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Constraints on developmental regionalism in low-income countries: the limitations of convergence policies

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Abstract

Regional arrangements have dramatically increased over the past three decades. Despite its numerous shortcomings, the European Union was a model for most of these. In particular, the objective of fostering income convergence across member countries is an important element of the regional integration process, for example via regional policies and various funding instruments. The paper argues that this central dimension of regionalism is *de facto* inherently difficult in developing countries, despite the *de jure* existence in the treaties of objectives of income convergence and funding institutions, and that this represents an important curb on regional integration. A series of reasons are demonstrated via examples from Sub-Saharan Africa: i) arrangements are firstly trade agreements; ii) member countries are low-income economies that are structurally affected by fiscal crises, since revenues depend on the volatile prices of commodities, in contrast with industrialised countries; iii) aid dependence externalises decisions and aggravates revenues volatility; iv) markets and export structures are characterised by economic asymmetries and lack of complementarities, particularly in poor landlocked countries, which makes it so that competition policies may be inefficient and trade integration trade diverting; v) rather than South-South arrangements, North-South ones are viewed as more efficient for developing countries: growth here, however, comes from policies decided outside the country and not from policies elaborated within the group of developing countries, with the associated uncertainty and possible policy reversals; vi) funding instruments are vulnerable to political economies that are often characterised by secrecy, lack of transparency, weak governance and informal cross-border flows, all of which lead to leakages of funds and limited implementation of decisions at the lower levels. These constraints in turn weaken the efficiency of other objectives of regionalism, such as trade enhancing.

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1. Introduction[2]

Regional arrangements have dramatically increased over the past three decades. Despite its numerous shortcomings, the European Union was a model for most of these. In particular, the objective of fostering income convergence across member countries is an important element of the regional integration process, for example via regional policies and various funding instruments.

The paper argues that this central dimension of regionalism is *de facto* inherently difficult in developing countries, despite the *de jure* existence in the treaties of objectives of income convergence and funding institutions, and that this represents an important curb on regional integration. A series of reasons, which illustrate both successes and failures, are demonstrated via examples from Sub-Saharan Africa.

i) Arrangements are firstly trade agreements, such as free trade areas or customs unions, hence with more modest objectives and degrees of integration than the European Union;

ii) Member countries are low-income economies that are structurally affected by fiscal crises, since revenues depend on the volatile prices of commodities, in contrast with industrialised countries;

iii) Aid dependence externalises decisions, notably regarding projects that typically foster income convergence across member countries such as cross-border or local infrastructures, and it aggravates revenues volatility;

iv) Markets and export structures are characterised by economic asymmetries and lack of complementarities, particularly in poor landlocked countries, which makes it so that competition policies may be inefficient and trade integration trade diverting;

v) Rather than 'South-South' arrangements, 'North-South' ones are viewed as more efficient for developing countries (e.g., the African Growth and Opportunity Act/AGOA): growth here, however, comes from policies decided outside the country and not from policies elaborated within the group of developing countries, with the associated uncertainty and possible policy reversals;

vi) Funding instruments are vulnerable to political economies that are often characterised by secrecy, lack of transparency, weak governance and informal cross-border flows, all of which lead to leakages of funds and limited implementation of decisions at the lower levels. These constraints in turn weaken the efficiency of other objectives of regionalism, such as trade enhancing.

The paper is structured as follows. Firstly, it explains the key features of models of regional arrangements and their move towards 'deep' integration, which is associated with theoretical views, especially that arrangements between developed and developing countries are more welfare-enhancing for the latter than arrangements

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2 A first version of this paper was presented at the European Consortium for Political Research (ECPR) 7th General Conference, Panel 'Developmental dimensions of regionalism, public policies and regional gaps: comparative perspectives', Bordeaux, 4-7 September 2013. The author is very grateful to Ken Masujima for his extremely relevant comments together with his very pertinent choice of the Panel's theme. The author also deeply thanks the President of Kobe University for having invited her to give a series of lectures in the 'Global Politics' programme in November 2014.

between developing countries. Secondly, the paper shows that existing regional arrangements are mostly trade agreements in a part of the world such as Sub-Saharan Africa, and that their effects – be they 'North-South' or 'South-South' - have not fostered income convergence across member countries. Thirdly, it analyses the constraints facing redistributive regional policies intended to enhance income convergence, especially the constraints stemming from the low income levels of member countries, from aid dependence, from the multiplicity of memberships of the agreements, and finally from the political economy of countries that are less complementary than in situations of competition.

2. The intensification of regionalism in global trade and investment relationships

Regional integration is characterised by important changes after the 1990s, i.e. both a sharp increase in the number of agreements, and a change in nature of these agreements, which become deeper and are shaped by the global transformation of international trade towards global value chains and global production networks.

2. 1. Models of regionalism: from 'shallow' to 'deep' integration

The models of integration have evolved since the end of the 1980s, from what has been coined 'shallow' integration, to 'deep' integration. Regional agreements may have a variety of objectives, in particular the convergence in incomes of member countries, and the free trade of goods and people inside the member countries - an underlying economic theoretical assumption being that trade liberalisation and openness are good for growth.

The European Union (EU) is the most advanced form of regional integration, as an economic union, and it is a model for internal policies that aim at improving the incomes of its poorest members via its regional policies. In the EU 2007-13 financial framework, funds allocated under the heading 'cohesion for growth and employment' refer to "convergence of the least developed EU countries and regions, EU strategy for sustainable development outside the least prosperous regions, inter-regional cooperation". This heading includes the 'structural funds' and the 'cohesion fund' (in addition to 'other actions and programmes')[3]. These funds, which date back to the early days of the EU but increased significantly in the 1990s, aim at enhancing infrastructure and human capital in the supported regions and their effectiveness remains debated (see, e.g., Martin, 2003; Rodriguez-Pose and Fratesi, 2004; Ederveen et al., 2006). For the period 2007-13 they represented the second largest category of expenditure in the EU budget, 35.6% of the total, just after the funds allocated to the preservation and management of natural resources (which include the

3 See the EU website: http://ec.europa.eu/budget/figures/interactive/index_en.cfm

common agricultural policy and the common fisheries policy, among others)[4].

In poorer developing countries, such as those in Sub-Saharan Africa (SSA), regional integration has not reached the degree of deepening of the EU: even if SSA *de jure* includes an economic and monetary union such as the Franc Zone, regional agreements are mostly Free Trade Areas (FTAs) and customs unions (see table 3 in Appendix). Regional arrangements remain primarily trade arrangements, which focus on the elaboration of trade policies vis-à-vis member countries and countries that are outside the arrangement. Even if treaties may *de jure* include objectives of income convergence across member countries, these objectives remain *de facto* minimal.

