South Sudan and the East African Community: framing the issues

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Drivers of integration

• Look first beyond the economics: as a nascent country born from prolonged strife, South Sudan needs political and security anchors to free resources for its development.

• For the foreseeable future, such a regional public good may be the most important one the EAC could supply South Sudan.

• From the EEC to ASEAN to NAFTA, the major impetus behind the quest for closer integration has almost always come from non-economic considerations…

• …but the history of regional integration, particularly on the African continent, suggests that such a process cannot be sustained nor deepened without strong market underpinnings and a sustained commitment to collective action on the part of the integrating partners
Integrating a community of (mostly) LDCs

• Among the world’s regional schemes that aim for deep forms of integration, indeed the establishment of a full-fledged economic community with considerable institutional, policy, and treaty-anchored convergence, the EAC stands out:
  – 4 of its current 5 members are resource-constrained LDCs, 3 of them landlocked, facing significant implementation challenges. Were South Sudan to join the regional grouping, such a low income/low capacity bias would be increased.
  – How existing members factor such a consideration in their accession decision remains unclear – South Sudan’s potential EAC partners will ask: what’s in it for us? (one accession criteria being the potential contribution of new members to the strengthening of integration within the East African region).
  – Is convergence towards EAC norms a desirable objective? How valuable is the EAC acquis? Are there credible alternatives?
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## East African Community, Selected Indicators and World Rankings, 2012

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Remembering Tinbergen

- Need to look at the objective reality of the South Sudanese economy and assess the degree to – and the realistic time horizon over - which the country’s development prospects can be durably enhanced as a result of regional integration efforts.

- What can realistically be assigned to trade and investment led integration – the bread and butter of negotiated regional integration initiatives today, and what lies more squarely within the realm of domestic challenges that South Susan must likely tame on its own (with significant donor assistance)?

- Does South Sudan run the risk of misguided sequencing by rushing into EAC membership in an acutely resource-constrained/high policy opportunity cost environment?
The current reality makes for unpleasant reading...

- 50%+ of South Sudan’s population live below the US$1/day poverty line
- 75% of its population has had no education, with major labour market impacts
- The country is landlocked and without the modern transport arteries to get goods to domestic or foreign markets: an estimated 300 km of paved roads in a country the size of France
- Health conditions are near primitive: among the highest infant mortality rates in Africa and the lowest per capita number of medical professionals
- South Sudan ranks among the least urbanized societies in the world – a lack of agglomeration retards the shift to manufacturing and holds back needed scale economies for public service delivery
- Early evidence of significant corruption
- Property and land rights remain weakly protected
- Poor access to - and high cost - of electricity
- High labour costs and low supply of local skills means high dependence on foreign wage labourers – a socially sensitive cocktail that fuels fears of an EAC-induced stampede of foreign labour
- High dependence on food imports from the region (EAC membership could reduce the import bill so long as the CET does not raise the post-accession cost of goods consumed by the poor)
- A significant dearth of technocratic expertise impedes the capacity to design and implement indigenously decreed policy choices
- Overdependence on fiscal receipts from extractive industries and related governance and macro-economic challenges
... that leads to hard questions

• Which of South Susan’s most pressing development challenges can best be tackled via regional integration efforts?
• What are the most tangible benefits that the EAC can bring to South Sudan and how quickly can such benefits be realized?
• How quickly can South Sudan replace CET-induced fiscal losses by alternative revenue sources?
• Will the adoption of the EAC’s CET be pro-poor? The evidence from Rwanda’s accession offers a cautionary tale.
• How adequate is South Sudan’s current EAC implementation capacity, particularly in regard to deeper integration issues such as the removal of NTMs or the enforcement of regional rules of origin?
... more hard questions

- What sources of export competitiveness does the country enjoy beyond extractive activities and agriculture?
- What prospects of export diversification does South Sudan have given its current human and infrastructural endowments and geo-economic constraints?
- Can South Sudan overcome the high trade costs that stem from its geography to seek diversification into services trade?
- What labour market effects would EAC membership likely generate?
- What regional public goods can the EAC supply South Sudan? Are these likely available from regional or multilateral development banks without the constraints of binding treaty commitments? Or can such benefits be magnified via membership in a deep integration/regulatory convergence club?
- Can joining the EAC process help South Sudan absorb new/additional doses of needed aid for trade?
Reaping the benefits of the EAC’s Four Freedoms: Trade in goods

- Adoption of the EAC CET entails both costs and benefits requiring careful study given prevailing production and consumption patterns. Export gains stemming from enlarged regional access will likely be more theoretical than real so long as trade and production costs remain punitively high and supply capacities weak.
- The goods trade bargain must thus be sold on the import side. This is never an easy political economy equation - there are usually limits to unilateral benevolence.
- South Sudan will remain for some time an EAC rule-taker, subject to the policy preferences of those external interests best able to shape and capture regional norms.
- Beware of the risks of buying into too much trade diversion and entrenching regional oligopolistic rents in the name of integration.
Reaping the benefits of the EAC’s Four Freedoms: Services, Labour and Capital

• **Services**: prevailing EAC regimes are relatively liberal when looked at on a cross-regional basis, implying a regulatory alignment that may lie beyond South Sudan’s current reach.

• The ability of South Sudan to compete in the more complex and regulatory-intensive area of trade in services is currently severely constrained, but it could import needed input services from its EAC partners, especially Kenya, and beyond (South Africa) in mobile finance and telephony, professional services, infrastructure services, trade logistics, etc. There is already evidence of this in mobile banking and telecoms, which has seen a recent pick-up in FDI inflows. But again, beware of entrenching first mover advantages by adopting a liberal stance towards 3rd country investors.

