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Position Paper

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EXECUTIVE SUMMARY

In September 2014 the Small Islands Developing States (SIDS) of the world met in Apia, Samoa to chart a new development pathway that takes into consideration their specificities and vulnerabilities. This family of island nations has been for many years at the forefront of key global discussions to make the international community aware of the challenges facing them such as global shocks, climate change, limited land space and capital and human resources shortages which impose severe challenges on their economic and social development.

Seychelles, located 1,800 km east of the East African coast, is geographically isolated, its population of under a 100,000 inhabitants has limited production and is continuously experiencing trade imbalances. Low production capacities and weak manufacturing industries have turned Seychelles into a net importer and this has exerted additional pressures on the already limited foreign exchanges reserve. Being a small open economy, Seychelles is a price taker in the global market and is subjected to most, if not all, of the disruptions that occasionally occur. It was therefore imperative for Seychelles to strategize on how to get out of that economically unhealthy situation. In the mid of the 1990s, the government set out to explore favorable trade agreements being undertaken by Regional Economic Communities (RECs) in the region. It was found that regional integration could address key problems. The expectations included cheaper imports from the region and securing the necessary raw materials to boost local production with the aim of further increasing exports back to the region. As a result, Seychelles made regional integration an important foreign policy objective and joined the Common Market for Eastern and Southern Africa (COMESA), an organization which has as its main objective the enhancement of economic prosperity through regional integration.

By that time Seychelles was already a member of the Indian Ocean Commission (IOC). A regional organization composed exclusively of islands and a key advocate

for the specificities and vulnerabilities of SIDS. The objectives and programmes of the IOC were however not addressing the immediate needs of Seychelles since there was an absence of trade agreements among its member states and for Seychelles the focus is on Free Trade Area (FTA).

Being a fully-fledged member of a REC such as COMESA entails being party to a number of binding agreements, which provide the legal framework for cooperation in various areas. When signed and ratified these agreements are mechanisms for locking countries into “one size fits all” approaches to development. As a result of being geographically detached from mainland Africa and lacking in adequate infrastructure development proper trade in goods suffered.

One of the main challenges for Seychelles remains the fact that COMESA programmes are geared towards the achievement of a ‘customs union’. Theoretically, the two most important characteristics of a customs union are: the total or partial elimination of barriers between the members and the application of a Common External Tariff (CET). To date, 87% of Seychelles tariff lines are currently at zero and below COMESA’s CET. Being a member of a customs union entails an increase in the price of goods and services and has a negative impact on the economy whilst also being an unpopular political move nationally. Hence the status quo is problematic and a re-thinking is required.

As it stands, there is no national strategy for regional integration in Seychelles and the following questions need to be considered:

- Are the commitments that Seychelles is making in COMESA aligned to its national policies?
- With the absence of a regional integration strategy and a National Development Plan (NDP), how does such a small country, prone to international shocks, ensure that its foreign policy address its needs?

- Is COMESA still the right REC for Seychelles?

With these three key questions we need to re-examine the significance of regional integration for Seychelles. It is imperative to ensure that regional integration is properly managed in order for it to contribute to the national goals. This calls for the right policies to facilitate the domestication of regional integration into national planning.

TABLE OF CONTENTS	PAGE
EXECUTIVE SUMMARY	1 – 3
ACRONYMS	6 – 8
CHAPTER ONE: PROBLEM STATEMENT	9 – 10
CHAPTER TWO: BACKGROUND AND CONTEXT	
2.1 Introduction	11 - 13
2.2 Key concepts and definitions	13
2.2.1 Regional Integration	14
2.2.2 The Regional Integration Narrative	15 – 16
2.2.3 What is a SIDS?	16 – 19
2.2.4 The Economics of Trade and Regionalism	20 _ 21
2.2.5 Why do small states join RECs if not for economic reasons?	21 –24
2.2.6 The changing nature of Regional Integration	25 –27
2.3. What are the concerns of Seychelles Regional Integration process with COMESA?	27
2.3.1 The COMESA Customs Union Challenges	28
2.3.1.1 The effect of CET on price of goods and services	28 – 29
2.3.1.2 Challenge of being a member of Customs Union on the agriculture sector	29 – 30
2.3.2 COMESA Regional Integration Process dependent on resources from the European Union (EU)	30 – 32
2.3.3 Lack of strategy aligning national plans to the Regional Integration process	32 - 34
2.4 Conclusion	34 – 35

CHAPTER THREE: POLICY OPTIONS AND POLICY RECOMMENDATIONS

3.1	Introduction	36
3.2	Recommendation 1 – Emphasis on the investment, regulatory and services side of trade	36 – 38
3.2.1	Negotiate trade in services in COMESA	38 - 40
3.2.2	Explore investment in the COMESA region	40 - 41
3.2.3	COMESA’s Role in Building Capacity in Non Traditional Trade Issues	41 – 42
3.2.4	Adaptive product and labour market regulations	42 - 43
3.3	Recommendation 2 – Exploring financing facilities under COMESA provided by the EU	43 - 47
3.4	Recommendation 3 - COMESA as a mechanism to ensure peace and security interest of Seychelles	47 – 49
3.4.1	COMESA to assist with Maritime Security	49 – 51
3.4.2	COMESA to assist with securing a non-permanent seat on the United Nation Security Council (UNSC)	51 – 55
3.5	Recommendation 4 – The initiation of a FTA for the Indian Ocean Island States	55 – 59
3.6	Recommendation 5 - Developing a National Development Strategy (NDS) to align with the Foreign Policy and Regional Integration Initiatives	60 – 61
3.7	Conclusion	61 – 63
4.0	CHAPTER FOUR – RECOMMENDATION AND CONCLUSION	64 – 69
	BIBLIOGRAPHY	70 – 77

ACRONYMS

ACP	Africa Caribbean and Pacific
AEC	African Economic Community
AfDB	African Development Bank
AIMS	Africa, Indian Ocean, Mediterranean Sea and Southern Sea of China
ASEAN	Association for South East Asian Nations
AU	African Union
CAADP	Comprehensive Africa Agriculture Development Programme
CARICOM	Caribbean Community
CCIA	COMESA Common Investment Area
CET	Common External Tariff
CETA	Comprehensive Economic and Trade Agreement
CFTA	Continental Free Trade Area
COMESA	Common Market for Eastern and Southern Africa
CPA	Cotonou Partnership Agreement
DEVCO	Development and Cooperation
DFQF	Duty Free and Quota Free
EAC	East African Community
EC	European Community
EDF	European Development Funds
EEAS	European External Action Service
EPAs	Economic Partnership Agreements
ESA	Eastern and Southern Africa configuration
EU	European Union

FTA ¹	Free Trade Area
GDP	Gross Domestic Product
HIC	High Income Country
ICP	International Cooperating Partners
iEPA	Interim Economic Partnership Agreement
IOC	Indian Ocean Commission
LDCs	Least Developed Countries
LLDC	Landlocked Developing Countries
MFN	Most Favoured Nation
MIC	Middle Income Country
NBS	National Bureau of Statistics
NAFTA	North American Free Trade Agreement
NBS	National Bureau of Statistics
NDP	National Development Plan
NDS	National Development Strategy
NIMCC	National InterMinisterial Coordinating Committee
NIP	National Indicative Programme
OECD	Organisation for Economic Cooperation and Development
PPP	Public Private Partnership
PSIP	Public Sector Investment Programme
PTA	Preferential Trade Area
REC	Regional Economic Communities
RIP	Regional Indicative Programme
RTA	Region Trade Agreement

SADC	South African Developing Community
SIDS	Small Islands Developing States
TCF	Technical Cooperation Facility
TPP	Trans Pacific Partnership
UNCED	United Nations Conference on Environment and Development
UNCTAD	United Nations Conference on Trade and Development
UNSC	United Nation Security Council
VAT	Value Added Tax
WTO	World Trade Organization

CHAPTER ONE: PROBLEM STATEMENT

The Republic of Seychelles is a SIDS which in the middle of 1990s pursued regional integration as a diplomatic strategy in her foreign policy to propel itself into the modern economic era and to address the trade challenges it was facing. COMESA was at that time an attractive REC and securing favourable terms of trade through it was essential in addressing the prevailing economic issues at the time. Seychelles' subscription to COMESA was done without any long term consideration or vision as the country had neither a national plan nor a regional integration plan in place. It soon emerged that the ultimate aim of COMESA, enshrined in the COMESA Treaty, was to form a customs union, which was at odds with many of Seychelles' national policies and political agenda. Furthermore the core COMESA programmes were all geared towards the creation of the Customs Union and, in spite of that, Seychelles remains a member although it is obvious that it will never be a fully-fledged member of the said Union.

COMESA is determined in pursuing deeper regional integration at all costs and this may have disastrous consequences, as its members fail to match needed resources with the commitments they undertake through binding and ambitious programmes. As COMESA pursues its myriad of programmes, funding for these becomes way too dependent on International Cooperating Partners (ICP), mainly the EU. Therefore, a reassessment of the status quo is imperative for Seychelles due to its vulnerability to external shocks and its small and fragile economy. It cannot afford to gamble with the social and economic achievements already in place and enjoyed by its people. Seychelles cannot, on an ad hoc basis, continue to undertake commitments which are not consistent with its national goals and priorities, and political agenda.

Continuing to do so will invariably result in putting more pressure on its scarce financial and human resources and may have long-lasting adverse consequences. In light of this, the benefits of regional integration as a component of the diplomatic

strategy of Seychelles need to be identified and examined in order to achieve the best possible results.

CHAPTER TWO: BACKGROUND AND CONTEXT

2.1 Introduction and background

The republic of Seychelles is a small island states with High Income Country (HIC) characteristics, and a population of 91,000 inhabitants with a Gross Domestic Product (GDP) per capita of USD 15,520 (World Bank, 2015). The archipelago is predominately service based and vulnerable to global shocks and climate change due to its isolation and small size. Limited amount of land, capital and human resources has restricted the country's ability to benefit from economies of scale and product diversification, resulting in the country relying heavily on imports for raw materials, finished products and specialised services.

Seychelles is located 1,800 km east of the East African coast, and as a result has had to cope with isolation from its neighbours, limited access to resources and raw materials. Furthermore agricultural land is scarce and local food production is limited, resulting in Seychelles being a net importer of food and many other basic commodities. Due to its small size and with little or no influence on world prices, Seychelles is considered a small open economy meaning that it is subject to disruptions that occur in the market.

In the mid 1990s the Seychelles government had to undertake a strategic move to address the trade imbalances, and shift from being a net importer. Regional integration was seen as an immediate remedy to secure favorable trade agreements, and was given priority in Seychelles foreign policy.

Seychelles joined the COMESA in March 1998, an organisation which has as its main objective as the enhancement of economic prosperity through regional integration. During this period Seychelles was already a member of the IOC. A regional organisation composed exclusively of islands and a key advocate for the specificities and vulnerabilities of SIDS. The objectives and programmes of the IOC were

however not addressing the immediate needs of Seychelles since there was an absence of trade agreements among its member states and for Seychelles the focus is on FTA¹.

With COMESA the principle challenge is that the ultimate objective as stipulated in the treaty is to form a custom union. This is problematic because Seychelles' current tax structure and political agenda is not coherent with the requirements of a customs union and would require significant adaptation. The COMESA Customs Union is problematic for Seychelles primarily because its proposed common external tariffs would be higher than the current applied prices and the lack of institutional capacity to implement it puts into question the extent that COMESA compliments Seychelles specificities as a SIDS. It is clear that Seychelles engagement in the regional integration process as a SIDS has been taken without clear long term vision and planning.

Thus to better understand the issue and come up with the recommendations that will overcome the problem we need to understand the context of the issues. Seychelles as a small island developing state is hardly unique in the issues it faces to integrate globally and regionally. The problem needs to be broken into several components before we can come up with meaningful policy intervention. First we need to understand what a SIDS is. Does being a SIDS have any bearing on the issue Seychelles is facing to integrate regionally? What is regional integration itself? There is certainly a difference between a system like the EU and that of COMESA. What have been the reasons why states got involved in regional bodies? This section will analyze the historical, institutional and economic reasons. From a superficial glance, the customs union issue would seem like a purely economic problem. However, this chapter will show that the problems go beyond a purely economic one and overlap with other less obvious reasons. The examples of historical context from literature and best practices should shed some light on how the country might tackle the problem brought about by having to join the COMESA Customs Union in the future. This

chapter will assist in revealing that the changing nature of international trade might mean that the original reasons might no longer be applicable in the current global context. Thus to achieve the country's strategic objectives, the country might have to completely look at the problem in a totally new light.