The types of regional agreements differ in terms of stance towards non members, depth and width (goods, services, and factor mobility). A regional arrangement that is at individual members' discretion is the FTA (Free Trade Area). Inclusive types are the custom union, and further, the economic union, such as the EU, which is associated with gains stemming from economies of scale (but also with losses of sovereignty), deeper commitments and more complex policymaking than in a loose FTA.

Different types of Regional Trade Agreements (RTAs) correspond to different modalities of trade liberalisation. As explained by the World Bank (2005, box 2.1), the term 'regional trade agreement' encompasses both reciprocal bilateral free trade or customs areas and multicountry (plurilateral) agreements. Members of RTAs liberalise trade on a reciprocal and preferential basis. While programs such as the United States' African Growth and Opportunity Act (AGOA) and the EU's Everything But Arms (EBA) also liberalise trade preferentially (i.e., different trade partners receive different treatment), the United States and the EU extend these preferences unilaterally rather than reciprocally. Countries may also lower trade barriers in a non-discriminatory fashion for all trade partners, multilaterally - through the World Trade Organisation (WTO) - or autonomously.

RTAs may be divided into the following categories according to increasing levels of economic integration (World Bank, 2005):

1) arrangements with modest aims: a Preferential Trading Arrangement (PTA), i.e. lower tariffs on imports from the partners than from the rest of the world, or a Free Trade Area (FTA), i.e. zero tariffs among partners, and positive tariffs with the rest of the world - members eliminate barriers to trade in goods and services among them, but they may maintain different Most Favoured Nation/MFN barriers vis-à-vis non-members (this requires members to establish rules of origin);

2) arrangements that aim at deeper integration: i) a customs union establishes a common external tariff on all trade between members and non-members, and includes mechanisms to redistribute tariff revenue among members; ii) a common market deepens a customs union by promoting the free flow of factors of production (labour and capital) in addition to the free flow of outputs; iii) an economic and monetary union is based on the coordination of members' major economic policies

4 See http://ec.europa.eu/budget/explained/budg_system/fin_fwk0713/fin_fwk0713_en.cfm

(fiscal, monetary).

Table 1: methods of implementation of trade liberalisation

Scope of beneficiaries	Reciprocal	Unilateral
Preferential (selected countries)	NAFTA, EU, COMESA, EPAs, other RTAs	GSP, AGOA, EBA, Cotonou
Non-discriminatory (MFN): all countries	**GATT/WTO multilateral agreements**	**Autonomous liberalisation**

Source: World Bank (2005). See below for the meaning of the acronyms.

The number of RTAs has spectacularly increased since the early 1990s (Whalley, 2008). After WWII, there has been a global move towards trade multilateralisation, and simultaneously towards regional integration. According to the WTO[5], as of 15 June 2014, some 585 notifications of RTAs (counting goods, services and accessions separately) had been received by the GATT[6]-WTO. Of these 585 RTAs, 379 were in force. What all RTAs in the WTO have in common is that they are reciprocal trade agreements between two or more partners. Of these RTAs, FTAs and partial scope agreements account for 90%, while customs unions account for 10%.

Nearly all the WTO's members have notified participation in one or more RTAs (some members are party to twenty or more). Since the creation of the WTO in 1995, over 400 additional arrangements covering trade in goods or services have been notified[7].

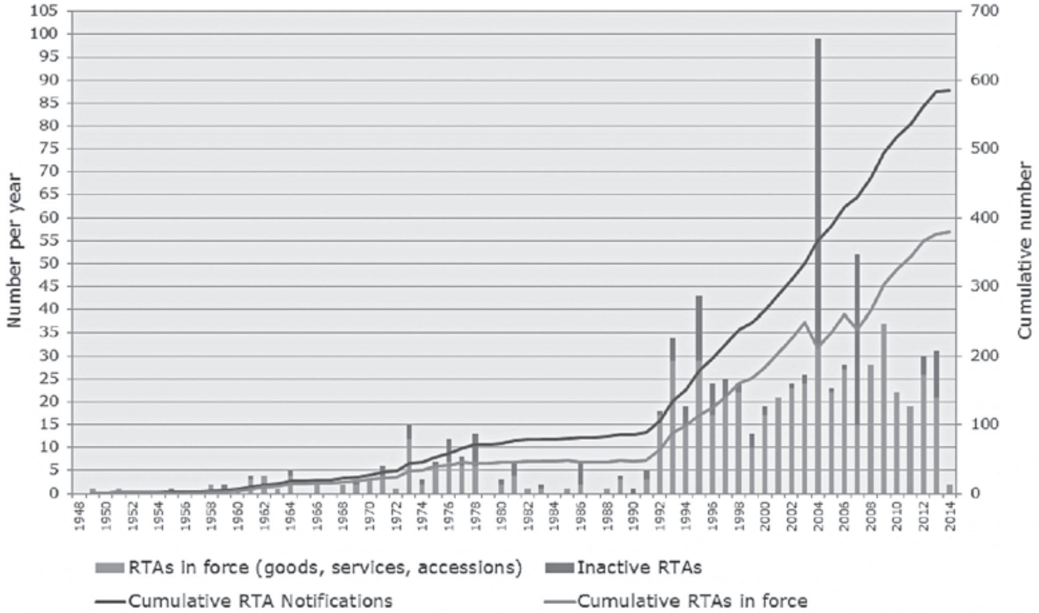
This increase has been coined the 'rush to regionalism', which may be explained by a 'domino effect' (Baldwin, 1995): FTA negotiations react to one another, as FTAs disadvantage non-members and create incentives for the latter to also engage in integration processes and think strategically.

The new forms of trading arrangements include rich and poor countries and aim at achieving a 'deep integration' of economic activities ('tariff plus' agreements) (Pomfret, 2007). Such comprehensive regional agreements include trade- and investment-related provisions that extend to services, intellectual property rights and competition. Most regional FTAs therefore become investment agreements.

This move towards 'deep' integration' since the 1990s contrasts with the previous period of 'shallow' integration and is a move from 'closed regionalism' to a more 'open' model, also coined 'new regionalism'. This 'new regionalism' is a departure from multilateralism. The agreements concluded over the past 20 years have thus been mainly bilateral, primarily between developing and developed countries, and have increasingly included provisions aimed at 'deep integration', and the harmonisation of national policies towards freedom for market forces (UNCTAD, 2007a).

5 http://www.wto.org/english/tratop_e/region_e/region_e.htm
6 General Agreement on Tariffs and Trade.
7 http://www.wto.org/english/tratop_e/region_e/regfac_e.htm.