• **Labour** mobility remains, always and everywhere, a daunting challenge, heightened in South Sudan by weak labour export capacity and acute domestic skill shortages sustaining demand for foreign labour.

• **Capital** movement: requires sound macro-management to avoid Dutch disease problems inimical to needed export diversification. Scope should exist here for staged opening.
Banking Services: STRI by Regional Groupings

- GCC: 44.78
- SAPTA: 39.24
- ASEAN: 36.90
- EAC: 30.16
- MERCOSUR: 28.90
- TPP: 27.81
- NAFTA: 17.97
- OECD: 6.84
- EU: 2.69
Insurance Services: STRI by Regional Groupings

- GCC: 60.00
- SAPTA: 36.32
- ASEAN: 31.67
- TPP: 26.39
- MERCOSUR: 24.66
- NAFTA: 21.13
- EAC: 20.68
- EU: 13.46
- OECD: 12.30
Fixed-line Telecommunications Services: STRI by Regional Groupings

- GCC: 75.00
- SAPTA: 50.00
- ASEAN: 37.50
- NAFTA: 33.33
- TPP: 30.56
- MERCOSUR: 30.00
- EAC: 25.00
- OECD: 12.07
- EU: 3.57
Accounting and Auditing Services: STRI by Regional Groupings

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<tr>
<th>Regional Grouping</th>
<th>STRI Value</th>
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<td>TPP</td>
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Mobile Telecommunications Services: STRI by Regional Groupings

- GCC: 50.00
- SAPTA: 40.00
- ASEAN: 37.50
- EAC: 35.00
- TPP: 27.78
- NAFTA: 25.00
- MERCOSUR: 20.00
- OECD: 11.21
- EU: 3.57
Retail Distribution Services:
STRI by Regional Groupings

- GCC: 45.00
- ASEAN: 33.33
- SAPTA: 30.00
- EAC: 15.00
- TPP: 11.11
- OECD: 7.76
- EU: 7.14
- MERCOSUR: 5.00
- NAFTA: 0.00
Air Transport (Intl) Services: STRI by Regional Groupings

- SAPTA: 57.76
- EAC: 54.76
- GCC: 48.50
- MERCOSUR: 38.76
- EU: 31.43
- ASEAN: 30.63
- OECD: 26.21
- TPP: 25.84
- NAFTA: 21.27
Learning from others: multi-speed integration is possible, widely practiced and desirable

- Most deep integration compacts, including the EAC, practice various forms of variable geometry: progressivity is key to policy sustainability and the upgrading of technical and supply capacity prior to - or in the context of - market opening.

- Several PTAs accommodate the needs and constraints of specific categories of members – be they economically weaker (or stronger) or politically reluctant to give up undue trade, fiscal or regulatory sovereignty in the context of deeper integration:
  - Treatment of CLMV members (Cambodia, Lao PDR, Myanmar and Vietnam) within ASEAN with a view to addressing development/income/capacity gaps – is allowing progressive Vietnamese graduation)
  - Differentiated treatment of labour mobility (Schengen arrangements governing labour mobility within the EU or variable geometry approaches to budgetary burden sharing
  - Explicit preferences for lighter forms of regional cooperation (e.g. Chile’s associate partnership status within Mercosur to avoid the damaging effects of importing Mercosur’s Brazilian CET).
Does South Sudan need to buy into all elements of the EAC blueprint?

- Can accession be staged across various integration instruments or across various ECA Common Market freedoms?
- Could it join the CET at a later stage or enjoy S&DT with regard to import tariffs on sensitive products?
  - So far, such exceptions have not been granted in the EAC
- Can South Sudan be given longer transition periods to conform with EAC regulatory requirements?
- Can special dispensations be envisaged regarding the entry of lower-skilled workers?
  - EAC rules in services, labour and capital movement show significantly more flexibility and acknowledge the need for progressivity, allowing differentiated multi-speed adherence to otherwise commonly agreed regional aims
Additional considerations

- Market access gains operate reciprocally, South Sudan will need a larger regional market if it is to progressively reduce its dependence on extractive industries and engage in a longer-term process of economic diversification towards manufacturing and services.

- EAC membership can enhance South Sudan’s weak investment climate.

- EAC protocols on factor mobility (capital and labour) may help address acute shortages of FDI and skilled labour in South Sudan.

- Critically, EAC membership can help thin South Sudan’s thick borders through the establishment of transport corridors and a reduction of trade costs via various trade facilitation initiatives.

- The EAC is arguably not an optimal regulatory convergence club given the LDC status of the majority of its members.

- South Sudan must be careful not to lock itself too rigidly into potentially sub-optimal regional compacts and adopt a liberal stance towards third country suppliers and investors.

- Critical need to focus on human capital enhancement (education and health) to endow the country with healthier, more productive and better informed workers and decision-makers: key to allowing a process of gradual economic diversification.
Tentative conclusions

• Trade-led integration and EAC membership must not be seen as magic development bullets.
• South Sudan must likely first travel an arduous road of sustained and wide-ranging domestic reforms before the benefits of EAC membership can generate meaningful reciprocal traction.
• Still, a variable geometry approach to membership can supply a number of key regional public goods, not least of which an important security blanket to the nascent nation and the means to overcome the tyranny of geography through a thinning of its borders.
Thank you

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