insecurity through dialogue and the exchange of information on military capabilities. Discussions among members spill over to political issues diffusing political disputes that could escalate into political conflicts. Sufficiently deep regional trading arrangements reduce information asymmetries as partners know each other better. Then incentives for countries not to report their true options in an attempt to extract concessions are reduced. These two channels reduce the probability of costly conflicts.

Deep regional trading arrangements (Customs Unions and Common Markets) need to agree on a broader set of issues (harmonization of regulations and standards, free movement of goods and factors) than do shallow regional trading arrangements like Free Trade Agreements that involve little integration of political institutions. To reach agreement, deep regional trade arrangements require more encompassing political institutions. If countries design regional trade arrangements to pacify interstate relations, a history of conflicts should enhance the creation of deep regional trade arrangements. By contrast, in a purely economic framework in which regional trade arrangements have no effect on the probability of conflict, two partners that have more issues of dispute would have fewer incentives to create a regional trade agreement.

Using data on militarized interstate disputes from the Correlates of War project covering the period 1950-1991, Vicard (2012) finds that membership in a deep regional trade arrangements reduces the probability of a dispute escalating into war by two-thirds. This gives direct support to the often-mentioned objective of peace in RECs (e.g. ECOWAS and EAC). Furthermore, in a cross-section for 2005 where he controls for past membership in regional trade arrangements, he finds that deep regional trade arrangements are signed between countries that have many interstate disputes and that interstate disputes reduce incentives to form shallow regional trade arrangements that are found to be mainly driven by economic determinants.

Viewed in this light, the costs associated with negotiating the deep African regional trade arrangements (SACU, CEMAC, and WAEMU) have been borne by colonizers. Increased trade among members then raised the opportunity cost of future wars among members by increasing their inter-dependence. Taken together, the findings illustrate the relationship between trade integration and other areas of interstate cooperation.

Interpreted more broadly, these findings provide evidence of the non-traditional gains from RTAs that explain the different strategies of integration across the RECs. In this light, the RECs are the regulating institutions in a world where no supranational institution enforces property rights satisfactorily.

Cooperation on security is on the rise across Africa. Through negotiation and engagement with the member states of the United Nations, Africa is developing its own African Standby Force, now in a state of readiness with a Rapid Deployment Capability to intervene within 14 days in cases of genocide and gross human rights abuses. Significantly, the Force is organized along geographical lines, an application of the principle of subsidiarity necessary for the success of an RPG. Among its successes, ECOWAS member states prevailed on the outgoing president of Gambia who had refused to leave office after losing the 2017 presidential election. The AU also has its own military mission in Somalia to destroy Al-Shabaab strongholds in central Somalia.

**Regionalizing infrastructure regulation: the case of mining and energy.** Most infrastructure industries across Africa have performed poorly. Internationalization of infrastructure reform to the regional level would help at several levels. First, inefficiencies in infrastructure become more important as barriers to trade fall if only because goods transit through infrastructure networks. Second, as trade liberalization has made internationalized communication infrastructure, their associated networks will operate more efficiently if organized internationally. Third, the likelihood that regulation can serve as protection against international competition will be reduced if regulation is at the regional level (Kessides, Noll and Benjamin (2011). Coordination of policies, harmonization of regulations and, to the extent possible, harmonization of legal institutions are important steps in the path towards deep regional integration. This is difficult to achieve

as shown by the examples below on cooperation for the taxation of mining activities and the development of power grids.

Many African countries are pursuing a mineral-based industrialization strategy. This requires a responsible use of natural resources and coordination across states for the exploitation of minerals. African Heads of State have adopted the Africa Mining Vision to lessen the continent's exposure to harmful boom-bust cycles. The African Minerals Development Centre has been set up to carry out this vision. One of the objectives of the Centre is to incentivize collective action that would help build a regional approach to illicit financial flows in extractive industries, estimated at the \$25 billion per year (ECA 2017, p.22). The success of this endeavor rests on coordination. However, this has proven to be difficult so far. However a summary of the fiscal regimes across 21 African gold exporters conducted by the Fondation pour les Etudes et Recherches sur le développement international (FERDI) shows that the sharing of the rents between the State and multinational mining enterprises has been very different across the countries. For instance, across the WAEMU, in spite of a community directive applying to all countries, tax rates on gold exports varied between 2% and 16% in 2016.

The development of regional electricity markets has been a challenge worldwide. As in developed countries, electricity markets in developing countries have developed vertically within national boundaries rather than horizontally across countries. Physical interconnection through the construction of cross-border lines has been slow to develop. Cross-border trade in electricity is low everywhere. In 2012, exports of electricity were around 3% of global production while it was 17% for coal, 31% for gas, and 52% for oil. (IEA 2014) In Africa, with many small countries, trade in electricity would bring many benefits provided that the hard infrastructure is at scale and functioning and that the soft infrastructure (governance) is

trustworthy. The African Development Bank has embarked on the Desert to Power Initiative, a huge desert solar program across the Sahel to link 250 million people. The project is expected to save 2-4 percent of the continent's GDP every year. It will make Africa a renewable powerhouse. The AEO report describes these benefits and the hurdles on the way to developing power pools.

### ► Further reading

- Africa Development Bank (2019) *African Economic Outlook 2019: Integrating for Africa's Economic Prosperity*.
- Economic Commission for Africa (ECA), 2017 *Assessing Regional Integration in Africa VIII: Bringing the Continental Free Trade Area About*.
- **Kessides, I., R. Noll and N. Benjamin** (2010) "Regional Infrastructure Reform in Developing Countries", *World Economics*, 11(3), 79-108.
- **Newfarmer, R.** (2017) "From Small Markets to Collective Action: Regional Cooperation, Public Goods and Development in Africa", in A. Estevadeordal and B. Goodman eds. *21st. Century Cooperation, Regional Public Goods and Sustainable Development*, London, Routledge.
- **Vicard, V.** (2012) "Trade, Conflict, and Political Integration: Explaining the Heterogeneity of regional trade agreements", *European Economic Review*, 56(1), 54-71.

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