

EMEA WEBINARS FALL CYCLE

WHAT FUTURE FOR REGIONAL INTEGRATION IN THE EURO-MEDITERRANEAN AND AFRICA POST COVID 19?

Thursday 08th October 2020 15:00 - 16:50 CET

The panel was moderated by Professor Rym Ayadi, President of the Euro-Mediterranean Economists Association (EMEA). The panelists were: Edward K. Brown, Senior Director, Research and Policy Engagement, African Centre for Economic Transformation (ACET); Mariarosa Lunati, Senior Advisor, Global Relations Secretariat, OECD; Hans Stausboll, Head of Unit, East and Horn of Africa, Directorate-General for International Cooperation and Development, European Commission; H.E. Sena Siaw-Boateng, Ambassador & Head of Mission, The Kingdom of Belgium, The Grand-Duchy of Luxembourg, The European Union;

Rapporteur: Sara Ronco – EMEA Researcher

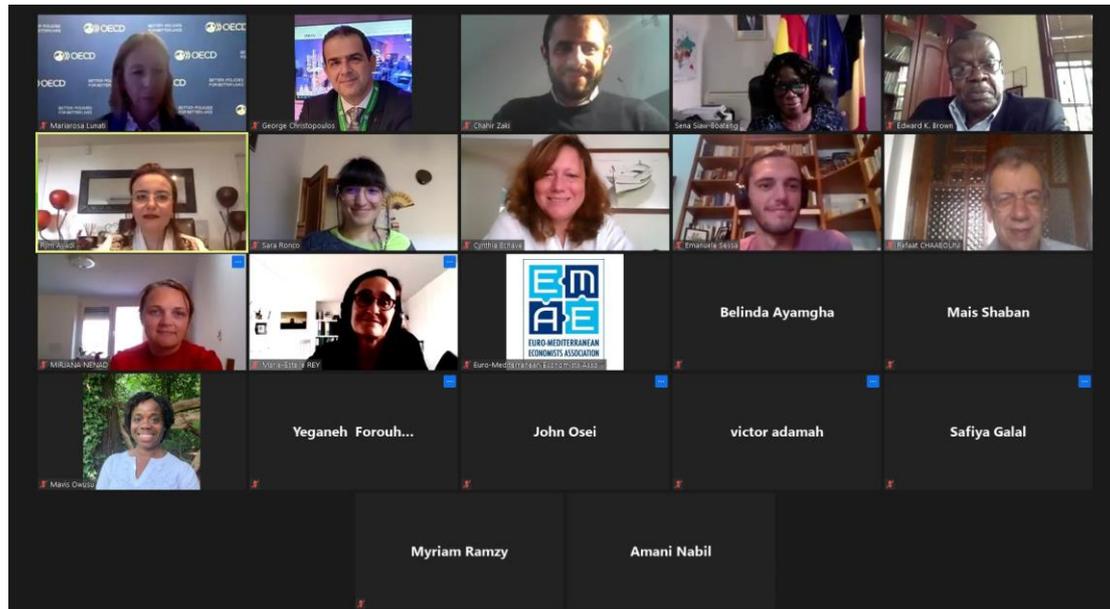
Introduction

This webinar is organised to launch EMEA policy research initiative on regional integration Europe, Mediterranean and Africa. The initiative aims at assessing and monitoring regional integration trends and test the EMEA-EMNES blue transition scenario, a research topic initiated in 2009 from which EMEA developed several visions of economic and political integration for a 2030 horizon. Since then, the development in the Euro-Mediterranean region during the last decade, highlights a trend towards more fragmentation and the COVID-19 crisis has put further pressure on the region and on the regional integration process. In July 2020, EMEA published a study that proposes a [Regional Integration Matrix \(RIM\)](#) to assess the regional integration process in the Euro-Mediterranean region. When assessing the performance of regional integration in the Euro-Mediterranean region, after [25 years of the Barcelona Process](#) that started in 1995, the assessment is regrettably disappointing. Besides fragmentation and increasing divides between the opposite shores of the Mediterranean, several decades of economic integration have not materialised in the catch-up of poorer to richer countries in the Euro-Mediterranean region. The EMEA's [new TRIS model](#) for economic development and integration suggests a paradigm shift, in view of the on-going transitions and necessity to move to a resilient system to respond to extreme

WHAT FUTURE FOR REGIONAL INTEGRATION IN THE EURO-MEDITERRANEAN AND AFRICA POST COVID-19?

shocks, such as the COVID-19 global pandemic. The objective of this webinar is to discuss the regional integration process in the Euro-Mediterranean and Africa - prior, during and beyond the COVID-19 period.