Figure 1: evolution of regional trade agreements in the world, 1948-2014 (RTAs notified to the GATT/WTO, including inactive RTAs, by year of entry into force)



Source: WTO. http://www.wto.org/english/tratop_e/region_e/regfac_e.htm

Major developed and emerging economies increasingly view regional or bilateral FTAs as an effective way to enhance trade liberalisation and maintain a predictable trading environment, as well as a basis for new trade rules in the areas that are not covered by the WTO Doha Round, such as investment and intellectual property (UNCTAD, 2010). As underscored by UNCTAD (2010), however, the negotiating balance-of-power in a North-South bilateral FTA is, unlike that in multilateral trade negotiations, on the side of the developed country. SSA still exhibits a relatively low number of FTAs due to the small size of its markets, and therefore limited ability to attract other economies. Integration of SSA in international trade remains limited – in 2013, SSA exports represented 2.3% of world exports[8]. The proliferation of FTAs in other parts of the world may marginalise SSA countries from global production networks and confine SSA to the export of primary commodities – i.e. an export structure that may be detrimental to industrialisation and long-term growth (Nissanke, 2011; Sindzingre, 2013).

As powerfully analysed by Richard Baldwin, this 'new regionalism' is an outcome of the transformation of international trade towards global value chains (GVCs) and global production networks since the 1980s, which are associated with the fragmentation of global production across countries. Developing countries producers

8 Source: UNCTAD Statistics: http://unctadstat.unctad.org/EN/Index.html

have been increasingly integrated into the global trading system through their participation in GVCs (Keane, 2013; European Union, 2013). The expansion of the organisation of global trade in value chains – 'trade in tasks' rather than 'trade in goods' - has slowed multilateralism and been an incentive for regional and bilateral 'deep' arrangements that involve not only trade, but also investment (Baldwin, 2011).
This '21st century regionalism' is qualitatively different from that of the 1990s (Baldwin, 2011). It focuses more on regulation than on tariffs, because in 21st century trade, factories and offices have been unbundled internationally, thus creating the trade-investment-service nexus where some of the complex two-way flows now take place across international borders. Baldwin underscores that emerging economies' (eager for advanced technology factories) demand for deeper disciplines (beyond trade barriers) was filled by deep RTAs, Bilateral Investment Treaties (BITs) (aiming at encouraging foreign direct investment/FDI, often FDI related to the trade-investment-services nexus), and unilateral reforms (that improve business climates, especially for foreign firms in manufacturing or trade-oriented services). These deeper disciplines refer to competition policy (47% of all agreements), movement of capital (39%), intellectual property rights not in the TRIPs[9] Agreement (37%) and investment (31%). Many regional agreements now involve developed and developing countries, and are likely to achieve deeper levels of integration.
The transformation of trade and therefore RTAs is also explained by the perspective of economic geography. As shown by Deichmann and Gill (2008), economic theory would predict that with cheaper transportation, trade with faraway places would increase. Instead, trade increased between neighbours: firms have increased specialisation, and the key driver is intra-industry trade (e.g., parts and components), which is more sensitive to transportation costs than trade in primary goods and final products - a 'vertical disaggregation' of production. Deichmann and Gill emphasize that the East Asian experience, which is driven by specialisation in the wake of falling transportation costs, has not taken place in SSA, where countries are too small to generate capacity to attract productive investment in labour-intensive manufacturing, and where borders are much less permeable than in Western Europe.

2. 2. The theoretical *ex ante* ambivalent benefits of regionalism: winners vs. losers, 'North-South' vs. 'South-South' arrangements

Most regional agreements are confronted with economic inequality and heterogeneity across member countries, and particularly in developing economies. This a key limitation of any application of the model of integration exemplified by the EU in developing countries: indeed, even if it has grouped together countries with heterogeneous incomes – this has been the rationale of structural funds and massive transfers to, e.g., Portugal in the 1990s – the EU only includes adjacent economies[10].
Jacob Viner (1950) is the theoretician who elaborated the key concepts of the

9 Trade-Related Aspects of Intellectual Property Rights.
10 With the exception of Cyprus.

economic theory of regional agreements and enabled the argument that predominates since the 1990s, which justifies the superiority of 'North-South' (developed-developing countries) agreements over 'South-South' ones (developing-developing countries). Viner introduced the concepts of 'trade creation' and 'trade diversion'. His key finding is that discriminatory tariff liberalisation has ambiguous welfare effects.

As explained by Mayda and Steinberg (2006), according to Viner (1950), preferential trade liberalisation – preferential trade agreements - can either result in the replacement of inefficient, high-cost domestic production with low-cost imports from member countries (i.e., trade creation), or in the substitution of efficient, low-cost imports from non-member countries with less efficient imports from member countries (i.e., trade diversion). If trade creation takes place, PTAs are welfare-improving; under trade diversion, their effect on welfare through changes in trade patterns is ambiguous. Mayda and Steinberg show that this implies that South-South PTAs between small countries are not likely to produce gains for their members: developing countries trade little with each other, because low-income countries tend to have similar relative factors supplies and a comparative advantage in the same sectors: South-South trade agreements therefore tend to induce trade diversion and do not produce efficiency gains linked to economies of scale, because they offer their members access to smaller markets than North-South agreements.

The welfare effect of regional integration arrangements on the bloc members as a group thus depends on the balance between trade creation and diversion (Schiff and Winters, 2003). In a dynamic perspective, the trade creation-diversion effects may be compounded by the existence of increasing returns to scale and imperfect competition: after the removal of trade barriers between the member countries of a PTA, firms benefit from greater economies of scale and attract FDI for which market size is important; trade and location effects also make it so that the preferential reduction in tariffs induces purchasers to switch demand toward supply from partner countries, at the expense of both domestic production and imports from non-members.

Hence, there are winners and losers from regional integration arrangements: outcomes depend on the comparative advantage of member countries relative to each other and relative to the rest of the world: integration between low-income countries lead to divergence of member countries' incomes, and between high income countries it causes convergence – which justifies 'North-South' more than 'South-South' FTAs in developing countries (Venables, 2001; 2003).

In addition, regional agreements have fiscal effects, especially the reduction in trade taxes - direct effects (tariffs on intra-trade are reduced) and indirect effects (importers switch from external imports subject to tariffs). For developing countries' governments, which are characterised by the reliance on trade taxes for an important part of their revenues, revenues losses may be substantial (Keen and Mansour, 2009).

3. The constraints on regionalism as an instrument of income convergence in developing countries: trade policies

The constraints on regional arrangements as inequality-reducing and income convergence devices in developing countries firstly stem from trade policies and their effects. This is shown below via the example of Sub-Saharan Africa.

3. 1. The existing 'North-South' arrangements: their *de facto* limitations

Economic theory views 'North-South' arrangements as more efficient for developing countries. In spite of the *ex ante* positive impacts of regional arrangements between industrialised and developing countries that are predicted by Viner's theory, however, the impacts of existing arrangements are ambiguous and exhibit important variations according to the specificities of the arrangement.

In addition, in 'North-South' arrangements, if it happens that they have positive effects on 'South' countries, such positive effects – e.g., growth - come from policies that are decided outside these developing countries and not from policies elaborated within them. This is a detrimental source of uncertainty as policy reversals from the 'North' countries are always possible. This is especially the case as 'North-South' arrangements are often unilateral preferential arrangements granted by developed countries to developing ones.