2.2 Key concepts and definitions

Ironically, a major problem when attempting to review literature and historical context on why and how a small island state like Seychelles gets involved in the regional process is both the wealth of literature covering the complex interlinked topic of regionalism and multilateralism, international trade economics, political economy of institutions, international relations and island state issues. What Easterly and Kraay describe as 'excessive attention' (Easterly & Kraay, 2000, p. 2024) on small states and their perceived unique characteristics, has been offset by having very few analysis done in terms of island states and regional integration. This might be a methodological issue of access to data or how one can transpose subjective and intangible institutions like a REC to that of hard quantitative evidence.

As such, a review of literature and historical background on the subject requires the pooling of widely different and often conflicting articles from the fields of international development, economics and international relations, with empirical evidence from both international institutions such as the World Bank or the Seychelles government itself.

To keep this paper from becoming a sprawling revision of the vast literature on the subject, definitions will be limited to that of the four main substantial themes of this paper; What are island states and are they any different for other states? What is Regional Integration and how is it different from multilateralism? What does trade theory say about the role small open economies within and outside a regional arrangement? What are the political implications?

2.2.1 Regional Integration

Regional integration has been defined and much written about since the rise in multilateralism post 1945 (Fawcett, 1995). One of the first influential works on the modern reiteration of regional integration was by Hungarian economist, Bela Balassa who in 1961 argued that as economic integration increases, the barriers of trade between markets diminish. Balassa believed that supranational common markets, with their free movement of economic factors across national borders, naturally generate demand for further integration, not only economically (via monetary unions) but also politically and, thus, that economic communities naturally evolve into political unions over time (Balassa, 1961, p.2). Economists have further linked the rise in regional integration theory with work on creating customs unions (Meade, 1955) in a period which saw a level of economic integration previously unseen in modern Europe (for example after the creation of the European Coal and Steel Community in 1951).

Some authors go beyond seeing it as a purely economic process, by arguing that it describes a phenomenon of territorial systems that increases the interactions between their components and creates new forms of organization, co-existing with traditional forms of state-led organisation at the national level (De Lombaerde & Van Langenhove, 2007). This is perhaps a more useful and nuanced way of looking at regional integration in the Seychelles context. The existing REC's that the island belongs to go beyond simple economic integration, although that is a key component of the African Economic Community (AEC), it also covers the cultural and political (the IOC), trade, economic and security (COMESA, Southern African Development Community (SADC)). This is consistent with the economic, security, political, or social and cultural objectives described in literature (Van Ginkel & Van Langenhove, 2003). Nonetheless there is a strong link between regional integration and economic integration where one often leads to the other.

2.2.2 The Regional Integration Narrative

In terms of analysing the historical context of the problem, analysing the problem in academia is not a new one; however putting a date on its precise origins is thus very elusive. Louise Fawcett prefers to define the beginning of Regionalism (and regional integration) by the rise of institutionalised regionalism after 1945 (Fawcett, 1995). Her chapter entitled ‘*Regionalism in Historical Perspective*’ in the 1995 book *Regionalism in World Politics* is the first piece of literature in this review as it forms the basis most of the historical narrative of regionalism and regional integration that will come up in this paper.

Fawcett argues that the passing of the Single European Act in 1986 was as decisive as the end of the Cold War and liberal multilateralism (Fawcett, 1995) in creating this outburst of regional integration at the tail end of the 1980s. At the time of writing, Fawcett believes that the post 1990’s regional integration would prove more durable than earlier versions but is unsure whether it would last. With hindsight, the current prevalence of regional bodies such as COMESA, SADC, the EU, Association for South East Asian Nation (ASEAN) and Mercosur seems to have vindicated her analysis that it would be more durable. However, how it would have remained durable is by the convergence of the RECs. For example the founding of the EU by the Maastricht Treaty in 1993 and the Treaty of Lisbon in 2009 greatly solidified regionalism in Europe. In Africa, the push towards the Tripartite Free Trade Area (TFTA) aims to combine COMESA, SADC and the EAC.

Fawcett gives mostly political and global causes to explain the rise in regionalism and regional integration, such as the end of the cold war and the rise of neo-liberalism, she adds that economic reasons for joining were seen as ‘not attractive and not immediately available’ (Fawcett, 1995, p. 24). Ironically, it is the RECs that have proved more durable. In the case of this paper, Seychelles joining COMESA in 1998 and IOC in the 1980’s can be seen at the time to be because of the reasons cited by

Fawcett, but stayed in the RECs because of economic reasons. This lies at the heart of why and if Seychelles should remain in COMESA and how its strategy can help bring a better deal for the country.

Methodologically, Fawcett relies on primary and secondary historical and then contemporary sources to construct her narrative. There is little attempt to test her findings, although there is little need to, as it was intended as a narrative. However, she does acknowledge some problems with her analysis in that the process is very new and prophetically that the new countries would need to define their own regionalism outside of the European and North American experiences (Fawcett, 1995, p. 33).

2.2.3 What is a SIDS?

As the debate on ‘new regionalism’ (Keating, 1998) was gaining strength, the definition and nature of SIDS, small economies was also attracting attention in Development and Political Economy. Whilst there is no satisfactory definition for what it means to be classified as a SIDS (Hey, 2003), SIDS are classified as a distinct group of developing countries facing specific social, economic and environmental vulnerabilities. They are often considered as weak states due to their lack of influence on the international scene.

Simon Kuznets definition used an upper limit of 10 million people (Kuznets, 1960) to describe SIDS. The definition adds over 134 economies, the majority not being island states. The Commonwealth, in its work on small states, uses a threshold of 1.5 million people (The Commonwealth, 1997) but the definition also includes larger non island member countries such as Namibia. The World Bank task force on defining a small economy chose the same threshold as the Commonwealth but also concluded that no definition, whether it be population, geographical size, or GDP, is likely to be fully satisfactory (The World Bank, 2007).

The profile of small economies is very diverse, from micro states such as Palau to geographically large states like Suriname. Their development level varies from HIC like Seychelles to Least Developed Countries (LDCs) such as Guinea Bissau and Sao Tome and Principe.

For the purpose of this paper, the scope will be limited to SIDS. The Union Nation (UN) Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries (LLDC) and SIDS limits the definition to “a distinct group of (island) developing countries facing specific social, economic and environmental vulnerabilities” at the United Nations Conference on Environment and Development (UNCED), also known as the Earth Summit, held in Rio de Janeiro, Brazil (3rd -14th June 1992). This recognition was made specifically in the context of Agenda 21 (Chapter 17 G). This is thus limited to 38 island states around the world.

Lino Briguglio seminal 1995 article *‘Small Island Developing States and their Economic Vulnerabilities’* (Briguglio, 1995) was one of the first waves that synthesised the arguments into one article. Briguglio based a lot of his analysis on the United Nations Conference on Trade and Development (UNCTAD) 1988 document *‘Specific Problems of Island Developing Countries’* (UNCTAD, 1988).

The cornerstone of Briguglio’s argument was the creation of a vulnerability index on how to classify island states. A summary of the key characteristics, such as small size, high transport costs and uncertainty of supply (Briguglio, 1995, pp. 1616-1619) are some of the core concepts used in this paper to determine the economic reasons on why a small island state would join regional integration. Of course when writing this article, Briguglio was focused more on defining SIDS and less on regionalism, but elements can be extrapolated from his article that helps to fuel the reasons why small vulnerable states might look for succour in a larger body, for example, ‘institutional changes and regional...cooperation’ (Briguglio, 1995, p. 1624)

Methodologically, the author uses a composite index to determine relative vulnerability. As with all such indexes, its subjectivity is always open to debate and discussion. In addition, there are issues with essentially distilling qualitative characteristics into a quantitative index. As of 2013, no official vulnerability index has been agreed on internationally, although the index has been consistently discussed and elaborated in high level conferences and summit in the years between the writing of Briguglio's article and 2015. The concepts used in these articles however have influenced how SIDS operates in Regional Integration Bodies. 'Cross Regional Cooperation' is seen as a key feature to tackle the vulnerabilities of SIDS (Bruckner, 2013). The question now, when we review literature on the subject is has Seychelles joining COMESA and other REC minimise its vulnerabilities? From Brucker and Briguglio's research, indirectly, it would suggest they do.

However, recent work on whether the problem can be attributed to the specific nature of SIDS have cast doubts on whether SIDS are inherently vulnerable in the first place and by extension why regional integration can prove problematic. William Easterly and AartKraay in '*Small States, Small Problems? Income, Growth, and Volatility in Small States*' (Easterly & Kraay, 2000), argues that empirically, there is no real difference between them and other developing countries in terms of economic growth and volatility (Easterly & Kraay, 2000, p. 2024). The authors cite sources from as far back as 1960 detailing the vulnerabilities and specificities of small states and the difficulties in proving there is an empirical and quantifiable measurable way of distinguishing small island states (Easterly & Kraay, 2000, p. 2014). As early as 1993, Milner and Westerway, using a sample of 48 countries failed to found evidence that growth and country size were inversely related (Milner & Westerway, 1993).

Easterly and Kraay, methodology leans heavily on the quantitative side, as opposed to Briguglio and Fawcett. To determine the wealth level of small states compared to the larger ones, Easterly and Kraay regressed the logarithm of real Capita GDP at Public

Private Partnership (PPP) on dummy variables of being small states, abundance in natural resources and whether they belong to the Organisation for Economic Cooperation and Development (OECD). What they found was that small states are actually significantly richer than other states (Easterly & Kraay, 2000, p. 2015). Furthermore, by using a modified classic Solow model on growth, they found that growth was no different from that of other states (Easterly & Kraay, 2000, p. 2018). In addition by regressing the standard deviation of the terms of trade by small island states and price fluctuations from 1960 to 1995, they found that small states did not face any statistically significant levels of price shocks faced by other countries (Easterly & Kraay, 2000, p. 2022).

One can then argue that the issue Seychelles is facing to integrate regionally is more the results of other factors rather than any inherent vulnerability. Nonetheless, what is interesting in this piece of literature was that they found that while small states did not face any statistically different level of economic growth or volatility, they did suffer from an inability to diversify and be open economically. The authors speculated that the reasons for this might be due to environment vulnerabilities such as climate change and weather patterns (Easterly & Kraay, 2000, p. 2023). What is revelatory in this case was that growth rate of Small Island states were highly correlated within their region. They suggest that the pooling of resources regionally between island states might not be as effective as pooling it with their larger neighbours (Easterly & Kraay, 2000, p. 2023). Based on this argument, it therefore makes perfect sense that Seychelles should be part of a larger regional economic body so as to be able to pool its resources and diversify. A direct recommendation of the article is for small states to use larger pooling of countries to diversify their economies (Easterly & Kraay, 2000, p. 2024). For this perspective, it would seem that the perceived challenges that Seychelles is facing can be attributed to other factors that will be discussed further on in this section.

2.2.4 The Economics of Trade and Regionalism

The pooling of resources to achieve economies of scale and traditional trade gains is one of the major objectives of other countries, not just small states to join regional agreements (Whalley, 1998). As described in the preceding chapter, the economics of joining FTAs¹ has had a long history, closely linked with work done with regards to the creation of Customs Union (Meade, 1955). The idea of a customs union however is based on the theory by Jacob Viner (1950) that trade flows are redirected due to the formation of a FTA¹ or a Customs Union, leading to trade creation (or diversion) and gains from trade. Trade creation occurs when trade is diverted from a more efficient exporter towards a less efficient one by the formation of a Free Trade Agreement (FTA²) or a Customs Union (Viner, 1950). With regards to economies of scale, Regional Trade Agreements (RTAs) have been instrumental in combining very fragmented markets in the past and have had positive effects on growth and production, especially in Sub Saharan Africa (Kritzinger-Van Niekerk, 2000)

The creation of a FTA¹ between countries is seen as the first step towards reaping the benefits of trade creation and economies of scale (Balassa, 1961). Other economists have later on argued that a more limited trade arrangement, a Preferential Trade Agreement (PTA) is the preferred first level of economic integration (Hodgson & Herander, 1983). Whilst limited in scope (a FTA¹ completely reduces barriers as opposed to a limited amount in a PTA). Nonetheless the effects are the same, but on a different scale.