Panelist Presentations



Edward K. Brown: He started by providing an overview of regional integration in Africa from the lens of AfCFTA. Africa's intraregional trade has increased substantially over the last two decades (from 5% in 1990 to about 12% in 2017, IMF). He underlined that official statistics do not capture widespread informal cross-border trade, thus underestimating the magnitude of actual interregional trade flows. On average, the size of intraregional trade in Africa is broadly in line with patterns observed in other emerging markets and developing regions, but much lower than in more advanced regions. A key feature of international exports in Africa is that they are more diversified and have a higher technological content than Africa's exports to the rest of the world, that remain heavily oriented toward minerals. He then moved to the potential impact of the AfCFTA on intraregional trade. It is estimated that trade amongst members could increase by some 15-21% in the medium term and rise further if tariff, non-tariff barriers and infrastructure deficits are addressed. AfCFTA offers the potential to increase historically low levels of intra-African trade, including manufacturing and services; nevertheless, he underlined that some important steps are needed to ensure that AfCFTA provides a win-win situation for all African countries. He mentioned a set of structural challenges that need to be addressed for successful utilisation of the AfCFTA: implementation gap and political will (limited institutional capacity); integration of the regional integration disparities; ensure a fair distribution of cost and benefits; trade liberalisation beyond tariffs; parallel integration schemes; and private sector engagement.

WHAT FUTURE FOR REGIONAL INTEGRATION IN THE EURO-MEDITERRANEAN AND AFRICA POST COVID-19?

He then moved to considerations on the COVID-19 impact in Africa and the AfCFTA. The COVID-19 pandemic creates additional uncertainty for the ease and success of the AfCFTA. The spread of the disease has already delayed the starting date for trading under the AfCFTA; the adverse effects inflicted on African private sector activity in the wake of countries' economic lockdowns could further hinder the implementation of the AfCFTA on the technical front. More specifically, COVID-19 might cause investment in infrastructure to decline as financial resources are diverted and debt levels of member states increase. Nevertheless, the looming economic fallout of a predicted global recession and low commodity prices caused by COVID-19 for (at least) 2020, may make African economic integration a more significant priority as a means of promoting economic diversification, growth and resilience and could use AfCFTA innovatively for fostering the development of regional global value chains. Moving to the partnership with the European Union, he said that AfCFTA, promoting rules-based trade, creates space for the EU to move beyond the traditional development cooperation niche. In his view, EU support for the AfCFTA (helping the AU Member States to pursue complementary economic reforms) could play a crucial role in promoting the continental free trade area, but could also serve as a critical investment in Africa's post-COVID-19 economic recovery. Nonetheless, the EU's development cooperation support for AfCFTA can only be effective if it is well-coordinated and aligned with African needs and priorities.

Mariarosa Lunati: She started by sharing the main findings of the on-going work of the OECD Global Relations Secretariat on regional integration in the Euro-Mediterranean area. The OECD has already prepared reports for the UfM monitoring the progress of integration in the EUROMED region. First, she highlighted that they paid particular attention to the notion of integration allowing a proper measurement of the phenomena in the area, contextualising each dimension covered by the study, considering the fundamental preexisting conditions that enable the realisation of the benefits of full integration. She stressed that they used a limited amount of data observable over time, from official statistics, the OECD database on regulation (i.e. FDI restrictiveness, trade facilitator indicator). One of the objectives of this study would also be to stress the importance of producing relevant data according to international standards, thereby encouraging countries to devote sufficient resources to develop a collection of sound data. Their overall assessment of the progress of regional integration in the Euro-Mediterranean area is less pessimistic than others. Research on the economic integration implemented until now in this area highlighted the considerable distance between the level of integration observed and the ideal level of integration to achieve, in general finding little or no progress in regional integration, stressing and focussing on missed opportunities. They based their study on a positive approach with more disaggregated data. She said that their analysis of disaggregated data at a sub-regional level reveals a more nuanced story, disclosing continuous, although slow, progress of intra-regional trade in the Euro-Mediterranean even when the intra-EU trade is excluded. It appears that the internal market of the UfM has

WHAT FUTURE FOR REGIONAL INTEGRATION IN THE EURO-MEDITERRANEAN AND AFRICA POST COVID-19?

gained relevance for most of its member countries, both in terms of trade of final products and of intermediate goods. As for the integration into regional value chains, they measured the contribution of Morocco and Tunisia in the production of EU Member States and it appeared that it has been steadily increasing since 2005 (OECD data on trade-in value-added). Both Tunisia and Morocco are also increasing their participation in other economies on the southern shore of the Mediterranean. The OECD developed a new indicator on trade facilitation which is also revealed in most of the UfM countries (as for the observed years 2017-2019).