There are many preferential market access schemes for developing countries under unilateral trade preferences, in particular, the GSP/Generalised System of Preferences schemes. The GSPs are tariff preferences granted by developed countries to let certain manufactured and semi-manufactured goods from developing countries enter their markets at lower tariffs than other developed or developing countries. Within the GSPs, developed countries provide Least Developed Countries (LDCs) with a special treatment.

For SSA, the United States GSP is the AGOA (Africa Growth and Opportunity Act) between the US and some SSA countries, launched in 2000. It is an exchange of policy reform for preferential access of SSA exports to the US, i.e. duty-free and quota-free market access to certain SSA products, e.g. textiles and apparel, and some agricultural products, until 2008. In July 2004, this was extended to 2015[11]. Although GSP eligibility does not imply AGOA eligibility, 47 of the 48 SSA countries are currently GSP eligible[12].

AGOA has been a success for several SSA countries: e.g., Lesotho has become the largest SSA apparel exporter to the US under the AGOA (Staritz and Morris, 2012). Similarly, the majority of imports from Kenya by the US under the AGOA consist of textile, apparel, leather and footwear (US GAO, 2013).

AGOA has not changed the export structure of SSA countries, however, i.e. a heavy reliance on primary commodities, although industrialisation, starting with labour--

11 See the AGOA website: http://www.agoa.gov
12 http://trade.gov/agoa/eligibility/index.asp

intensive manufactures, is a key determinant of growth, as shown by the successes of Asian countries (Sindzingre, 2012a). SSA has difficulty in capitalising on its tariff preferences on entry into the US (Sandrey et al., 2011). In 2013, AGOA imports totalled $26.8 billion: petroleum products continued to account for the largest portion of AGOA imports with an 82% share of overall AGOA imports, and the rest of AGOA imports are almost exclusively dominated by raw materials[13] - this is shown by the imports from countries such as Angola (US GAO, 2013).

There are also uncertainties, e.g., over the renegotiation of the AGOA. In addition, AGOA has not built local backward linkages, as shown by Phelps et al. (2008) on Kenya - they also underscore the uncertainty of the sustainability of industries fostered by AGOA (Phelps et al., 2009).

A 'North-South' preferential trade arrangement such as the AGOA has to be analysed within the context of the end in early 2005 of the quotas granted by the MultiFibre Agreement (MFA). AGOA induced a surge of clothing exports from some SSA economies to the US - in 2006 these exports accounted for more than half of SSA's manufactured exports (excluding South Africa). The end of the MFA induced a weakening of the SSA textile sectors and a fall in exports due to the competition from other developing countries, especially China (Kaplinsky and Morris, 2009). Indeed, before the end of the MFA, AGOA success stemmed from temporary transhipment via SSA countries of Chinese apparel driven by quota-hopping Chinese assembly firms (Rotunno et al., 2012). When the MFA was removed, constrained countries such as China moved into precisely the markets in which AGOA countries had specialised. Although AGOA helped the least developed countries withstand this shock, they were adversely affected (Edwards and Lawrence, 2010; see also Collier and Venables, 2007).

Even in Kenya, where the AGOA preferential trade access remains important for its apparel industry, its benefits have been eroded by the termination of the MFA in 2005: the value of apparel exports to the US declined by 12% between 2004 and 2005. Kenya is challenged by the rise of Asian competition (locally, regionally and in third-country markets), partly due to the erosion of trade preferences for clothing and footwear (Kamau et al., 2009).

The EU has also devised 'North-South' agreements: the EU GSP scheme, which is a unilateral scheme, and the Cotonou Partnership Agreement (contractual agreement). The EU-GSP is an autonomous trade arrangement through which the EU provides non-reciprocal preferential access to the EU market to 176 developing countries and territories[14]. It grants products imported from GSP beneficiary countries duty-free access or a tariff reduction (on the basis of ten-year cycles). GSP is characterised by lower tariffs than Most Favoured Nation (MFN) levels. In 2005, a new EU GSP provided additional tariff reductions for countries with 'good governance', conventions on human rights, labour rights, and environmental protection (Stevens et al., 2011

13 http://trade.gov/agoa/pdf/2013-US-sub-Saharan-Africa-trade.pdf

14 http://trade.ec.europa.eu/doclib/docs/2008/july/tradoc_139988.pdf

for an assessment). In addition, for the 48 Least Developed Countries (LDCs)[15], the EU GSP has devised special arrangements, in particular, the 'Everything But Arms' (EBA) initiative (2001), which is the most favourable treatment[16]. The EU EBA grants unrestricted duty-free, quota free access to EU markets to all LDCs products, excluding arms and ammunition.

The Cotonou Partnership Agreement for the African, Caribbean and Pacific/ACP countries (which has replaced in 2000 the EU-ACP countries' Lomé Conventions) organised EU unilateral trade preferences with ACP countries: the EU provided non-reciprocal duty-free market access to all ACP countries, except South Africa. In 2008, the EU replaced it with the EPAs (Economic Partnership Agreements). Instead of the non-reciprocal and discriminatory trade preferences of the Lomé Convention, the EPAs propose a trade regime based on free trade, i.e. FTAs between ACP countries and the EU, which means domestic market access for almost all products from the EU within a 12-year period (2008-2020) – in practice at least 80% of the value of trade with the EU and tariff lines over a maximum transition period of 15 years (Bilal et al., 2012). A key point is that EPAs are agreements between the EU and regional groupings of ACP countries, not between the EU and individual countries, i.e. 7 regions: the Southern African Development Community (SADC); Eastern and Southern Africa (ESA); the East African Community (EAC); West Africa (ECOWAS); Central Africa (CEMAC); the Pacific Islands Forum (PIF) and the Caribbean Forum of Caribbean States (CARIFORUM) (Sukati, 2011)[17].

Similarly, the EPAs exhibit many limitations. Some positive effects have been underscored, e.g. EPAs can be a forum of negotiations (Ponte et al., 2007); EPAs can facilitate intra-regional trade, and threats to regional trade development can be offset because negotiations allow for the exclusion of sensitive products and for phased introduction of the tariff reductions (Milner et al., 2011).

It has been argued, however, that EPAs are asymmetrical devices with the EU as a winner and the developing countries as losers; they are said not to be focused on development (Meyn and Kennan, 2010; for a critical assessment, Sindzingre, 2012b; 2014). The outcomes for ACP countries are uncertain. In relying on countries' groupings, EPAs may hinder SSA trade integration. If the gains of the EPAs for SSA exporters are limited, the costs of the agreement could be high: local producers may lose significant market share to the benefit of their European counterparts, resulting in a decline in output and shrinkage in intra-SSA trade. The adjustment costs of the EPAs may be even higher given the loss of customs revenues being derived from European imports (Perez and Njuguna Karingi, 2007).