A further integration step includes a Customs Union, famously described by Viner (Viner, 1950) and the Common Market. Studies on the Common Market found that the two economic effects in this arrangement are that it allows for free movement of goods and services, but crucially it allows for free movement of factors, which in a Jones Specific Factors Model would mean the specific factor in the export sector benefits from free trade as it increases the return to the factor specific to the export

sector as opposed to just prices in a FTA¹ (Markusen & Maskus, 2011). In any case the theory of the effects of a Common Market has been less developed compared to that of a Customs Union and that of FTA². Perhaps the first full empirical studies were done in the early 1990s (Tovias, 1991). More recent studies have focused almost exclusively on the effect of the European Community (EC) (Neal & Barbazat, 1998, pp. 60-69) (Ziltener, 2004) or the East African Community (EAC) (Othenio & Shinyekwa, 2011).

Further studies have been done on the later stages and the economic effect of region, such as that of an Economic and Monetary Union (EMU); however this goes beyond the scope of this paper, as Seychelles does not belong to any configuration that has realistic plans to go beyond a common market. The literature on the effects of COMESA and SADC and the impact of a continental FTA² has also been very extensive from 2000 onwards but there are no regional case studies that one can use to see the impact of a monetary union on a small island state (Geda&Kibret, 2007).

It is clear from the narrative, that for the last 60 years, there is very compelling evidence that states, including small states, chooses to partake in regional integration for very clear economic reasons. What is lacking and what hopefully this paper can shed light on is what are the real economic impact on Small Island states when they join such arrangements and whether the effects described in the literature does have an effect in the first place. Are economic effects the only type of effect that is worth knowing about? Have there been best practices that have reaped results in non economic areas?

2.2.5 Why do Small States join RECs if not for economic reasons?

So what does the international best practices and case studies say on why do small states join RECs and resolve their own national interest with the regional ones? As this paper had noted Fawcett's arguments at the beginning, the global forces driving this explosion of RECs in the early 1990's had very little to do with economics

(Fawcett, 1995). It therefore stands to reason that the impact and continuing participation of states in RECs would go beyond economics and delve into political, social, cultural and security reasons which can override any economic logic against joining in the first place (Van Ginkel & Van Langenhove, 2003).

While a seemingly overwhelming amount of literature and case studies focuses on the economic and trade aspect of regional integration, a significant number of writers have touched on the institutional aspects of integration. Perhaps the most relevant in the case of this paper is that regional integration being used to lock in domestic policy reforms which in turn is part of a broader national reform objective. The Mexican position in the Northern American Free Trade Agreement (NAFTA) negotiations was noted to be distinctly geared towards securing credibility for domestic reforms by several authors in the 1990s (Whalley, 1998) (Schiff & Winters, 2003). In the case of the Africa Caribbean Pacific (ACP) Group of countries, the Economic Partnership Agreement (EPAs) with the EU has been a key catalyst towards reforming their economies, with extensive changes in their trade regime and administration (Brenton, et al., 2012). Similarly in the South Asia region, literature has been increasingly focused on the roles of regional agreements being used to counter protectionist policies and pushing for trade facilitation reforms (such as standards harmonisation) that countries would have had no incentive in undertaking in the first place (Kher, 2012).

The fact that ‘accelerating and lock in of domestic reforms’ (Cernat, 2003, p. 1) is acknowledged as one of the primary reasons why joining RTAs is important reflects the shift towards a more institutionalised and thus more nuanced look at integration. Furthermore, joining a RTA goes beyond the need to just lock in domestic reforms, it acts as a signal to other countries in the international community on the approach and orientation a country is taking (Kritzinger-Van Niekerk, 2000). The example that stands out in the last ten years is, unsurprisingly, China. Francois Bourguignon, Chief

Economist at the World Bank stated that the process of China's accession to the World Trade Organisation (WTO) has proved 'decisive in the countries integration into the world and move to a much stronger emphasis on rules based reform' (Bourguignon, 2004, p. xi). China's accession process meant that over 3000 laws and administrative rule were amended at the central government level and 190,000 at the local government level (Buckley & Zhou, 2012). Other authors have noticed similar drives for reforms in Russia (Zimmermann, 2007), Vietnam (Ianchovichina & Walmsley, 2003), and the expanded EU member states (Tochkova&Nenovskyb, 2007) or prospective members (Memeti, 2014), where accession to a multilateral or regional body have spurred radical economic reforms.

Although much less extensive than a purely economic rationale for regional integration, there is still some notable work done on how deeper regional integration in Africa and its sub-regions have been driven by a need to reform. TrudiHartzenberg (2011) argued that regional integration in Africa has helped to 'anchor domestic and regulatory processes (Hartzenber, 2011, p. 16). A 2013 report by the African Development Bank (AfDB) pointed out that in the case of COMESA, that in fostering harmonization and regional integration in the financial and trade facilitation programmes, it has led to significant improvement is modernising domestic policies in member states (The AfDB, 2013). However, reform implementation appears to have occurred most comprehensively for commodities that were not the most strategically important and in countries facing fiscal crises (Govereh& Jayne, 2002). However, it has been suggested, at least in the agricultural sector, that in only three (Mali, Senegal and South Africa) have reforms been "unambiguously proliberalization" (Coulter & Poulton, 2001, p. 208).

Nonetheless, it is very difficult to ascertain, in Africa at least as to whether countries joined SADC or COMESA for the specific act of anchoring domestic reforms, as the implementation however have been very patchy. The lack of literature on the subject,

with the exception of South Africa (Lewis, 2001), which some authors argued joined SADC because COMESA programmes weren't comprehensive enough for its reform agenda in the early 1990's (Hartzenberg & Maasdorp, 1998), makes it very problematic to come to a clear conclusion on the impact and rationale of a small country like Seychelles would engage in Regional Integration.

This is why the questions tackled in this paper are an opportunity to fill in this academic blank space in the region. It is not a coincidence that Seychelles only joined the COMESA FTA¹ in 2009 (nine year after its launch) and is in the process of joining the SADC FTA¹ and Tripartite FTA¹ after the macroeconomic reform programme in 2008. The process to resume WTO accession negotiations happened almost a year after the reforms was announced in 2009. Within COMESA at least, the implementation of procurement and trade facilitation reforms happened only after 2008. Whilst never explicitly stated in any literature, Seychelles deepening of its regional integration agenda after major reforms were implemented provides tantalising glimpses of how a small country interacts regionally.

Beyond institutional reforms and economic gain, the most frequently cited reasons for states, especially developing ones to join a REC has been to increase bargaining power (Whalley, 1998), or underpinning strategic linkages. For example it has been remarked that regional economic integration often follows security and or political linkages (Kritzinger-Van Niekerk, 2000). For example COMESA, SADC and the EAC are strongly linked to the Africa Union (AU) and the European Economic Community (EEC) to the EU. Often, both are the results of the other or part of the same process. However, with regards to this paper, the rationales are often secondary to economic and institutional factors.

2.2.6 The changing nature of Regional Integration

The level of research and best practices on regional integration and the participation of states in it, whether small or big, for whatever purposes, have consistently painted a world where regional integration is on the rise. What is new, however, is that the traditional views on integration whether political (Kritzinger-Van Niekerk, 2000), Economic (Viner, 1950) or institutional (Whalley, 1998), the nature of integration and the associated problems is changing. RTAs are increasingly complex and overlapping, often involving non-contiguous countries (Crawford &Fiorentino, 2005). Traditionally, integration has been happening across natural trading or political partners, such as in NAFTA, the EU or SADC/COMESA. However, there is an increase in non-contiguous agreements, such as the Trans-Pacific Partnership (TPP) or the EPA between the EU and the ACP countries. Crawford and Fiorentino argues that this is the result of an increasingly complex world , with the rise of technology making global value chains much more feasible along with regional ones(Crawford &Fiorentino, 2005). This view is echoed by Stephen Baldwin (Baldwin, 2012) in what he calls the great unbundling. According to Baldwin, the first unbundling allowed the spatial separation of factories and consumers. The second unbundling spatially unpacked the factories and offices themselves. The old paradigm - essentially traditional trade economics - was useful for understanding the impact of the first unbundling. Understanding the second unbundling (which has variously been called fragmentation, offshoring, vertical specialisation, and slicing up the value-added chain) may require a new paradigm, especially when it comes to the offshoring of services (Baldwin, 2007). This means that a traditional RTA is no longer necessary to gain the same benefit from trade as it did a decade ago. This splitting of ownership of a product, such as an iPhone assembled in China, by a US firms using inputs from the region has made traditional Rules of Origin of RECs very difficult to implement , which results in countries moving to new configurations such as the ASEAN + (Petri, 1997; Kawai &Wignaraja, 2013). In any case, recent

empirical analysis have shown that traditional RTAs is on the decline , with more mega regional agreements becoming more prominent (Fontagné, et al., 2014) . This is not entirely surprising as we have seen regional initiatives moving more towards the merging of the RECs in the Tripartite initiative and the Continental Free Trade Area (CFTA).

With regards to the problem, the idea of joining a Customs Union now seems like using a classic Vinerian solution to solve a problem that might need a more contemporary approach. COMESA might continue to believe that by pressing on with the Customs Union might help mainland Africa out of its current woes. For many of the COMESA member states, joining the Customs Union will result in a more liberal system. For countries with already very liberal system, such as Seychelles and Mauritius this is a step backwards. According to Fjelsted, African value added export rose from 11% in 1996 to 24% in 2011, close to the global average. The COMESA and SADC regions accounted for 75% of these values (Fjeldsted, 2014). Clearly the institutional reforms have been having more of an impact than creating the Customs Union itself. The argument that continued regional reforms would have a bigger impact than the actual Customs Union can be made with some confidence. One then may claim that the creation of the actual Customs Union is based on purely political reasons rather than any economic or institutional one. Therefore the problem this paper is tackling would seem to be more complex than it is a face value.

In the end, the idea that Regional Integration is changing is at the core of what this paper will discuss. The context of when Seychelles started on the regional project have changed dramatically in the last 20 years and so has the challenges. This papers aim is to demonstrate that Seychelles joined RECs for diplomatic reasons, swept in by the forces literature in the early 1990's described (Fawcett, 1995), pursued its own security and cultural agenda during the late 1990's to mid 2000's (Kritzinger-Van Niekerk, 2000) and used its membership to anchor reforms (Hartzenber, 2011). The

argument that a country would join for purely economic reasons have been well covered in literature and seem, at face value, to make the strongest case in why Seychelles joins turns out to be weakest when considering empirical literature (such as there being no significant differences between small states and large states) , the fact that it took Seychelles almost a decade to join the COMESA and SADC FTA and that Seychelles was already the third most liberalised country after Libya and Mauritius even before joining any economic initiative. In the end, any institutional challenges that Seychelles is facing in this next phase of regional integration, it is imperative that we pay attention to the rich experiences of other countries and the vast literature at hand.

2.3 What are the concerns of Seychelles regional integration process with COMESA?

The Seychelles National Interministerial Coordinating Committee (NIMCC) for regional integration issues of May 2014 raised concerns that there is the need to ensure that integration process is undertaken in a coordinated manner. The members of the meeting agreed that integration process should be based on analysis and assessing the long-term effects and commitments that a SIDS like the Seychelles will have to undertake. Seychelles 18 year membership with COMESA, could only be rational if the benefits outweighed the challenges. The non-endorsement of being a member of COMESA Customs Union pronounced by the NIMCC provides the preliminary challenge to the status quo i.e being a member of COMESA whilst not being in par with its end objectives. A reexamination needs to be undertaken and a new strategy devised in order to ensure that joining COMESA was and is a significant diplomatic strategy that would help to address the specific vulnerabilities that Seychelles faces. To provide recommendations and policy options, it is pertinent that the Country understand all the challenges with the integration process. The following points examined in more detail the challenges.