Indicators of regional integration also show improvement in trade facilitation in most UfM countries. Notwithstanding the slow progress assessed, the integration is still incomplete. To have a better understanding of the size of the missed opportunities in intra-regional trade, they have estimated the export potential between members of the UfM based on a gravity model of trade. The result showed that, overall, intra-UfM export values are in line with the benchmark level and increased in respect of the beginning of the Barcelona Process. This result is valid for agriculture, mining production and manufacturing. She also stressed the evidence from some countries in the area of a shift in their traditional exports. The study showed the importance of connectivity infrastructures for regional integration and significant participation in regional value chains. She concluded by saying that, particularly referring to the financial sector, that regional integration would not be fully reached without the prior strengthening of national (financial) markets.

Hans Stausboll, He started by remarking on the strong support of the European Union towards regional integration in Africa, both politically and financially, which were the major areas of support in recent years. In the last MFF 2014-2020, the European Union committed around EUR 7 billion in support of the continental and regional programme in Sub-Saharan Africa. He stressed that the EU suffered from having a very complex financial architecture, with many different programmes and envelopes. He recalled the Cotonou partnership framework, which implies a strong partnership between the European Union and the African Union, but also with African regional economic communities and regional organisations engaged in Africa. The EU has provided massive support for capacity building development and has been subsidising regional organisations, but has also been criticised for having kept some organisations alive unable that would have been unable to survive without donor support. The long-term partnership had clear advantages but also drawbacks. He said that the EU had been locked into a relatively formal relationship with RECs and with the AU, without reaching the next level as proposed. They had also been stuck with an overlapping of memberships in Africa, which had further complicated the process. Without a clear commitment from the governments, there is no integration, he said. It has been observed that there has been a consistent lack of commitment by the Member States to the actual domestication of what was agreed at the regional level over the years. His opinion was that there isn't a lack of agreements or standards but that there is a domestic reluctance to integrate. As a consequence, Africa is the least integrated continent in the world. On the AU-

WHAT FUTURE FOR REGIONAL INTEGRATION IN THE EURO-MEDITERRANEAN AND AFRICA POST COVID-19?

EU partnership, the EU would like to develop the new strategic partnership soon (postponed to 2021 because of COVID-19 but a meeting is planned in December to keep the engagement ongoing). The meeting will intend to confirm a substantial package of measures in support of the EU-Africa strategy, in the context of the next financial perspective through the new Development and Cooperation Instrument and based on the post-Cotonou framework. He stressed that the rules of the game would change significantly. He highlighted the main issues: there will be one integrated regional continental programme for Sub-Saharan Africa and, therefore, one general programme covering everything; there is the possibility that EU regional support will not necessarily follow the logic of regional organisations trying to follow a functional approach, based on viable targetting initiatives creating a group of strongly committed countries in a given area; the EU aims to link more regional initiatives and agreements to national activities. He said that they are keen to see more coordination between what the EU does at national, regional and multinational levels to overcome the fact, that often, regional activity has remained rather formal, without having a link with national activities. EU is not progressing with the programming. Nevertheless, there are some clear key priorities: help with the implementation of the AfCFTA, probably with a programme that can be implemented at national, regional and multinational level; identify a limited number of strategic economic corridors to have a transitional approach, on the basis of real economic benefits (regional value chains, cross-border trade etc.); and support for the private sector. He highlighted that, during COVID-19, a high level of cooperation has been observed amongst countries at the regional level in Africa, rapidly and effectively mobilising a regional response plan. Therefore, he concluded that the recognition of the importance of cooperation would hold and trigger integration in Africa.

H.E. Sena Siaw-Boateng She started by talking about the role of Ghana in enhancing African integration, post-COVID-19. Ghana will host the Secretariat of the AfCFTA. The main idea of a continental free trade area was born in Ghana during the AU ministerial trade meeting in 2011. Since then, Ghana has contributed substantially to the lengthy negotiation process; it was the first country to sign and ratify the agreement. She then moved to the analysis of the AfCFTA operational phase. One of the major critical points is the adoption of the initial set of rules of origin, but 88% of instruments have already been set: the online platform for tariff negotiations; African trade observatory; digital payment and settlement sustainment, online mechanisms for non-tariff trade barriers; mobile applications for AfCFTA business activities (under construction); an adjustment facility to manage the adverse effects of revenue losses (US\$ 1 bn); and a proposal for a repository platform for the centralisation of databases for customer due diligence.