Indeed, fiscal losses for ACP countries are a key risk of EPAs, as historically most of these countries rely on taxes on external trade for their revenues (Fontagné et al., 2011). Bilal et al. (2012) thus identify eight countries where fiscal impacts may be

15 For a list of LDCs, see http://www.un.org/en/development/desa/policy/cdp/ldc/ldc_list.pdf
16 http://ec.europa.eu/trade/wider-agenda/development/generalised-system-of-preferences/everything-but-arms
17 http://ec.europa.eu/trade/policy/countries-and-regions/development/economic-partnerships

'very high', most of these being based in West Africa, which suggests that regional factors may be important, with a general effect that the implementation of an EPA can in some countries have serious consequences for government revenues. Due to these mixed and uncertain outcomes, several countries remain reluctant to sign the EPAs.

3. 2. The limitations of South-South agreements: grouping non-complementary countries

Existing South-South regional agreements are affected by the limitations predicted by economic theory. Markets and export structures in developing countries are characterised by economic asymmetries and lack of complementarities, particularly in poor landlocked countries: competition policies may be inefficient and regional integration may result in trade diversion. There are some successes in SSA, e.g., the East African Community (EAC) (McAuliffe et al, 2012; Davoodi, 2012; IMF, 2011). Existing South-South regional agreements in SSA, however, create winners and losers.

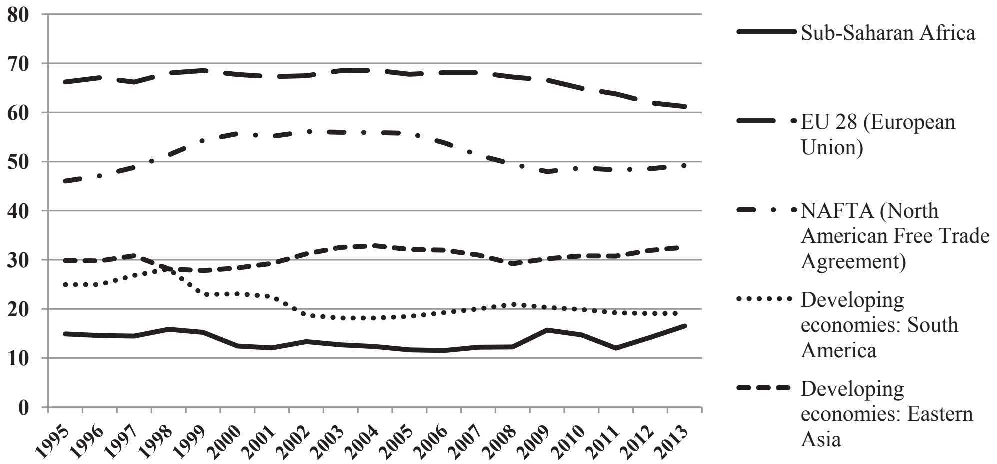
The economies of SSA exhibit low complementarities in goods and factors of production, and export similar products. Most of them exhibit similar comparative advantages – in primary products -, which is a legacy of colonial history and an expression of path dependence: the 'small open economy' model (imports of manufactures from the colonising countries in exchange for exports of primary goods) is resilient since colonial times (Hopkins, 1973). Compounded with small market size, poor transport facilities, this reduces the capacity of SSA countries to reap the potential benefits of RTAs (Yang and Gupta, 2005).

This is expressed in the fact that intra-SSA trade is a small fraction of each country's total commerce. Intra-industry trade is very limited (UNECA-AfDB-AU, 2012). The low level of intra-SSA trade appears in the figure 2 below.

Indeed, the existence of asymmetries between countries that are members of the agreement constitutes a genuine limitation to South-South agreements. Economic geography reveals that the development process in general may be associated with large shifts in the location of activity because industry goes 'from being inward looking to being export oriented' (Venables, 2005).

As shown by Venables (1999), effects of South-South agreements can thus be an increase in polarisation: the benefits and costs of a FTA depend on the member countries' comparative advantage relative to one another and to the rest of the world: FTAs between low-income countries tend to lead to divergence in member country incomes while FTAs between high-income countries tend to lead to convergence. Changes induced by comparative advantage may be amplified by the effects of agglomeration. In particular, after the signature of an FTA, the effects of relocation of production between neighbouring small low-income countries, which result from the different comparative advantages of member countries, foster either convergence or divergence of these countries' incomes: changes in trade flows and in the distribution of activity induce changes in the location of production between member countries.

Figure 2: Intra-trade of regional and trade groups, exports, all products, percentage by destination, annual, 1995-2013



Source: http://unctadstat.unctad.org/EN/Index.html

As underscored by Venables (1999), a RTA may result in labour-intensive production moving toward lower-wage countries and therefore raising wages there. Relocations can generate income divergence, however, e.g. in the case of relocations of industries in another member country, and this may lead to the failure of the agreement.

Puga and Venables (1998) thus emphasize that cumulative causation fosters the concentration of industrial activity in particular locations: RTAs change – increase or diminish - the attractiveness of countries regarding manufacturing production. Regional agreements may lead to agglomeration and clustering effects, inducing relocations, which are compounded by technology transfers and cumulative causation processes. These agglomeration effects created by RTAs may thus increase divergence. Puga and Venables cite the example of the attraction of Nairobi, Abidjan and Dakar regarding manufacturing activity, which has been accelerated by clusters of FDI.

The history of the East African Community (EAC), a customs union established in 1967, is an example of income divergence across member countries: in the first period of the EAC, manufacturing concentrated in the Nairobi region in Kenya at the expense of Uganda and Tanzania, Kenya thus becoming the industrial centre of the common market. The protest of other member countries resulted in the collapse of the EAC in 1977 (World Bank, 2000; Venables, 1999). A new EAC was established in 2001, with aims at achieving deeper regional integration - a customs union, then a common market, a monetary union and a political federation (McIntyre, 2005).

4. The constraints on active convergence-enhancing regional policies

Regional arrangements in SSA may *de jure* include economic objectives and policies that aim at income convergence and equalisation in member economies: e.g., treaties may mention objectives of income convergence across member countries and establish the associated funding institutions. Interestingly, however, these objectives are a secondary goal in most agreements. In practice the majority of regional groupings remain characterised by the fact that historically they are driven by economic objectives, which moreover were initially focused on trade and the removal of trade barriers: they do not include specific budgets that would be earmarked for the rise in incomes, improvement of living conditions and provision of public services for poorer countries and regions within the grouping.