2.3.1 COMESA Customs Union Challenges

Article 45 (Scope of co-operation in trade liberalisation and development) of the COMESA treaty states that “*there shall be progressively established in the course of a transitional period of ten years from entry into force of this Treaty, a Customs Union among the member states*”. The foremost requirement of the Article 45 of COMESA implies that member states are expected to apply the COMESA CET. Theoretically, the two most important characteristics of a Customs Union is firstly the total or partial elimination of barriers between the members and secondly the application of a common external tariff on non-members.

Being party to the COMESA Customs Union will pose major challenges to Seychelles hence maintaining the status quo may not necessarily be the ideal scenario.

Membership in a Customs Union has resulting impacts on the volume and general direction of trade. Trade is usually expected to increase between the members of the union and outside products will be treated unfavourably. At the same time the general welfare of consumers will be affected. Using a trade diversion/creation analysis, if the CET is below national tariffs, there will be trade creation. However, if national tariffs are below CET levels, then this will lead to trade diversion, as more expensive suppliers from the Union will replace the cheaper suppliers in non union countries.

2.3.1.1 The effect of CET on price of goods and services

The relationship between the impact of tariffs and trade is a subject of much debate and research (Batra, 2003). Inflation is defined as a persistent increase in the general price level of goods and services in an economy over a period of time (Blanchard, 2000). Currently, the quantity theory of money, which relates to the quantity, velocity and value of exchange, is generally accepted as an accurate model of inflation in the long run. Consequently, there is now broad agreement among economists that in the long run, the inflation rate is essentially dependent on the growth rate of money

supply relative to the growth of the economy (Abel & Bernanke, 2005). However, in the short and medium term inflation may be affected by supply and demand pressures in the economy, and influenced by the relative elasticity of wages, prices and interest rates.

By joining the COMESA Customs Union, the prices of 87% of the goods Seychelles imports will increase (COMESA, 2014(b)). This exogenous change in price may lead to a sharp rise in prices in the short run. In the short term, two things may happen. As an island state, most of Seychelles consumption is imports in the first place, so most goods supply can be said to be relatively inelastic. If the COMESA region can provide a substitute market, then the price rise would subside. However, since even with a FTA¹, trade with COMESA is relatively low, it is unlikely that goods from the Customs Union will serve as perfect substitutes for goods from the rest of the world. As a result, goods will become more expensive, resulting in an increase in the cost of living, hence an unpopular economic and political result.

Furthermore the impact on Government revenue is another issue of concern for SIDS. For the Seychelles government, which generates over 20% of its revenue from tariffs, levies and trades tax, this is particularly sensitive (NBS, 2014). The COMESA report had indicated that should Seychelles join the Customs Union, it will experience a 400% increase in tariff revenue (COMESA, 2014(b)). This is because since imports to Seychelles will come mostly from non COMESA countries, and that it is relatively inelastic, revenue will increase.

2.3.1.2 Challenge of being member of COMESA Customs Union on the Agriculture sector

Agriculture in Seychelles is relatively small and is dominated by small, inefficient, fragmented farms. Attempts have been made to improve food self-sufficiency, but

food security policy is still in infancy stage (International Fund for Agricultural Development (IFAD), 2013). As a result, the vast majority of foodstuff needs to be imported (National Bureau of Standard (NBS), 2014). Further attempts at improving food security are marred by protectionism on agricultural products from overseas, in order to protect local industry. Policy reforms since the mid-1980s greatly have reduced the disarray in world goods markets, but many distortions remain in agricultural markets, especially in developing countries.

By being part of a Customs Union, Seychelles may insulate itself from the fluctuations in the world economy. If Seychelles would join the COMESA Customs Union, then Seychelles may benefit from an insulation effect from the fluctuations in food prices. However, political decisions and instability can cause prices to rise. In addition inefficient producers and different consumption trends may mean that Seychelles still have to import goods from the rest of the world. As a result the effect in joining a Customs Union with regards to food security has ambiguous results. While it may serve to insulate Seychelles from shocks, any problems within the food exporting regions of the Customs Union will severely affect Seychelles food security. As a small island state, it is in the interest of Seychelles to maintain an open agricultural policy, as it gives Seychelles the flexibility that simply won't be available in a Customs Union.

Hence COMESA main objective of formation of a Customs Union may not necessarily be predictable on the agricultural sector.

2.3.2 COMESA Regional Integration Process dependent on resources from the EU

The regional integration process of COMESA has primarily been driven by funding from ICP, with the EU being the main partner. For the year 2015, ICP's pledged contributed approximately 89 % of the total COMESA budget, with the EU

amounting to 46%. For the year 2014, ICP's funded 81%, whilst 55% of the funds were from the EU (COMESA, 2014(a)).

In accordance with Article 29 of the Cotonou Agreement, EU provides support to regional cooperation and integration in three broad areas; stability, peace and conflict prevention, regional economic integration and thirdly regional policies for sustainable development. The European Development Fund (EDF) constitutes the primary instrument of EU support to regional integration in Africa. For the past number of EDFs, funding channelled through regional indicative programmes allocated to trade and regional integration has been increased considerably. So far, over 111 million Euros have been made available by the EU through the 9th and 10th EDFs, and a minimum of 85 million Euros is expected to be made available to COMESA under the sub-regional envelope only.

During the last COMESA Summit and in previous COMESA meetings, the COMESA Secretariat and its member states have continuously highlighted the challenges associated with dependency on a single donor. There have been discussions about a need to diversify the donor base and more importantly looking seriously at how the member states can contribute more financially to the regional integration process

Furthermore, given the EU's substantial financial contribution, they are well positioned to influence the future of COMESA as a REC. This may lead to problems for member states like Seychelles vis-à-vis the future of regional integration in COMESA due to how the EU has been dealing with regional integration. The vast majority of the EU members have had little or no shared experience of a colonial past and the tendency has been to focus cooperation East rather than South. Furthermore there have been increasingly questioning as to why financial resources are being spent in the ACP rather than within the Union. It is important to note the dynamics in the Union and the latest economic challenges surrounding some of their member states

e.g Greece. The deletion in the Lisbon Treaty (Article 209) of the provision that explicitly safeguard the cooperation with the ACP (Article 179 of the previous Treaty) can be interpreted by some as a downgrading of the ACP's privileged status. In recent years, some controversies have given rise to increasing frustration between the ACP and the EU, such as the slow and difficult negotiating process around the EPAs, the International Criminal Court warrant of arrest for the Sudanese President Al-Bashir and the opposition of some ACP regions to the EU's wish to enhance observer status at the United Nations General Assembly (UNGA). The political push to budget the EDF, the lack of reference to the ACP Group in the Lisbon Treaty and the less prominent place of the ACP in the internal Development and Cooperation (DEVCO) and European External Action Service (EEAS) institutional frameworks are also signs that the EU is losing its interest in the ACP, notwithstanding the fact that the EU is also undergoing an economic crisis. Whether this is due to the EU losing interest in the region or a realignment of interests remains to be determined.

Through its Agenda for Change, EU is seeking to target its resources where it is needed most to address poverty reduction and where they could have the greatest impacts. The Agenda for Change proposed not only to reduce, but also to fully phase out bilateral development grant assistance to countries in middle- or higher-income categories.

Conversely, many other countries including Seychelles, although a HIC remain heavily reliant on external support to provide to the needs of its people.

For the period 2014-2020, the (EEAS) and the Commission have opted to reduce bilateral grants for higher income ACP countries on a sliding scale rather than to fully phase out the bilateral grant assistance. However, signs seem to multiply that there may be no common agreement between the ACP States as a whole and the EU after 2020. Seychelles needs to commit itself in preparing for the challenges ahead and tackle current ambiguities up front.

2.3.3 Lack of strategy aligning national plans to the regional integration process

Currently, Seychelles does not have a strategy for regional integration. The importance for an overarching framework for development in a SIDS cannot be underestimated. Regional integration processes have been pursued without consultations with the various national sectors, institutions and supporting partners. Hence there is no strategic plan in place, to ensure socially responsible economic and social development, while protecting the resource base.

Treaties of the RECs require its members to develop policies and programs aimed at widening and deepening cooperation among the member states in political, economic, social and legal affairs for their mutual benefits while engaging in regional integration. Without proper planning and clear objectives that would be stipulated in a national development plan and a regional integration strategy how can SIDS with all their challenges ensure coherence in their objectives?

The non-coordinated approach in domesticating regional commitments has resulted in several other challenges. A number of binding agreements which provide the legal framework for cooperation in various areas, when signed and ratified are mechanisms for locking countries into the same policies and approaches to development. Seychelles has had to react and address the internal procedures to match with what is being done under COMESA. In most cases the approach has resulted in negotiating for derogations under the COMESA FTA. Further problems resulted in the extensive preparation at country level and adoption of appropriate policies and associated institutional mechanisms for their implementation.

The problem of overlapping membership also resulted in the inability of Seychelles to neither manage effectively nor fund adequately the many integration programs in the integration arrangements that Seychelles belong to. This adds to the burden of harmonization and coordination, and wasteful duplication in view of constrained human and financial resources.

Currently, there are no relevant mechanism in place for monitoring and evaluating the direction and pace of regional integration. The challenge arises when a country belongs to different RECs with similar mandates but different modalities of achieving their goals. In the absence of thorough planning and effective management, confusion and conflict arise for both government and private sector. Membership fees and participation in activities of regional integration are also costly, and non-payment is used as a sanction mechanism on participation.

Disparities in the size and characteristics of COMESA members cause concerns about the applicability, domestication and usefulness of COMESA programs. Domestication of COMESA programs is a further challenge and difficulties arise in attempting to prioritize which one takes precedence for implementation as usually policy directives are not clear and largely politically driven, rather than on the readiness or technical abilities of the line ministries and organizations to implement binding provisions.

2.4 Conclusion

The chapter addressed the challenges with COMESA as a REC and Seychelles regional integration process. Four main challenges have been identified which need further analysis on how they can be overcome. Firstly the aim of COMESA in pursuing a Customs Union and the roadmap for achieving this target is an undesirable target for the Seychelles. Being a member of the COMESA Customs Union where its

immediate effect will be a general increase in the price level, will result in an unwanted political endorsement and will lead to a spill over of economic and social challenges. Membership to the Customs Union has an added further dilemma and impact on the agricultural sector. Membership will restrict an open agricultural policy, and with the vulnerabilities of island states any problems within the food exporting regions in the Customs Union will severely affect Seychelles' food security.

Another major challenge that affects COMESA being a diplomatic strategy for the Seychelles, is that the regional integration process of COMESA and resources for the effective functioning of its programmes and projects have been dependent mainly on funding from ICP's. The EU has been the main strategic partner with them availing more than half of COMESA resources. Concerns emerged as the EU tends to dictate preferences on programmes and projects of their choices and the way forward on their level of engagement has not been promising. Furthermore Seychelles has engaged the Eastern Community without a clear long-term plan. It has done so with the aim of overcoming a short-term impasse and has foreseen the need of solidarity with the neighbouring states by abiding to the overarching vision and mission of the AU. These challenges have emerged as a result of regional integration process being pursued without reference to any regional integration strategy.

The following chapter will propose a blueprint for Seychelles regional integration strategy, through recommendations and targeted actions. This would serve to effectively address the development needs of Seychelles and other SIDS in their foreign policy, but more specifically in the regional integration process.

CHAPTER THREE: POLICY OPTIONS

3.1 Introduction

The previous chapters outlined the various challenges Seychelles encountered with the current status quo in her regional integration process with COMESA. Having signed the COMESA Treaty, with the ultimate objective of joining a Custom Union, Seychelles as a SIDS during its early implementation of the Treaty that it will be a gigantic challenge to be party and benefit to the maximum as a member of a Custom Union. As it stands it will not be diplomatically and politically correct to relinquish membership in such organizations. Seychelles needs to adopt the right strategies and policies in order to focus on maximizing benefits under the current arrangements. With the right policy options, SIDS such as Seychelles can firstly use regional integration to achieve specific targets and secondly implement reforms and initiatives to enhance efficiency. The chapter discusses key policy interventions and if applied correctly will enhance the significance of COMESA as a diplomatic strategy to address Seychelles vulnerabilities as a SIDS.

