



# The Emerging Powers *Policy Brief*



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## Regional trade integration in Aisa and Africa: what lessons can be learned?

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It is estimated that more than half of the world trade is today conducted under preferential trade agreements: regional or multilateral (World Trade Organisation, 2001). Based on the principles of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organisation (WTO), countries have the possibilities to establish custom unions and free trade areas and can be extended to free trade agreements, economic unions and common markets in order to strengthen regional trade integration. But the possibilities offered by the WTO and GATT have their limitations; they have in fact created geographical trading blocs (EU, NAFTA, COMESA, ASEAN, MERCOSUR; etc.) which come with restrictions (for instance tariffs and tax imposition) to fully enable multilateral trade between the wider WTO members. Therefore, regional blocs seem to drive the future trend of international trade.

### Asia's regional trade integration

While the European Union has developed trade policies which favour intra-trade between its member countries, intra-Asian trade has not developed much until the 2008 financial crisis which pushed Asian countries to trade more among them to compensate slackening trade with the European and American markets (See table 1). As trade occurs more between members of Regional Trade Agreements (RTAs), intra-regional trade is becoming more important among Asian countries, hence their interest for enhanced integration even though there are different regional blocs such as the Association of Southeast Asian Nations (ASEAN) Economic Community and the South Asian Association for Regional Cooperation (SAARC).

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**Table 1: Intra-Asian trade**

Trade groups	Value of intra-trade (exports in millions of dollars)					
	1995	2000	2005	2010	2011	2012
ASIA						
APTA	21 988	37 785	128 116	278 555	325 535	326 030
ASEAN	80 081	98 189	165 406	262 987	310 488	325 513
ECO	4 908	4 693	14 565	32 945	42 740	48 430
GCC	7 041	8 340	19 453	34 523	47 015	51 191
SAARC	2 436	2 935	9 112	16 633	20 209	20 291

Source: UNCTADStat, 2013

China plays an important role in intra-Asian trade. China imports a lot from other Asian countries thus contributing to reducing the trade deficits with its Asian neighbors. In terms of production, Asian countries complement each other in terms of providing labour, technologies, different components needed in the manufacturing of products. Competitive and comparative advantages among Asian countries enable them to foster economic integration through trade and investments. Such approach enabled the shift from a more vertical economic model centred on economic monopoly to a more horizontal model with more diverse economic actors with more diverse economic interests and influence. It includes intra-regional trade and capital flows. However, greater regional trade has been possible with the reduction of tariffs between countries to enable movement of goods, labour and capital within Asia.

However China's economic influence on regional integration contrasts with its broader political ambitions in the region which lead to political and diplomatic tensions with of course economic consequences on Asia's integration.

### **China's Asian Economic integration strategy**

To counter the US-led TPP initiative, China is aiming for a greater Asian integration through the RCEP. Therefore China hopes for the success of the China-Japan-Korea Free Trade Agreement (FTA) by counting more on its FTA with Korea by attracting Japan, which is more leaning towards the Transpacific Partnership (TPP). In addition China is heavily supporting the ASEAN-led Regional Comprehensive Economic Partnership (RCEP).

Embracing a comprehensive regional economic integration, development and political cooperation agenda are some of the key objectives of the RCEP. The RCEP aims at going beyond single trade deals, as it is the case in the TPP of which China is not a member. China wants to assume its regional leadership role in Asia; hence driving the RCEP, which will bring developed and developing Asian countries together in order to strengthen regional institutions.

Besides through the Shanghai Cooperation Organisation, few Asian countries contribute to enhancing economic cooperation, cultural cooperation and regional security. The SCO member countries also established an interbank consortium, which supports interregional economic development and contributes to funding joint-regional projects (energy projects in the oil and gas sectors, water access projects; etc.). Through the bank, in 2009, China provided loans to assist the SCO member countries hit by the financial crisis.

## Africa's regional trade integration

African countries' organisation based on harmonisation of policies and institutional coordination through Regional Economic Communities (RECs) could enhance intra-African trade. The harmonisation of trade and investment policies contributes to bringing African RECs to foster trade liberalisation and common market as well as common negotiations strategies with their international trade partners. However, RECs increasingly aim at establishing an African Economic Community (AEC) based on common market, common policies for regional industrialisation and infrastructure development. African RECs should be strategic in fostering regional intra-trade, which remains low compared to Africa's global trade (See table 2).

While Africa's trade with emerging economies and its traditional trading partners is growing, a little trade occurs between African countries to boost intra-African trade. The establishment of trade blocs based on trade agreements could be an opportunity for African countries to trade at the regional level. While strong trade blocs like the EU, NAFTA and ASEAN have developed over the past decades within the European, North American and Asian markets, the African market still remains dislocated with less intra-regional trade between African countries. Trade between African countries is currently estimated at 10%–12% of the continent's total, a long way behind other regions; and in 2009 trade within North American countries was about 48% of the total, while 72% of Europe's trade is between the countries in the region and the figure for Asia was 52% (African Economic Outlook, 2014).

However different trade policies across African countries and trade barriers (tariffs, import and export bans and high trade costs; etc.) don't facilitate regional trade in Africa. Therefore, even though there are huge opportunities for African countries to trade among themselves, the African market remains fragmented and trade losses exist due to barriers. The African market remains highly fragmented; preventing enormous opportunities for cross-border trade from being exploited and in turn generating new jobs (World Bank, 2012).

The limited financial resources, the setting of tariff and non-tariff barriers, the slow pace of implementation of a protocol on mobility of goods and services across countries and the political economic instability due to conflicts in some countries are barriers to regional trade integration in Africa. However with the interests of COMESA, SADC and EAC to establish a single market, a target has been set in 2012 at the African Union summit to establish a Continental Free Trade Area by 2017 (African Economic Outlook, 2014).

Besides, while regional integration is the driving force for Africa's regional trade, challenges around common customs union, common market and common monetary area and fiscal integration need to be addressed. To establish common market for free trade at times based on common trade policies, monetary area and fiscal integration, RECs have been established to improve inter and intra-regional trade.

**Table 2: Intra- African trade**

Trade groups	Value of intra-trade (exports in millions of dollars)					
AFRICA	1995	2000	2005	2010	2011	2012
CEMAC	97	101	261	830	755	709
CEPGL	5	4	24	51	86	152
COMESA	1 363	1 404	3 399	8 876	9 332	9 297

EAC	539	489	1 133	2 222	2 595	3 086
ECCAS	135	157	350	1 394	1 062	990
ECOWAS	2 294	2 711	6 011	9 783	10 636	12 530
MRU	103	111	238	164	338	283
SADC	6 622	7 249	11 231	22 345	25 792	24 337
UMA	1 232	1 095	1 916	3 739	4 105	5 710
WAEMU	1 055	976	1 717	2 534	2 645	3 124

Source: UNCTADStat, 2013

Several regional organisations have developed in Asia and aim at enhancing regional integration through trade and investments based on supply chains and capital flows which bring together Southeast Asia, South Asia and East Asia. Existing complementarities (labour, capital, technologies, market; etc.) based on Asian countries' competitive and comparative advantage to trade among them play an important role in fostering regional integration in Asia even though challenges related to regional political and economic tensions or conflicts exist.

In this regard, through their regional integration process, African countries could learn from Asia's regional integration as in Asia there are also different Regional Economic Communities in Africa compared to European Union, which is a single trading bloc and where there is no overlapping membership for its member countries. Integrating national policies with regional policies should be key to driving greater integration Africa based on regional political and economic institutions.

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