Yet there are specific policies that are elaborated at the level of regional groupings, which result in effects of equalising incomes or the welfare of the regions involved: they typically focus on regional infrastructures – and in a more marginal way, on human development -, which could seem a feature that is similar to the EU model of cohesion policy. Such regional infrastructures are a central objective of several donors in SSA, e.g. the African Development Bank in partnership with other donors (such as the World Bank), via the Programme for Infrastructure Development in Africa (PIDA)[18]. This programme is centred on the following sectors: energy, transport, information and communication technologies (ICT), and trans-boundary water resources. Such infrastructures may consist in, e.g., inter-country roads, dams, transnational electricity grids, railways and transport 'corridors' – which are particularly beneficial to landlocked countries, but also connect coastal countries with their hinterland. The development of regional infrastructures and 'corridors' is thus an important objective of the COMESA and the SADC (Byiers and Lui, 2013). These initiatives improve the income levels of poorer areas, via better connectivity and access to public services and markets.

The impulse of donors, however, appears to be a strong driver of such regional projects. These projects are not fully financed from budgets of the grouping. Such an impulse, which is external to the national governments of the countries that are members of a given regional grouping, constitutes an important contrast with the EU regional cohesion policies.

Overall, regional policies that aim at equalising countries' incomes face several *de facto* constraints, which result in the absence of the implementation of such policies by regional agencies and member states governments.

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18 See http://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/programme-for-infrastructure-development-in-africa-pida

4. 1. Constraints on redistributive policies stemming from low levels of incomes

Economic objectives of regional arrangements, which go beyond trade policies and would, for example, aim at rising incomes, are confronted with the key constraint that developing regions typically include low-income countries. This is especially the case in SSA where most countries are low-income[19]. Out of a total of 34 low-income countries according to the World Bank classification, 26 are in SSA (which includes 47 countries). The rest of SSA countries are lower-middle income economies, with the exception of 7 upper-middle income economies (Angola, Botswana, Gabon, Mauritius, Namibia, Seychelles and South Africa) and one high-income country, Equatorial Guinea[20].

In SSA low-income economies are structurally affected by fiscal deficits and crises, since, in contrast with industrialised countries, revenues depend on international commodity prices, which are characterised by high volatility. In contrast with East Asia, the saving capacity of these economies is also very low (UNCTAD, 2007b). Poverty also implies weak spending and redistributive capacities: coupled with volatile revenues, this is a key cause of the difficulty to mobilise and allocate funds that would contribute to the equalisation between the richer and the poorer countries of a regional arrangement. There may be a few exceptions, such as arrangements that involve a middle-income country that has some industrial base and is richer than its neighbouring countries, which are members of arrangements with it - South Africa, which is member of the SACU (Southern African Customs Union) and the SADC (Southern African Development Community)[21], may be one of the rare examples.

In addition, a key constraint to regional integration, intra-trade and equalisation policies is infrastructure, which even if it is a target of donors' regional projects, is typically very poor in low-income countries, and in particular SSA - especially transportation infrastructure (more than telecommunications infrastructure)[22].

Growth spillovers from regional integration cannot occur if these spillovers cannot spread via connective infrastructure such as transport and telecommunication - landlocked countries are the most affected, as they are often associated with poor infrastructure, while they suffer high transport costs (Roberts and Deichmann, 2011). Spending needs on regional infrastructure as a share of GDP are also greater in landlocked countries than in non-landlocked ones, as shown by the example of the DR Congo (Ranganathan and Foster, 2011). Poor road systems, rail networks and very

19 For 2015, the World Bank income classifications by GNI per capita are as follows: Low income: $1045 or less (in 2013); Lower middle income: $1046 to $4125; Upper middle income: $4126 to $12746; High income: $12746 or more: source: http://data.worldbank.org/about/country-and-lending-groups

20 http://data.worldbank.org/about/country-classifications/country-and-lending-groups

21 The SADC, however, does not include any Fund that is comparable with the EU structural funds. It includes a Regional Poverty Observatory, which has different objectives, and is precisely strongly inspired by external donors (an objective being, e.g., the monitoring of the Millennium Development Goals): see http://www.sadc.int/sadc-secretariat/services-centres/regional-poverty-observatory/. The SACU is a customs union and therefore primarily focused on trade; redistributive issues are confined to revenue sharing and management: see http://www.sacu.int/about.php?id=394

22 See the many documents of the World Bank (and other donors) project on infrastructure in Africa: http://www.infrastructureafrica.org

limited intra-regional linkages explain the low level of intraregional trade in SSA, where a 'hub and spoke' situation often prevails, in which economies are linked to European countries but not to each other, as in Central Africa (Zafar and Kubota, 2003; for a complete review of infrastructure in SSA, see Foster and Briceño-Garmendia, 2010). Transport prices in Africa are on average much higher than in South Asia or Brazil[23] (Teravaninthorn and Raballand, 2008; Kessides, 2012).

Regulatory obstacles create additional constraints and time delays that affect international trade and movements of goods and people (Djankov et al., 2006). Procedural requirements for exporting and importing a standardised cargo of goods are thus much longer in SSA than in other parts of the world (see table 2 in Appendix). These regulatory obstacles are one of the causes of unrecorded cross-border trade (Golub and Mbaye, 2009) – other causes being disparities in tax and trade policies across neighbouring countries (including within a regional arrangement), and the subsequent prices differentials, and the fact that countries may be involved in several different regional arrangements.

4. 2. Another constraint on income redistribution to other countries: aid dependence

In developing countries, the inclusion in a regional arrangement of common policies aiming at income convergence across countries that are members of a regional arrangement is not only constrained by the poverty of member countries. Redistributive policies are also constrained by the fact that many of such countries are characterised by high levels of aid dependence.

Indeed, aid dependence externalises governments' decisions and key public policies, which, in highly dependent countries, are taken by external donors or in accordance with them – an example being, as mentioned above, projects that have a significant impact in terms of equalisation of income such as large regional cross-border infrastructures.

Aid dependence also aggravates the volatility of government revenues, as aid disbursements are often unpredictable, which hinders governments' redistributive capacities within and outside their country. It has been shown that aid flows are unpredictable, and even more volatile than fiscal revenues, particularly in highly aid-dependent countries, which makes macroeconomic fiscal management difficult (Bulir and Hamann, 2008).

In addition, aid may undermine recipient countries' institutions and institutional development, in particular fiscal institutions, and generate vicious circles. For citizens the dependence of their government on foreign aid may be a disincentive for paying taxes and more generally it lowers policies' credibility. For their part, governments that raise a substantial proportion of their revenues from aid are less

23 "Prices (per ton-kilometer (tkm)) on the Central African Douala–NDjamena route (linking Cameroon with Chad) are more than three times higher than in Brazil and more than five times higher than in Pakistan. Only the Durban–Lusaka corridor in Southern Africa approaches the price level of other regions of the world (Teravaninthorn and Raballand, 2008, p. 14).

accountable and less incited to maintain their legitimacy (Moss et al., 2006).