3.2 Recommendation 1 – Emphasis on the investment, regulatory and services side of trade.

As this paper has discussed previously, the Seychelles islands involvement in regional integration has been both a multi level process with various institutions playing different roles at different points in time. From joining for diplomatic reasons, swept along with the tide of post cold war regionalism in the 1990's, the same organisations became a support mechanism by which the country could reform its own institutions. The current stage of Seychelles involvement in regional integration, as shown in this paper, resembles the original rhetoric of joining COMESA, that is, economic development. The current status quo, and the apparent future of regional integration

seems to be a Customs Union, something that the country has little appetite for, judging by the current trade flows between the region.

However, there are other ways to benefit from regional integration and multilateral trade. Most analysis in describing how trade within the region, including the island states have been using a Vinerian approach, where only tariffs and revenue are considered. This has been problematic as it enforces a tax/revenue perspective on international trade and regional integration (Bladwin, 2010). This approach, which limits itself to trade in goods, assumes that Customs Unions and deeper integration would result in trade diversion and creation. However, there has been very little evidence of large-scale trade diversion in empirical studies with the exception of COMESA and Caribbean Community (CARICOM). In fact global and regional trade has increased rather than decreased in spite of the proliferation of free trade areas.

What Banda and Whalley have argued is that a lot of these trade agreements within regions are more or less mostly of ‘diplomatic significance’, that is they’re more indicative of intentions than substantive (Banda & Whalley, 2005). Because of revolutions in information and technology, the development of global value chains, the new trade paradigm is far more complex. In the case of regional integration, this has meant that protectionism has more places to hide (Evenett, 2010). Richard Baldwin argues that the new regionalism is not primarily about preferential market access, which is the current state of COMESA, SADC and to some extent the EAC. It is now about disciplines that underpin the trade-investment-service nexus (Bladwin, 2010). Baldwin argues that the basic bargain is “foreign factories for domestic reforms” – not “exchange of market access” (Baldwin, 2011). This understanding of what has changed is essential in discussing what Seychelles would need to do regionally if it is to prosper. The country and the regions agreements would have to put a much greater emphasis on the investment, regulatory and services side of trade as opposed to just market access (i.e. only FTAs).

3.2.1 Negotiate trade in services in COMESA

Analysis by the OECD and the WTO has shown that the services sectors play a critical role developing Global Value Chains (GVCs) (OECD, WTO, World Bank Group, 2014). Thus by liberalizing services in the region and in Seychelles, it will lead to economic growth, job creation and contribute to competitive manufacturing sectors both at home and in the region. Unfortunately, according to the OECD Services Trade Restrictiveness Indices, the services sector in the region is very tightly regulated and very few sectors have been negotiated within COMESA. This is despite a clear provision in Article 3(b), as read with Article 4(4)(c) of the COMESA Treaty which provides for the removal of obstacles to the free movement of services within the Common Market. Article 164 of the Treaty, among other things, provides for the free movement of services, and Articles 148, 151 and 152 provide a mandate for work to be done in the liberalization of trade in services. Unfortunately, this is no different in Seychelles, where services make up 86% of GDP (AfDB, 2011) but we have yet to fully commit to regional services agreements. Internally, the lack of services liberalisation can be attributed to a relatively protectionist policy and lack of sophisticated infrastructure to foster services. This has the effect of creating bottle necks in Seychelles participation in the goods trade both regionally and internationally. The Tripartite initiative is due to start negotiating the services component of the trade agreement. This would be an excellent opportunity for Seychelles to reform its own services sector and push for a similar drive in the region. Such a negotiation will not have been possible if it was undertaken on a bilateral basis.

The primary benefit of liberalizing trade in services for a small economy such as Seychelles is that it capitalizes on the existing infrastructure and regulations in place. High literacy rates and regulatory robustness in the financial markets brought about by the macro economic reforms complements the country's service sector, which makes the majority of its economy. According to Francois and Hoekman, the productivity and

competitiveness of firms depends on access to low-cost and high-quality producer services such as telecommunications, transport, finance, and distribution (Francois & Hoekman, 2010). The authors documented the positive association between open service markets, foreign direct investment in services and the performance of downstream domestic firms, including on exports. As Easterly and Kraay argued earlier, since there are no significant differences in the economies of small states from other economies (Easterly & Kraay, 2000), there is no reason why Seychelles or any other small island states should not benefit from services liberalization.

Trade in Services can take four different forms, institutional reforms, such as that China did when acceding to the WTO (Ianchovich & Walmsley, 2003), bilaterally, such as the Canada-EU the Comprehensive Economic and Trade Agreement (CETA), regionally, such as in ASEAN and NAFTA and finally, multilaterally in the case of the General Agreement on Tariffs and Trade (GATTs). In the context of this paper, the benefit of regional liberalization on trade in services has led to the reinforcement and expansion of GVCs (Bladwin, 2010) (OECD, UNCTAD & WTO, 2013). Essentially, regional services liberalization creates an environment that makes the agglomeration of services and through by extension investment possible. According to the World Bank, the liberalization of services in a region or RTA are positive inducement towards attracting Foreign Direct Investment (FDI), competition, regional economies of scale and knowledge flows (Matoo & Fink, 2002), all of which are key building blocks in creating GVCs. COMESA and SADC thus present Seychelles with the opportunity to be part of a potentially effective regional value chain.

Noting that Seychelles is a country with limited natural resource endowment, it is thus imperative that we give further attention to the services sector of the economy by capitalizing on the resource that we do have, which is that of human capital. It is through such an approach that Seychelles can aim to further develop and expand our

services sectors, with regional integration being a necessary ingredient in sustaining and complimenting this process.

3.2.2 Explore investment in the COMESA region

Much of the focus on trade in this paper has been on the trade in goods and services; however, foreign direct investment remains at the core of trade and forms a large share of Global Value Chains (OECD, WTO, World Bank Group, 2014). Regionally, unfortunately, investment facilitation has been consistently put on hold or ignored. The COMESA Common Investment Area (CCIA) and the SADC Investment Protocol remained unsigned. These programmes although not as sophisticated as those that might be found in the Trans Atlantic Partnership or in ASEAN countries nonetheless play a role that would have left the region much poorer if they hadn't been there. If one were to look at the COMESA SADC region, they can make up to 80% or more of the biggest firms in Africa (Ford, 2014) and they cannot invest regionally in the region because of restrictive practices. According to the Financial Markets, a component of both services and investment are often left out of any negotiations, with high restrictions. A well developed investment policy and financial sector can increase trade volumes, access to technology and by virtue economic growth. Seychelles will need to push for the same across the region to derive any new tangible benefit.

According to UNCTAD, despite the fact that the structural characteristics of SIDS should have limited their FDI options and their smallness impeding the minimum efficient scale of production and limits foreign direct investment, some small island states often have a higher ratio of investment than the global average (UNCTAD, 2014). Seychelles could thus learn from the more FDI friendly island states that not all investments are equal. Efficiency seeking and resource seeking FDI might be harder to attract, but knowledge and market seeking investment could turn the limitations of small island states into an advantage. For example a liberal financial sector could be the basis for investments in establishing headquarters of financial institutions in

Seychelles, who would use it as a stepping-stone to the markets in the region. A robust intellectual property regime could make it very attractive for research-based investment to establish them. Of course these would have regional implications, where Seychelles could attract investment by being a sort of funnel for investment in the region and diffusion point for science and technology. Furthermore, noting that investment is a WTO plus issue, the region is one of the few places where the country can make a difference and exploit the advantages of an RTA.

3.2.3 COMESAs Role in Building Capacity in Non Traditional Trade issues

One of the things that stand out in the new wave of regional integration is the sheer breath of the areas covered. The frustration with the Doha rounds combined with the realization of the changing nature of trade and the desire to reap the benefit of GVCs have given rise to multiple trade agreements in the Asia Pacific regions (Banda & Whalley, 2005) that covers a range of WTO plus issues. These agreements are so different from the traditional FTAs¹ that they are often referred to by names like (TPP) or the New Age Economic Partnership between Singapore and Japan (Banda & Whalley, 2005). These agreements go far beyond goods and services. They include competition policy, investment, mutual recognition, movement of persons, and other broader corporations provision that cover adaptive labour and market regulations. To date no regional Africa agreements contains provisions as innovative as what is happening in the Asia Pacific region. Seychelles, nonetheless have undertaken limited domestic reforms in areas such as competition policy. Nonetheless, the Phase II of the Tripartite initiative, which aims to combine SADC, EAC and COMESA trade agreements, attempts to include competition, movement of business persons and investment to modernize regional agreements. However, the delays in concluding the Agreement on the Facilitation of Movement of Business Persons have proved Evenett's view that the new paradigms have been useful tools of protectionism (Evenett, 2010).

Seychelles as a negotiating party should use this opportunity to promote deep reform in the region.

In addition, as these issues are not being implemented by the WTO, training and capacity building in these areas are sorely lacking. By engaging in these non traditional areas of trade and regional integration, they provide valuable experience and capacity building opportunities for Seychelles. Should any country want to have an investment component or competition policy agreement in a future trade deal with Seychelles, experience from COMESA and the Tripartite would mean that the deal would be much more effective.

3.2.4 Adaptive product and labour market regulations

The previous chapter have outlined one of the key rationales for joining regional integration is to drive domestic reforms. According to the OECD, burdensome economic regulations can prevent firms from adapting and benefiting from trade (OECD, WTO, World Bank Group, 2014). Industries like pharmaceuticals, hotels, restaurants and electronics have very high allocation and stringent regulations can have a disproportionate effect on their efficiency and ability to benefit from trade (OECD, WTO, World Bank Group, 2014). As most countries in the region, including Seychelles do very poorly in the ease of doing business index (The World Bank Group, 2015), it is clear that reforms are not just needed within regional agreements but in the domestic reforms of the member states itself.

COMESA has been key in assisting Seychelles in implementing reforms and regulatory framework. By negotiating and implementing the different COMESA programmes, the human and institutional capacity of the country has been steadily improved. It has provided a very cost effective learning by doing process by which officials and technicians learned how to participate in trade negotiations, implement regional projects and manage regional funds. In terms of in country reforms, the COMESA

procurement regulations and customs management policy have facilitated Seychelles accession to the WTO. Further regional programmes like Comprehensive Africa Agriculture Development Programme (CAADP), the regional roadmap on improving the ease of doing business, and the Tripartite initiatives on industrial development are all key component that Seychelles can use to implement adaptive product and labour market regulations and benefit from regional integration as a SIDS.

3.3 Recommendation 2– Exploring financing facilities under COMESA provided by the EU

The EU provides financial resources through the Regional Indicative Programme (RIP) and the National Indicative Programme (NIP) by way of the Economic Development Fund (EDF). The RIP is targeted to RECs programmes and projects whereas the NIP is provided to cooperating partners (i.e states) bilaterally. Seychelles has been a beneficiary of the NIP for the past decades and for the 11th EDF on a bilateral basis, Seychelles allocation for its NIP has decreased substantially to 2.2 million Euros compared to the 10th EDF where Seychelles was allocated 16.5 million Euros through budget support. Funds through the NIP has been used in the past to complement Seychelles development as a SIDS in various areas such as Education, Climate Change, Environment, ocean exploration, human rights issues and trade facilitation. With a substantial decrease being given on a bilateral basis, Seychelles needs to utilise the financial resources that the EU offers to COMESA in various Regional Envelopes in order to deepen regional integration and achieve some of its development goals. For the 11th EDF, a financing agreement was signed on 4th June 2015 in Brussels, Belgium where COMESA would benefit from a sum of 85 million Euros as a sub-regional envelope (financial facility) and will also benefit under a cross-regional envelope of 205 million Euro, Technical Cooperation Facility (TCF) of 15 million Euros, and a reserve of 62 million Euros. An infrastructure financing

envelope of 600 million Euros will also be made available to COMESA member states.

It is strongly recommended that in order to access the EU funds Seychelles should use COMESA as a platform. The challenge of a decreasing allocation on a bilateral basis follows the concept of differentiation that was applied when allocating national indicative programmes meaning that more resources would be available for the poorest countries - Seychelles is a HIC. This principle, set out in Agenda for Change that was endorsed by the EU Council, as a general principle that applies to all EU development cooperation and is part of the EU/ACP Partnership article 2 of the Cotonou Agreement (European Commission, 2011). As a result, the selected approach to the programming for the 11th EDF is focused on technical cooperation in order to support capacity building through specialised technical assistance.