She continued by looking at some of the benefits from the agreement. The AU's Heads of States endorsed the initiative "Boost intra-African Trade" (BIAT) based on seven main priority clusters: trade policies, trade facilitation, productive capacity (industrialisation), trade-related infrastructures (transportation, communication), trade finance, trade

WHAT FUTURE FOR REGIONAL INTEGRATION IN THE EURO-MEDITERRANEAN AND AFRICA POST COVID-19?

information, and factual market integration. Each country is required to identify specific areas of comparative advantage as a strategic forecast for diversification and developing value chains for goods and services. Ghana is already enhancing industrial capacity, with one particular programme "One District, One Factory" amongst others to facilitate trade and regional integration and it is also implementing a WTO trade facilitation agreement. She then focussed on the narrative of African infrastructure. Africa still presents a low level of development in infrastructure, such as airports and railways to facilitate the market; initiatives in this sense have already been taken, such as the one endorsed by ECOWAS aiming at connecting all the countries in the sub-region by rail. She then stressed the importance of financial development, an area in which Ghana is engaged in various projects, including bank reform. She mentioned Ghana's trade commodity exchange and electronic trade information as good examples of areas that could also be developed in other African countries. Moving to the COVID-19 impact in Africa, she recalled the critical drop in remittances and job losses as major economic problems, magnified by high public debt. Nevertheless, whether other countries outside Africa are witnessing negative growth rates, countries like Ghana are still recording a positive growth rate and she is confident about the capacity to maintain a positive rate, even though it will be low growth in the next few months. She stressed that the EU-AU partnership should be enforced mainly in the field of sustainable growth and job creation, through the transfer of technology. She concluded by saying that the EU is Africa's largest trading partner and AfCFTA is expected to enhance the continent-to-continent partnership between the EU and AU in both trade and cooperation.

Chahir Zaki He started by underlining the importance of the role of AfCFTA and its relationship with the EU agreement. The EU should channel more investment into the non-oil sector, since most of European FDI towards Africa is channelled either to the primary sector or the oil sector. The problems related to that are threefold: low value-added sectors; low job creation; and low backward and forward linkages reducing the likelihood of creating regional value chains. He, therefore, stressed the importance for the EU to reallocate FDI into non-traditional exports in Africa, to create regional value chains fostering job creation and development. He then recalled the importance of collecting more data, as stressed previously by the panel. Most of the manufacturing and agricultural sectors in Africa are based on informal work, whilst most of the database does not account for informal trade data, underestimating the magnitude of trade. More initiatives are needed to account for informal trade. Another point he stressed is the importance of harmonising standards and norms across African countries and between African regions or countries as well as third partner countries. More policy discussion and more research are needed in order to understand how to harmonise the differences in rules and standards amongst all the different partnerships across Africa with third countries, in order to solve the "spaghetti-bowl" problem in Africa. Despite several economic corridors in Africa, he underlined two main problems: the issue of a physical and legal infrastructure to promote trade and also e-commerce. The E-commerce legal and physical framework will, in his opinion, be the main priority for the following years which should be addressed under the

WHAT FUTURE FOR REGIONAL INTEGRATION IN THE EURO-MEDITERRANEAN AND AFRICA POST COVID-19?

AfCFTA. On trade facilitation, the implementation of the single window is really important but, at the same time, he stressed that it would be key to implement the correct software in order to help automate customs; this could reduce corruption - one of the main obstacles hindering foreigners from investing in Africa. He then presented the main findings of recent work he and some colleagues had done on GVCs in the Euro-Mediterranean and the possible implications in the post-COVID-19 period. Post-pandemic, we are supposed to have a rise in regional value chains and Arab and African countries could be potential candidates for the re-shoring or re-globalisation from Asia towards Africa. In the study, they focussed on Agadir countries, since they are already integrated between themselves and they also have the Association Agreement with the EU. Their increase in trade happened to some extent, but the AA was not deep enough to promote trade. The focus of the study is on textiles and pharmaceuticals.

The study reveals that global demand in textiles is declining and, therefore, it could be of more benefit to diversify economies towards emerging sectors like pharmaceuticals. The research evidences the opportunities, weaknesses and provides product space analysis for developing regional trade value chains. The attractiveness matrix in the study compares different countries in terms of different attractiveness criteria, comparing some Arab countries with certain Asian ones.

Main issues discussed:

- The **AfCFTA creates more opportunities for EU-Africa partnership**; nonetheless, AfCFTA implementation presets some critical points related to the agreement on common standards, but also problems, such as the low level of infrastructure development, the digital divide and inequality both within and between African countries;
- The **“spaghetti-bowl”** effect in Africa could affect the real implementation of the AfCFTA; more research and political dialogue is needed for harmonising rules and standards amongst all the different regional/bilateral/multilaterals; furthermore, national and regional/supranational standards also need more alignment;
- There are limited possibilities for African SMEs to **access finance and technology** to be able to participate in a regional value chain; furthermore, the African economy is still based on sectors with low value-added and low productivity;
- Africa needs more investment in on **digital and physical infrastructures** and alignment on labour policies and standards across countries, to ensure labour market efficiency at the national and regional level.