In aid-dependent low-income countries, aid is also characterised by fragmentation and lack of coordination due to the proliferation of donors and the intervention in a single country of a great number of different agencies, which all have different objectives and procedures (Easterly and Pfutze, 2008; Easterly and Williamson, 2011; Barder, 2009; Anderson, 2011).

Volatility of revenues, erosion of policy credibility, and fragmentation of aid flows and donors objectives all weaken recipient countries' capacity to elaborate and implement developmental policies, including redistributive policies both inside the country and vis-à-vis other countries that may belong to a common regional arrangement.

Key indicators of aid dependence are calculated in terms of the percentage of GNI; of gross capital formation; of imports of goods, services and income; and of central government expenses. Indeed, these indicators are high in low-income SSA countries. In SSA, net official development assistance (ODA) thus represented 20$ per capita in 2000 or 4.1% of GNI; 51$ per capita and 3.2% of GNI in 2012. It represented in 2000 23.1% of gross capital formation, and 15.9% in 2012. It represented 11% of imports of goods, services and income in 2000 and 8.3% in 2012%[24].

There are, however, very important variations within SSA. Some low-income countries are heavily dependent on foreign aid, e.g., Burundi (net ODA representing 21.2% of GNI in 2012), Malawi (28.4% of GNI in 2012) or Liberia (36.1% of GNI in 2012). On the other hand, due to their size, some lower-middle-income countries exhibit very low levels of aid dependence, e.g., Nigeria (0.4% of GNI in 2012). SSA upper-middle-income countries display low levels of aid dependence (e.g., Angola with 0.2% of GNI; Botswana with 0.5% of GNI in 2012)[25].

4. 3. A multiplicity of memberships of agreements that fosters the dispersion of funds

Regional arrangements in many developing areas are characterised by the presence of a multiplicity of agreements, and countries are therefore members of several arrangements - this has been coined the 'spaghetti bowl'. This 'spaghetti bowl' of RTAs is an important cause of the ineffectiveness of regional agreements in promoting regional integration (Hartzenberg, 2011). From the point of view of a given country that is a member of several arrangements, these multiple memberships of overlapping groupings have negative effects on the coherence of policies and the allocation of governments' disposable funds, as they induce the dispersion of funds across several regional groupings.

Indeed, SSA is characterised by a multiplicity of formal regional organisations, which display varying degrees of integration, e.g., a monetary zone such as the CFA franc zone, which comprises the West African Economic and Monetary Union

24 Source: World Bank World Development Indicators 2014 online, table 6.11. http://wdi.worldbank.org/table/6.11
25 Source: World Bank World Development Indicators 2014 online, table 6.11.

(WAEMU) and CEMAC; the East Africa Community (EAC-5); the Southern African Development Community (SADC); the Common Market for Eastern and Southern Africa (COMESA); the Southern Africa Customs Union (SACU), among many others (see table 3 in Appendix).

A key issue is the overlapping of these regional organisations, which generates inefficiency in terms of growth and intra-trade (see figure 3 in Appendix).

As underscored by the United Nations Economic Commission for Africa (UNECA-AfDB-AU, 2012, box 7.1), all CEMAC countries are members of ECCAS, and some are also members of CENSAD (Community of Sahel-Saharan States). Seven members of SADC belong to COMESA and four EAC countries are also in COMESA. EAC was already a customs union when COMESA launched its customs union in 2009 (the SADC–COMESA–EAC tripartite FTA, launched in 2008, may resolve what the UNECA calls an 'imbroglio') and SADC trade integration is threatened by the overlapping membership of several of its member states with COMESA, EAC, SACU and ECCAS.

4. 4. Not only weakly complementary economies, but also non-cooperative political economies

These constraints are compounded by the political economy that may characterise the member states of regional agreements, especially in SSA. Funding instruments are vulnerable to political economies that are often characterised by secrecy, lack of transparency, weak governance and informal cross-border flows, all of which lead to leakages of funds and limited implementation of governments' decisions at the lower levels.

Indeed, as shown by Bach (2011), the model of the EU may not be transferable to different contexts in order to serve as a catalyst for development as well as a framework for North-South relationships (see also Claeys and Sindzingre, 2003): SSA economies and states, for example, differ from those of Eastern Europe, as SSA states and political institutions are weaker, which consequently weakens region-building processes.

Moreover, in most regional agreements, economies are not complementary, which fosters rivalry rather than solidarity: in particular, economic and political competition may prevail in fragile and weakly consolidated political institutions.

The detrimental effects on convergence policies of weakly complementary economies may be compounded by political and social heterogeneity. It has been argued that even the model of the most advanced integration, the EU, is characterised by a non-cooperative political economy, as shown, for example, by the eurozone crisis since 2010 onwards and the resistance of some member states to make massive transfers to poorer members: for Spolaore (2013), equalisation policies stumble on a 'political economy of heterogeneous populations' with diverse social and economic structures, languages and cultures, because the associated several benefits are perceived by public opinions as outweighed by the high costs.

All these constraints erode the efficiency of regionalism and may generate cumulative causation processes, which result in the weakening of the elaboration of income convergence policies within regional agreements.

5. Conclusion

This paper has shown that, although the EU was a model for many regional schemes in developing countries, the implementation of one of its central objectives, i.e. the fostering of income convergence across member countries, faces important constraints in low-income regions, notably in Sub-Saharan Africa. A series of constraints have been analysed, both at the theoretical and empirical levels – e.g., South-South agreements as drivers of economic divergence, export structures that are not complementary or political economies that are less based on cooperation than competition – which is compounded by globalisation.

A key constraint is that in SSA most regional arrangements are primarily trade agreements (with exceptions such as the Franc Zone), and do not include the coordination of policies and transfer of funds such as occur in the EU. Another key constraint is that in SSA the majority of member countries are low-income countries that are structurally affected by fiscal deficits, which hinders their financial room for manoeuvre and the possibility to save and transfer funds to other countries.

A recurrent consequence is the dependence on aid of these countries, which in highly dependent countries may externalise policymaking to donor agencies. Key policy decisions, notably regarding developmental projects at a regional scale, may therefore be elaborated outside the countries and hence the regional grouping. Such asymmetry and externalisation of funds and decisions, which may be viewed as a characteristic of poorer countries and therefore their regional arrangements, appear to be a crucial difference with the European Union.

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Appendixes

Table 2: procedural requirements for exporting and importing a standardised cargo of goods

Documents associated with every official procedure are counted—from the contractual agreement between the two parties to the delivery of goods—along with the time necessary for completion.