The challenge with the NIP for Seychelles is that it should concentrate on the provision of well-targeted and small-scale interventions through the TCF. The facility has been limited only to facilitating financing of crucial strategic studies or necessary project preparation in order to facilitate subsequent access to various regional envelopes.

The problem of decreasing financial assistance from the EU on a bilateral level enhances the need for Seychelles to take advantage of the readily available regional facilities. By following such a strategy it improves the significance of COMESA as a diplomatic strategy to benefit from increasing financial resources.

Infrastructure is seen as a key component in boosting intra African trade (Mayaki, 2014). According to the OECD, the participation of a developing country in regional trade depends more on the quality of its port and air infrastructure than its market access (OECD, WTO, World Bank Group, 2014). However, without the recommendation mentioned above, it would be extremely difficult to develop meaningful infrastructure.

The capital needed for the level of infrastructure needed would need a healthy financial market, provided by services in which experts from the region and beyond.

The infrastructure needs of Seychelles vary greatly from those of countries on the continent. Geographic remoteness contributes to poor transportation links, inadequate telecommunication links and the lack of access to sources of fossil fuel for electricity generation, all of which create challenges in the development of the Seychelles economy. With all of this being taken into account as well as the low population Seychelles' infrastructure problems are difficult to overcome from the national budget perspective.

Transport and maritime infrastructure are important because of the connectivity which allows, thus for the deepening of regional integration. Given the importance of ports in the supply chain, and how they are important for the socio economic prosperity of Seychelles, the extension of the port is a vital priority project.

The capital requirements for the port Victoria extension project require a substantial capital outlay on the part of the Seychelles government. The governments Public Sector Investment Programme (PSIP) of 2014 could not finance such a project. The costing of the project is around USD 102 million. Financing the port under the national budget of this magnitude would deplete the available funds for the next few years and thus be detrimental in the long run as it would comprise implementation of other infrastructure projects.

As regional integration is one of the main objectives for the EU's allocation of funds in Africa, Seychelles should aim to adopt a strategy with the IOC Member States (Mauritius, Madagascar, and Comoros) to utilise these funds effectively. This can be achieved by aligning their specific infrastructure needs thus consolidating their respective strength and fostering mechanism in which they would mutually benefit from the regional infrastructure envelope. The Regional Envelope that is made available under COMESA is from the EU's Regional Indicative Programme (RIP).

The facility is on a first-come-first-serve basis. Another option to secure funding is by signing a full Economic Partnership Agreement (EPA). EU has offer facilities for such development.

For Seychelles to take advantage of these agreements and funds there would have to be institutional changes such as structural changes, which affects coordination and implementation. Seychelles would have to find a means to fund the institutional changes needed in order to take advantage of the funds available in COMESA through EPA's and the EDF. Furthermore Seychelles needs to utilize its NIP effectively in order to complement the RIP as this would ensure that the allocation of resources are equitable and used to their maximum potential. There should be strong linkages between the NIP and the RIP if Seychelles is to achieve performance based results. This would be done through well-planned and targeted intervention that could for instance facilitate the financing of crucial strategic studies or implementation of bankable projects.

Seychelles national policy has experienced a radical shift, with more emphasis on the development of the Blue Economy, which entails the sustainable exploitation of the marine resources to generate economic development. This SIDS initiative is very crucial for the future economic development noting the specificities of SIDS, which has limited land resources but vast marine resources. Such an initiative has been endorsed by the EU as one of the targeted intervention areas for SIDS. If Seychelles align her strategy with that of her other colleagues in COMESA it could easily lead to a regional effort to access financial resources through COMESA.

Lastly Seychelles should utilize blending mechanism to increase the total pool of capital available for projects from sources such as EU grants and other public and private financing mechanisms. In this context, Seychelles should explore the scope of blending in specific key areas of great importance to the country like in fisheries and agriculture, transportation, and more projects that would influence industrial

development. The development of the private sector is of paramount importance given the long term effects that it would have on the future development of the country

In a nutshell COMESA offers the right platform for SIDS such as Seychelles to align efforts and come up with projects of commonalities that could be qualified for financing under COMESA regional envelopes. It is worth noting that access to such facility is limited and insignificant in the NIP and on a bilateral basis.

3.4 Recommendation 3 - COMESA as a mechanism to ensure peace and security interest of Seychelles

In 1948, Hans Morgenthau, interpreted the relationships of states in the international sphere through the theory of realism. Morgenthau made the assumptions that due to the anarchic nature of the internal sphere, states seek to protect their interest either through the acquisition of power or through allies (Morgenthau, 1948). Even through multilateral entities like the COMESA, Morgenthau asserts that states will only join such regional bodies if it serves their national interests and provides opportunities for access to platforms of influence.

The Eastern African region where Seychelles is located has its share of challenges notably in the realm of peace and security. In recent times, the rapid increase in transnational crimes including money laundering, human trafficking, narco-trafficking, illicit arms trade, maritime piracy and terrorism have gripped this region causing major instabilities and security threats. Seychelles despite being separated from the main African continent has not been spared the rippled effect of such ongoing security challenges. In fact, being a small island developing state, Seychelles has been particularly vulnerable to these threats, which on many occasions have affected its economy. Dealing with security threats can be costly and exert constraints on the country as a whole. Being a member of RECs like COMESA is actively engaging in peace and security matters in the region, is firstly a gateway to collectively better deal with these emerging issues and thus improves the significance

of COMESA as a diplomatic strategy to compliment Seychelles efforts in peace and security.

The Blue Economy concept is being pursued as a way to stimulate economic development in Seychelles, and as it is maritime based, maritime piracy will play a role in how effective it will be. The security challenges that exist in the maritime boundaries of Seychelles through piracy, could force actions to be undertaken that would be detrimental to the economy of Seychelles, such as the re-routing of tankers which in turn creates a longer journey, thus increasing the expense of shipping goods. This also increases the cost of insurance, which is then passed on to final consumer. Maritime piracy also affects tourism and fishing. In 2009, the cost of piracy alone cost Seychelles 4% of its GDP. Seychelles was greatly constrained in its capacity and ability to tackle the challenges caused by maritime security threats due to its small size.

COMESA aims to address this issue through its strategic priorities. One of the strategic priorities is to ensure peace and security in the Eastern and Southern African region. During the 4th COMESA Summit it was realised that trade and development could not happen without peace and security. The 4th Summit included the formal structures and modalities for COMESA's engagement on matters of peace and security under article 3(d) of the COMESA Treaty, in Nairobi, Kenya, May 1999. These were mainly that instability and security threats impede on states abilities to establish themselves as viable countries where investment can be secured. Increased in investment due to stability and limited security threats would set a firm foundation for continuous development.

Collective security is critical for states like Seychelles to not only ensure their national security, but equally enhance their capacity in dealing with security threats which in turn will allow them to effectively support regional activities focusing on peace and security. Through regional cooperation and integration, the issue of security

becomes an issue of regional importance rather than solely a national problem. COMESA provides a strong foundation for support and assistance especially for small states in handling major security threats. At the national level, Seychelles faces a number of constraints that inhibits its ability to handle these threats alone. It has for example has a limited defence force, relying largely on external assistance to deal with numerous security threats such as maritime piracy. Critically Seychelles still lacks capacity in handling post conflict situations as well as effectively dealing with emerging security threats.

3.4.1 COMESA to assist with Maritime Security

In the post- International Monetary Fund (IMF) reform, Seychelles has adopted economic diplomacy as its major focus when it comes to its foreign policy. As outlined in the previous arguments, Seychelles has been advocating for the concept of the “Blue Economy” which entails the sustainable exploitation of maritime resources, an initiative of critical importance to Seychelles and its stance in the global arena. Understanding the limitations of its capacity as a small state in bringing such an important concept is at the forefront especially in Africa, Seychelles has maximised its efforts in the multilateral settings, transforming a national interest into one of continental importance. As a result of its political dynamism in multilateral settings, Seychelles managed to get the Blue Economy concept included as a key element of the AU Agenda 2063 and COMESA. As a concept that deals with maritime exploitation through sustainable means, the Blue Economy has also allowed for greater security considerations for its implementation. The oceans, seas and inland rivers of the African continent are favoured spots for numerous illicit activities some of which have an international dimension and will no doubt reverse the efforts undertaken by Seychelles and many African states in their implementation of the Blue Economy initiative. Therefore, with the increased importance given to this concept, security to protect this untapped resource of Africa has also been made a priority. The

support of reliable partners within COMESA will be crucial in this common endeavour.

Seychelles plight to combat the scourge of maritime piracy is coordinated under COMESA as it is the RECs that constitute a significant amount of countries where piracy is of major concern. The great number of incidents of piracy and armed robbery against ships off the coast and in the Gulf of Aden has become increasingly concerning, not only for the maritime industry but also for most African countries as it threatens maritime trade and economic activities for African countries on the East coast of the continent. With increasing concerns and a number of COMESA member states being affected, COMESA is being well placed as the right REC where resources are being given to address this particular threat. COMESA managed to firstly draft a Maritime Security Strategy and equally negotiate resources with ICP to fund interventions outlined in the strategy.

When such concerns are raised collectively donors are more willing to assist. The Regional Maritime Security Agreement i.e. the MASE Project is the culmination of a program to fight against maritime piracy in the ESA region. It is an EU funded project with a budget of 37.5 million Euros for a period of three years. MASE is aimed at combining the efforts in the fight against maritime piracy off the coast of Somalia. Such funding has a trickle-down effect whereby Seychelles can access even more resources for dealing with security threats through its presence in COMESA, which then acquire funding from other global partners.

It is recommended that Seychelles ensure that its fight for maritime piracy is continuously protected under COMESA. COMESA negotiated the establishment of EU funded operation centres to promote the maritime centre and during the 14th Meeting of the COMESA Ministers of Foreign Affairs held in Addis Ababa in 2015, whereby it was agreed that two maritime centres will be established, i.e. one in Seychelles and another in Madagascar. The operationalization of the Centres has not

been effected yet but there are currently ongoing discussions between the involved parties. The centres will also be financed under the MASE

With a Centre located in Seychelles, the country will be well resourced and be adequately trained to handle such issues in the long term. The result will have been significantly different if the issue was addressed bilaterally. Hence membership in COMESA helps to address a pertinent challenge, which requires a collective approach regionally. As stipulated before maritime security needs to be maintained as the negative impact on economic development might firstly hamper trade flows and might negatively impact on the Blue Economy initiative which the Seychelles Government is pursuing actively.

3.4.2 COMESA to assist with securing a non-permanent seat on the UNSC

Being elected on the UNSC for a non-permanent seat for the year 2017-2018 is also a foreign policy objective. Seychelles wants to make a distinctive and valuable contribution towards maintenance of peace and security in the African continent and the world as a whole.

It is recommended that Seychelles uses COMESA as a platform to achieve this objective, as the UNSC is one of the most important organs of the UN.

Chapter V of the UN Charter provides that the UNSC shall consist of 15 members. Five members are permanent (China, France, Russia, the United Kingdom and the United States) (the P5) and ten members are elected for two year terms (the E10). The ten rotating seats are divided amongst the UN's various geographical groupings. Securing the seat is not a direct and straightforward process for Seychelles. Firstly, resources i.e. financial and human are limited and secondly Seychelles needs to be elected for the seat. Support from its constituency is imperative and COMESA is instrumental in the lobbying process.

Two of the three seats allocated to the Africa Group come up for election every two years (with another seat coming up for election in the following year). The African rotation follows a systematic cycle based on the following principle: North Africa and Central Africa rotate one seat every two years, Western Africa has one seat every two years; and Eastern Africa and Southern Africa rotate one seat every two years. According to this strict principle of rotation adopted by the Africa Group for the seats it has on the UNSC, it will be the turn of East Africa to serve on the Council in 2017-2018 i.e. the year Seychelles intends to occupy such a seat.

COMESA member states are vital for endorsing Seychelles candidature. Once endorsed as an Eastern and Southern Africa representative, COMESA would be instrumental in pushing for and may be the best advocates to get Seychelles chosen as the African candidate.

The elections for the 2017-2018 seat, which are conducted by secret ballot, will be held in October 2016. However, only weeks after Seychelles announced its candidature (being the first country from East Africa to do so), two other countries from the East Africa group, Ethiopia and Kenya, officially announced that they will also be bidding for the same seat. Uganda had also unofficially expressed interest but later withdrew as it was chosen as Africa's candidate for the Presidency of the UNGA in 2015. In early 2015, Kenya withdrew in favour of Ethiopia. To note that the general principle in the AU is that priority should be given for countries, which have never served before. Among the two countries which have presented their candidature for the seat, only Seychelles has never served before.

It is recommended that Seychelles uses COMESA and works on a campaign strategy. This is because there is a high possibility that Ethiopia who is showing strong intentions, will not withdraw. Assuming that this is the case, if no agreement is reached between Seychelles and Ethiopia, the Africa Group will have to vote for one Country. Seychelles strongly believes in the African position of having a 'clean slate'

for the UNSC elections. It is important that the African endorsement for Seychelles candidature is obtained. In this way, Seychelles would avoid a situation where a decision of whether or not Seychelles should continue with the candidature even if the Africa Group did not endorse her candidature.

The aim is to therefore ensure that East Africa and Africa as a whole endorse Seychelles candidature for this seat based on the rotation principle. Once Seychelles obtains the endorsement of Africa and a place is secured on the UNSC, the objective is to secure the highest number of votes in the October 2016 elections.

A campaign strategy that includes various stakeholders is strongly recommended and can also have more impact than adopting knee-jerk tactics without rationale. Seychelles must adopt strategies that will serve to address weaknesses, notably as a small country making additional contributions to peacekeeping, maximising strengths, especially in terms of peace building rather than peacekeeping, and differentiate the Seychelles campaign from those pursued by other countries.

It is recommended that Seychelles strategy with COMESA be divided into phases to achieve two specific objectives. The second objective depends largely on the accomplishment of the first one. Firstly Seychelles should use the various COMESA platforms to solve the impasse in getting the endorsement from her constituency and secondly securing the votes of more than two-thirds of the member states of the UN.

The strategy for the first objective requires using COMESA member states as key players and is very dependent on understanding the politics and mechanics of the constituency that Seychelles is in, i.e. East Africa and Africa. There is the need to identify the opportunities for Seychelles in the constituency and overcome the challenges.

The first objective consists of obtaining the endorsement of the East Africa Group for Seychelles candidature. In this light, several actions are recommended. Considering

that the COMESA Authority mandated COMESA Ministers of Foreign Affairs to meet at least once in a year to discuss modalities for addressing peace, security and stability and also monitor and advise the Authority on promotion of peace, security and stability, it is thus recommended that the Minister of Foreign Affairs writes to all the Foreign Ministers of COMESA and to the COMESA secretariat requesting support and re-emphasize on the principle of rotation, a principle which COMESA also upholds.

Seychelles should maximise her influence in COMESA and dispatch Special Envoy to the capital of the COMESA member states to lobby support. The COMESA countries in the East Africa group, which has never served on the UNSC are key and likely to be very sympathetic. COMESA Ministerial meetings should be used to undertake bilateral negotiations with all members. Furthermore Seychelles will need to expedite the accreditation of her Ambassador in all the COMESA member countries i.e. the need to establish official diplomatic relation.

Furthermore Seychelles needs to negotiate with both the COMESA member states that are expressing interest i.e. Ethiopia at the highest level. Bilateral discussions at Presidential level are strongly recommended and the aim should be to negotiate their withdrawal. Seychelles could also identify an African Head of State of influence who can speak to both Ethiopia and Kenya regarding their withdrawal.

If the decision needs to be taken at COMESA level, it is pertinent that Seychelles take full advantage of any lobbying possibilities to raise Seychelles profile in the COMESA group which hopefully transcends into the bigger Africa group and consequently obtain as much support.

It is important and significant as a diplomatic strategy in securing a non-permanent seat at the UNSC for Seychelles to be vocal in the various COMESA meetings especially those dealing with peace and security i.e. Ministers of Foreign Affairs and COMESA Committee of Elders. Seychelles needs to be very strategic in focusing on

the diplomatic issues rather than concentrate solely on the trade and other sectoral initiatives.

During the campaign period Seychelles should avoid bidding for important positions within the COMESA and the AU with the aim of reducing the impression of fighting for many posts at the same time (that might give the impression that Seychelles are over-confident or over-ambitious). Hosting, as far as possible, COMESA meetings that will bring African personalities of influence to Seychelles and identifying African personalities of influence who could act as spokesperson for Seychelles candidature can also be considered as a lobbying tactic.

Through regional effort Seychelles is more likely to undertake a more successful campaign, which could have been more costly bilaterally.

3.5 Recommendation 4 – The initiation of a FTA¹ for the Indian Ocean Island States

As previously outlined Seychelles has been encountering challenges with the FTA¹ as it entails trading agreements with member states with different economic and social characteristics. A recommended is that the island states in COMESA focus on a proposed FTA¹ between the islands. The large combined exclusive economic zones of Seychelles, Mauritius, Comoros, Madagascar and Reunion island and the high level of GDP per capita makes for a good case as integration with the continent is somewhat fraught with difficulties.

Using a Vinerian Analysis (Viner, 1950), we can analyse the benefit of a sub regional FTA¹ between the Indian Ocean countries. A removal of trade barriers (tariffs and non tariff barriers) will benefit a country if implemented unilaterally or multilaterally and will not do so if implemented on a preferential basis. That means that as it stands, an FTA¹ with COMESA, which does not discriminate against other countries (as opposed to a Customs Union) is adequate. Buyers can choose to buy a product at

COMESA price or choose the world price, whichever is cheaper or easier to access. The slow growth in trade between IOC countries and COMESA indicates that consumers still prefer global prices. The aim of the customs union is to make world prices as expensive as regional prices. This will likely cause a fall in consumer welfare. Similarly, an IOC FTA¹ should not discriminate or duplicate existing agreements so as to enable countries to benefit.

Laird (1999) argues that the prospects for maximising trade creation and minimising trade diversion will be greater the larger the shares of the members in their partners pre existing trade, the larger and more diversified the partners economies, the closer the partners domestic price is to world prices and the greater the initial non uniformity of the partners tariff structures (Laird, 1999). Neither COMESA nor the IOC fulfils all of those conditions. Seychelles existing trade is mostly from non FTA¹ members (the EU). This is also the case for most IOC countries and COMESA. Neither possesses large and diversified economies. Both their prices are much higher than global prices and have fairly different tariff regimes. Despite these constraints, a successful FTA¹ is still possible if they keep reducing their external tariff to non Most favourable Nation (MFN) members, something which COMESA is not doing with regards to their Customs Union. For the IOC to succeed as an FTA¹, it must offer lower tariffs to the rest of the world.

As mentioned earlier, Government Revenue as a concern for SIDS, and the argument given by COMESA to join the Customs Union, which would equate to a 400% increase in tariff revenue. This goes contrary to the fact that government revenue has increase despite the reduction in tariffs since 2008 as stated earlier in the previous chapter (NBS, 2014).

Data from the Seychelles Bureau of Statistics (SBS) has confirmed that after the liberalization of the exchange rates and lowering of tariffs, the revenue from import duties will fall. This can be seen in figure 5. Overall government revenue has also

increased in the same period. It is reasonable to argue that as tariffs fall; the increased in imports means increased consumption and hence increased in tax revenue. Increased liberalization and strengthening of institutions have resulted in a net welfare benefit for the Seychelles economy (NBS, 2014)

The increase in revenue is often attributed to the introduction of a value added tax. Basically, a removal of 15% tax on the import of a product will increase imports and consumption. Consumers will pay 15% VAT and thereby increase government revenue. However, one of the major constraints is that many IOC countries have very poor tax infrastructures and revenue collection institutions and rely heavily on tariff collection for revenue. This may prevent greater tariff liberalisation and thus welfare. Nonetheless the advantages of VAT instead of tariffs are beneficial because of the neutrality of a broad based tax system relative to imports and exports and remove the distortionary effects of tariffs.

However in Small island economies, this argument can be less convincing, especially when exports are low and imports are very high. In these cases the replacement of the tariffs by a VAT tax may have little practical significance except as a formal prerequisite for participation in regional trade agreements (Scollay, 2001). The fact that exports are negligible does not mean that they are not being inhibited by the presence of tariffs. It is possible that the removal of the anti-export bias inherent in the tariff could lead to the development of some potential exports (Scollay, 2001).

An FTA¹ with IOC countries and COMESA may not yield the desired consumer welfare in terms of tariff reduction and increase in trade, but it can stimulate an increase in FDI. Either (1998) argues that the importance of tariff reduction and liberalisation by RTAs has been overtaken by the need to attract FDI (Either, 1998). This has been a primary driving force in the formation of the ASEAN to pool together the resources for regional investment. This has been instrumental in the development of regional value chains in East Asia (Baldwin, 2014) and Mexico in NAFTA

(Pompfret 2013). Likewise a RTA would help overcome economies of scale issues faced by SIDS and developing countries by attracting FDIs. However, both examples are problematic. In the case of ASEAN, the markets and industrial potential of South East Asian Countries were large enough to become viable for FDI and develop into a regional value chain, all of which the IOC does not possess. In the case of Mexico's example or even Malta (which is an island itself), they joined a developed market which gave them access to FDI from the United States and Canada (In Malta's Case, the EU). COMESA is a relatively poor region and offers no such advantage as the EU, the US, Canada and the US offers. The small gains in FDI from the region will not overcome the size constraints faced by the region. Should there be an RTA between the Indian Ocean SIDS; the best path will be for integration into relatively strong economic areas. Ideally it would be with a major trading partner, such as the EU or Asia or South Africa.

Other consideration rationalizing the integration of small island states proposed in many international forum are either irrelevant or at best of marginal benefit without meaningful infrastructure development. For example the tiny size of an IOC FTA¹ is unlikely to provide significant opportunities for the exploitation of economies scale, especially given the fact that they cannot affect the geographical isolation of each individual country. Furthermore, the case is likely to be true for most COMESA States and their relations to the Indian Ocean SIDS. The IOC countries and COMESA are not as Krugman (1991) said, 'natural trading partners' (Krugman, 1991). They do not trade intensively with each other and their geographical proximity is more apparent than real as an economic factor. In fact it may serve as a source for competition. Any positive effects are offset by high transportation costs between the region and between the islands. Trade and economic theory have for a long time criticized the notion that geographical proximity provides a separate argument in favour of a creation of an RTA (Bhagwati & Panagariya, 1998)

It is thus clear that *traditional* regional integration by small island states does not overcome their inherent vulnerabilities. In many cases the effects are marginal at best and of no consequence at worst. Deep traditional integration like customs union is even more detrimental, especially at the current state. An IOC FTA¹ is possible, but it will have to be innovative compared to what currently exist. A discriminatory FTA¹ will do more damage than good. The near region such as SADC and COMESA, whilst having good programmes are increasingly becoming non-compatible with the needs for small states. The way forward is to integrate further with stronger economies and invest in infrastructures.

What is interesting though is the increasing convergence of small island states to what Geoffrey Bertram (2004) calls their ‘Metropolitan Patrons’ (Bertram, 2004). Neo-classical growth theory predicts a long run tendency towards convergence in outputs and income per capita across the world. This is primarily driven by world trade and technology transfer. There has been very strong evidence to show that some form of conditional convergence is occurring amongst certain group of countries (Dowrick & Nguyen, 1989) most notably in the North Atlantic economies and East Asia. However, with regards to regional bodies in Latin America, western Asia and Africa, the trends seem to indicate divergence (Bertram, 2004). However, with regards to the small island states, the trend seems to indicate convergence towards their metropolitan patron. The evidence shows that pacific countries tend to converge towards the United States, New Zealand and Australia, Seychelles and Mauritius towards the EU and finally the Caribbean towards the United States. The reasons given by Bertram shows those historical linkages, current trade links and current spheres of economic and political influences play a big role in perpetuating this convergence (Bertram, 2004)

3.6 Recommendation 5 – Developing a NDS to align with the foreign policy and regional integration initiatives

Seychelles cannot afford not to have a comprehensive, coherent and holistic approach to the initiatives taken nationally and regionally. Initiatives taken under regional integration arrangements should not be contradictory to what is being pursued nationally. As it was explained in the previously the establishment of a COMESA Customs Union and its reform programs are in contradiction to the national policies and political agenda of Seychelles. Seychelles need to ensure that there are proper guiding principles that do not compromise its national interests when engaging regionally by avoiding the situation of being bound by agreements that further exert pressure and make the country more vulnerable. The development of a regional integration strategy is urgently required and a national development plan is vital, that should also encompass Seychelles regional aspirations.