Economy Name	Documents to export (number)	Time to export (days)	Cost to export (US$ per container)	Documents to import (number)	Time to import (days)	Cost to import (US$ per container)
East Asia and Pacific	6	21	923	7	22	958
Eastern Europe and Central Asia	7	26	2,134	8	29	2,349
Latin America and Caribbean	6	17	1,268	7	19	1,612
Middle East and North Africa	6	19	1,083	8	22	1,275
OECD high income	4	10	1,028	5	10	1,08
South Asia	8	32	1,603	9	33	1,736
Sub-Saharan Africa	**8**	**31**	**1,99**	**9**	**37**	**2,567**

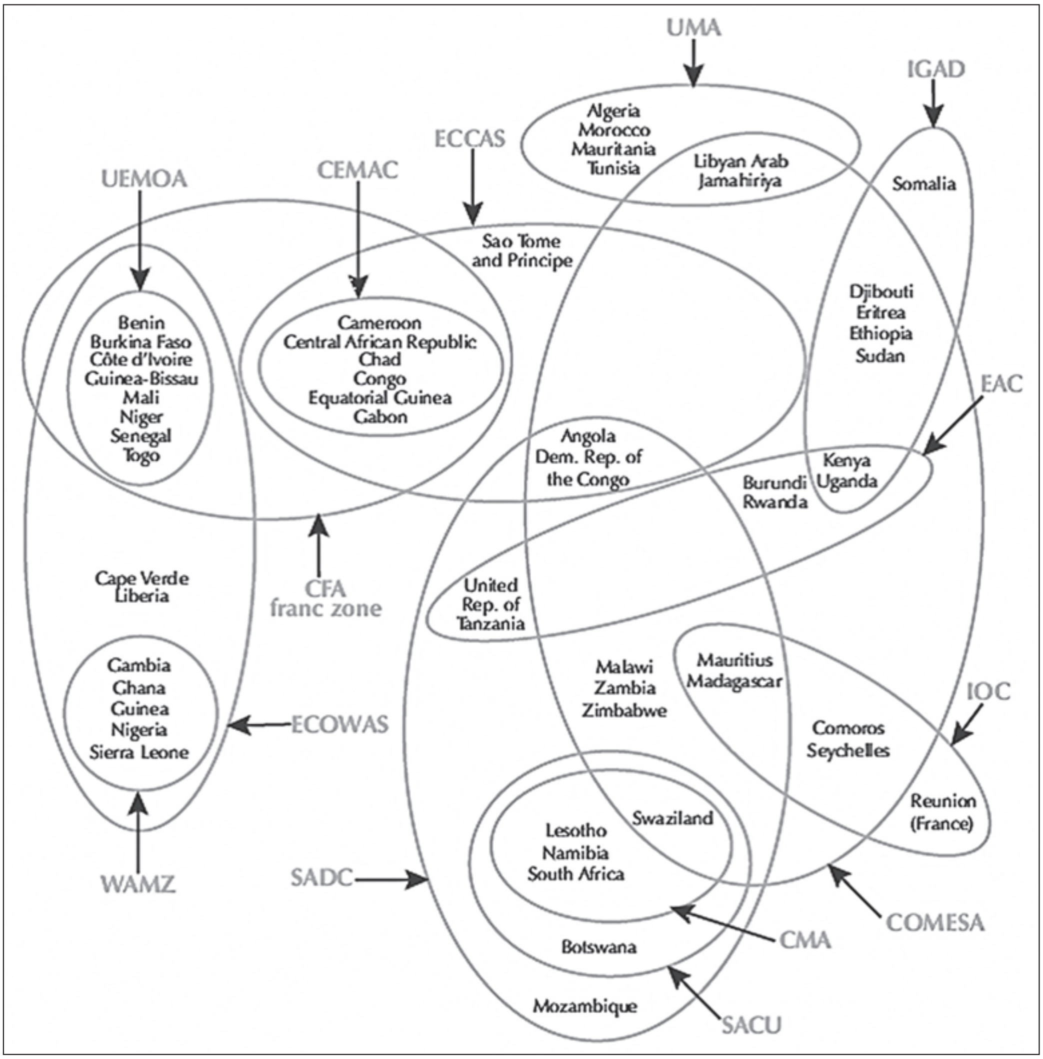
Source: World Bank/IFC, Doing Business website: Trading Across Borders, 2012: http://www.doingbusiness.org/data/exploretopics/trading-across-borders. Data collection completed in June 2012.

Table 3: major Sub-Saharan African economic communities

Major Regional Economic Communities (RECs)	Type	Areas of integration and co-operation	Date of entry into force	Member States	Specified objective
Common Market for Eastern and Southern Africa (COMESA)	Free Trade Area	Goods, services, investment, migration	8/12/1994	Angola, Burundi, Comoros, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe	Common market
Community of Sahel-Saharan States (CENSAD)	Free Trade Area	Goods, services, investment, migration	4/2/1998	Benin, Burkina Faso, Central African Republic, Chad, Côte d'Ivoire, Djibouti, Egypt, Eritrea, Gambia, Libya, Mali, Morocco, Niger, Nigeria, Senegal, Somalia, Sudan, Togo, Tunisia	Free trade area and integration in some sectors
Economic Community of Central African States (ECCAS)	Free Trade Area	Goods, services, investment, migration	1/7/2007	Angola, Burundi, Cameroon, Central African Republic, Chad, Congo, Democratic Republic of the Congo, Equatorial Guinea, Gabon, Sao Tome and Principe, Rwanda	Full economic union
Economic Community of West African States (ECOWAS)	Free Trade Area	Goods, services, investment, migration	24/7/1993	Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo	Full economic union
Inter-Governmental Authority on Development (IGAD)	Free Trade Area	Goods, services, investment, migration	25/11/1996	Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan, Uganda	Full economic union
Southern African Development Community (SADC)	Free Trade Area	Goods, services, investment, migration	1/9/2000	Angola, Botswana, Democratic Republic of the Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, United Republic of Tanzania, Zambia, Zimbabwe	Full economic union
Economic and Monetary Community of Central Africa (CEMAC)	Customs Union	Goods, services, investment, migration	24/6/1999	Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, Gabon	Full economic union
East African Community (EAC)	Customs Union	Goods, services, investment, migration	7/7/2000	Kenya, United Republic of Tanzania, Uganda, Rwanda, Burundi	Full economic union
Southern African Customs Union (SACU)	Customs Union	Goods, services, investment, migration	15/7/2004	Botswana, Lesotho, Namibia, South Africa, Swaziland	Full economic union
West African Economic and Monetary Union (WAEMU/ UEMOA)	Customs Union	Business law harmonised. Macroeconomic policy convergence in place	10/1/1994	Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, Togo	Full economic union

Source: UNCTAD (2009), table 1.

Figure 3: overlapping membership in regional integration groups



Source: UNCTAD (2009). Comoros is also a member of the Communauté financière africaine (CFA) franc zone. The EAC is the regional intergovernmental organisation of Kenya, Uganda, Tanzania, Burundi and Rwanda. Rwanda and Burundi acceded to the EAC Treaty on 18 June 2007 and became full members of the community on 1 July 2007.