To leverage on the regional integration endeavours, Seychelles should be guided by a vision with some key principles, which would enable it to attain a strategic leadership position and strengthen its soft power. The regional integration strategy should be used for engaging the development of programmes that enhance cooperation and deepening of coordination. It would have to integrate various commitments taken or to be undertaken from the various regional integration groupings and member states. Regional integration strategy shall be incorporated in the national development strategy. The primary focus of such a document is to outline strengths, weaknesses, opportunities and threats of regional integration. Secondly it should focus on the vision and objectives for regional integration over a stated period; strategies and commitments to be undertaken from the various regional integration groupings needs to be clearly underlined. For a strategy to be implementable, cost factor will be required to be taken into consideration.

The central tenet of the proposed regional integration strategy is that Seychelles needs to act simultaneously on the “software” (policy and regulatory frameworks) and the “hardware” (physical integration) of integration, ensuring coherence between national

and regional interventions. Though software investments require fewer resources, they can make integration infrastructure more efficient and unlock investments in hardware.

It is strongly recommended that the national and regional priorities and policies be aligned in order to ensure maximum benefits from regional integration. The processes should entail consultative approaches and involve as much stakeholders. The issue of regional integration should be mainstreamed in the national development plan, as well as in the various sector strategic plan and budget framework since it is very cross-cutting in nature.

The importance of public consultations and sensitization awareness for the strategy cannot be underestimated. Stakeholders need to be engaged, once a core group of country champions are identified, the next step would be to generate national authorities' interest and commitment as well as their ownership to move forward. It is imperative that Seychelles re-activate the NIMCC as an authority whose Terms of Reference is to primarily focus on the need to harmonize all regional integration efforts, this would entail enhancing ownership of the programs, creating greater visibility nationally, ensuring availability of financial resources in programmes.

3.7 CONCLUSION

Chapter 3 has provided policy options for an island state like the Seychelles to act strategically in order to overcome the challenges from the status quo outlined in the previous Chapter. It has shown that Seychelles as a SIDS with unique characteristics can overcome the challenges by exploring various facilities that would reflect COMESA as a recommended diplomatic strategy. Seychelles participation in the region can initially be attributed as a way to gain a voice and be a force on a larger international platform. Regionalisms also encapsulate crucial domestic reform. As a

more confident post reform country, more concerted efforts have been made to reap tangible economic benefits from the region. Unfortunately Seychelles regional integration intervention only used an approach that produced an opaque vision i.e limited in scope. Should Government of Seychelles approach the problem by recognizing that the multilateral landscape is radically different from when Seychelles first joined in the late 1990's, policy makers would be able to take advantage of the opportunities offered by GVC. Seychelles should also guide the region to a more Trade-Services-Investment Nexus view of developing trade, for the benefit of all, so that the oft-repeated African Century cliché can come close to reality.

Chapter 3 also reflects on the importance and the need for a regional integration strategy for the Seychelles and the need for SIDS to reduce the risk of compromising national interest and become more resilience in the face of adversity. The regional strategy need to be coherent, more committed and focus and should have a very clear vision on the way forward. Specificities of SIDS is best address when scarce resources are manage effectively and for that to happen it is paramount and strongly recommended that as a matter of urgency a series of plans be developed. The foreign policy of Seychelles is also to secure a non permanent seat on the UNSC and with the right strategy Seychelles can embark on a more efficient and focus-oriented campaign which could have been more costly on a bilateral basis.

Funding facilities offered by the EU to enhance regional integration can be an attractive instrument to enhance development needs of Seychelles. One such initiative is the facilities offered for regional infrastructure projects. Providing regional bankable projects that are specific to the island member states of COMESA can lessen pressure on the national budget particularly if the instrument utilised is through the budget support mechanism. COMESA's assistance to Seychelles has been far and wide, ranging from the fight against maritime piracy on a regional approach to providing funds through the COMESA fund (nationally) to address the gaps in the domestication

of COMESA obligations. Intervention in maritime security has facilitated Seychelles to explore one of her key economic development concept i.e. the Blue Economy. However notwithstanding the ultimate objective of joining COMESA, which is to secure favourable terms of trade, a recommendation which feature highly on Seychelles development agenda to explore thoroughly a situation analysis focusing on a free trade area between the island countries.

CHAPTER FOUR: RECOMMENDATION AND CONCLUSION

Regional integration should be handled in a holistic and coordinated manner. In 1997, the government of Seychelles made a strong commitment to enhance cooperation with the Eastern and Southern African counterparts by joining COMESA, and more than twenty years later still committed to the organization and its principle. Since its inception COMESA have been making significant progress in its attempts to integrate its member states but one cannot overlook that when a community constitutes countries with different levels of development, sizes, agendas and specificities, the smaller and vulnerable are often the most marginalized. Seychelles is one of those small and vulnerable economies that have been encountering difficulties. It has managed to secure short-term benefits in trade but despite the gains, there are still a number of challenges facing the integration process. The major challenge for Seychelles with the integration agenda of COMESA (as outline in Chapter2) is that being member of the customs unionupsets the national policies of the country. Secondly, a further challenge with the regional integration process of COMESA is its over dependency on the ICP funding especially that of the EU. Acknowledging the challenges is only the first step in addressing the way regional integration is handled. Being vulnerable to external shocks, an island state like Seychelles cannot afford not to have a clear road map on how to handle its integration in COMESA. A blue print as a way forward is imperative. Chapter 3 strongly recommended the importance of aligning what is being done at a regional level with objectives and goals of the national policies. Coherence action and strategies are thus pivotal in moving forward. Domestication of regional initiatives and programmes through binding agreements should only be implemented if it has been stipulated in a regional integration strategy and a national development plan, which Seychelles doesn't have at the moment. This would avoid wastage of scarce and limited resources, a reality that island states face on a daily basis. Seychelles should therefore take ownership of the process and not allow it to be driven from the outside. Notwithstanding the challenges face and considering the importance for Seychelles to the benefit of its

membership in COMESA as explain before the honest is on Seychelles to explore other opportunities available link to its membership in COMESA.

In the eventuality that Seychelles adopts into the concrete policy options presented in Chapter 3, COMESA will be a mechanism to address the diplomatic strategy of the Seychelles as a SIDS. It will improve the significance of COMESA as a REC and thus making it a key cooperating partner in Seychelles diplomatic relation.

COMESA is pivotal in addressing the peace and security concerns. Noting that Seychelles foreign policy at the moment is to secure a non-permanent seat on the UNSC 2017 – 2018. Proactive diplomacy should be employed with the COMESA member states to lobby their support towards achieving this goal. Seychelles is in the Eastern African Group configuration, which consists of the majority of COMESA Member States, Additionally maritime security in the horn of Africa is important as Seychelles relies heavily on maritime transportation linking the island states to mainland Africa. The ocean also offers economic development through the exploitation of the Blue Economy Concept.

The Blue Economy along with fisheries and tourism are pertinent sectors for the economic development of Seychelles. COMESA is and has been instrumental in ensuring stability in this region following the continuous threat on maritime piracy that significantly requires vast resources to address. It has been reflected that in 2009 piracy cost Seychelles 4% of her GDP. Maritime piracy needs a collective approach by the coastal members of COMESA also encountering the same problem. COMESA has drafted and member states have endorsed a maritime strategy where collective approaches are emphasised, and requested resources from ICP's to address this scourge and threat. Seychelles needs to maintain this momentum and ensure that through regional integration, the threat is minimized and hampered.

Acknowledging that the status quo of COMESA is on one hand problematic, because the mere fact that COMESA ultimate objective is the formation of a customs union,

Seychelles needs in the short term to focus on the trade related benefits that are part and parcel of trade negotiations. Seychelles should focus more on a Trade-Services-Investment Nexus spectrum in its international trade policy. Given that it is imperative in the short term for Seychelles to address trade imbalances, the paper strongly recommends that Seychelles adopts the right policy options to make use of the current FTA¹ she is party to and strengthen more trade between the island states of COMESA. A sub trading arrangements for the island states under the umbrella of the COMESA FTA¹ will also be an integral part of developing an integration process that is more responsive to the needs of the islands.

Furthermore, given that ICP funding for the island nations has experienced decrease primarily through the NIP, this calls for the need for Seychelles to strengthen her diplomatic relations further by associating herself with RECs where huge resources are earmarked by ICP for their economic and political integration. If Seychelles works in tandem with the continental members in developing common proposals for funding facilities offered by ICP at regional level, this would lessen pressure on national budget.

It has been shown that Seychelles should also have backup plan in the eventuality that further integration is to the point where it compromises national interest. This is why Seychelles should intensify its efforts in working with the island nation in COMESA and spearhead common interest. It is therefore clear that the rational for integration for Seychelles is clear and compelling. It is not recommended for Seychelles to move out of COMESA as it compliments her foreign and development policies. There is a need to be more strategic with the process to maximize benefits and minimize losses. It is therefore concluded that with the right diplomatic strategy, COMESA is a significant development partner for the Seychelles.

Taking into account the changing nature of trade and the best practises of other countries that have had similar experiences, we can derive more benefits from the

region. Often national strategies have been focussed on direct, measurable benefits, like increase in revenue or increase in GDP. We can also benefit from non-traditional approaches.

A more liberalised approach to opening the services sector to regional and multilateral trade. The liberalisation of services in a region or regional investment area would be a positive inducement to trade for a country where services account for more than 80% of the economy. Seychelles can benefit from increased in efficiency, competition, availability of products and crucially a medium for technology transfer, a key building block of Global Value Chains. A more investment friendly regime towards the region would attract FDI from some of the biggest economies on the continent (South Africa, Egypt and Kenya). Liberalising investment would be part embracing the adoption of WTO Plus issues. The option improving competition policy, investment laws and development focused integration that would add a new layer on Seychelles complex engagement with the region and the world.

The combination of services, intellectual property rights and WTO plus issues would then drive the necessary institutional change to enable Seychelles to be flexible in adapting both its labour and product market. COMESA and the region would serve as anchor to these deep domestic reforms that would shed the country of burdensome regulation and practises. Increased participation in these regional blocks would augment the country's human resources in implementing large programmes and participating in regional negotiations. COMESA is essentially a very effective platform to learn by doing.

On another level, individual states would very rarely attract large infrastructure projects on their own. Through regional system, Seychelles can benefit from regional economies of scale brought about by regional infrastructure projects. Essentially, by being part of a bigger group would make costly projects bankable which Seychelles benefit simply by being a member of a regional grouping. This also applies to

Seychelles were to deepen regional integration at a sub regional level, Seychelles would only benefit if the country were to have a strong WTO plus and services component.

It is clear that COMESA and the region thus offer the right platform for SIDS to align its efforts and come up with projects of commonalities that could be qualified for funding under COMESA regional envelopes. It is worth noting that access to such facility would have been limited and insignificant in the NIP and on a bilateral basis. In addition COMESA has been providing key support for Seychelles to develop its Blue Economy policy on a level that would not have been available should it not have been part of the region.

Whilst the recommendation has touched heavily on the economic aspect of regional integration, we must not forget the political aspect of regional integration. The COMESA security programme has enabled Seychelles to punch above its own weight in the politics of the region through the mediation group (Committee of Elders), the fight against piracy and lobbying for support for a non permanent seat on the UNSC. COMESA has provided a strong foundation for support and assistance, especially for small states in handling major threats. It is thus strongly recommended that Seychelles use the region as a platform to tackle major international issues. After all, all the lofty concept of the Blue Economy and WTO plus policy reforms are meaningless without security.

To conclude, the final recommendation would be that it is important that Seychelles have a robust regional integration strategy that is in perfect synergy with its own national development goals and foreign policy. With globalization being small does not necessarily means being insignificant. Seychelles can do this by having a strong, multi level, multi disciplinary strategy to engage the region and the world with all the tools that is available. This is so that the traditional approach to regional integration is complemented by a bold, forward looking policy that looks beyond simply tariff

revenue and protectionism to a country that is at the forefront of innovative and non-traditional regional integration. If the Seychelles government apply all the proposed recommendations, Seychelles as a SIDS will derive benefits from all facets of the 21st century global political economy.

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