African Regional Integration: Issues and Challenges

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Introduction

- Failed WTO ministerial conference in November 1999 and vocal opposition to global multi-lateralism
- Perception is that freer trade and globalization are not in poor countries' interest and that it will cost already poor people dearly (McCalla, 2001)
- Greater movement toward negotiations for regional integration for effective participation in the WTO

Lessons Learned from African sub-Regional Arrangements

- They have major design and implementation flaws
- Exhibit narrow patterns of trade
- Depend on primary product exports
- Involve low levels of inter-country trade, and have low potential complementarities in goods and services
- Relatively poor infrastructure (especially transport and communication)
- Lack of political will
- Proliferation of sub-regional agreements and multiple memberships
- Weak institutional mechanisms, weak bargaining power on the diplomatic front, poor leverage in the area of pursuing peace and security

Africa's Challenges

- Consensus that sub-Regional Integration in Africa has Failed to Increase Trade and Economic Growth
- Inter-African trade is lower (typically less than 10 %) than that of any region in the world
- Africa's share in global exports fell from 4.5 % in 1977 to 2% in 1997
- Africa's share of total developing country exports dropped from 15.5% in 1981 to 9.2% in 1997
- Africa's share of FDI flows to developing countries fell from 23% in 1970 to 4.7% in 1997
- Mounting debt and unfulfilled promises of official assistance

Africa's Challenges . . . .

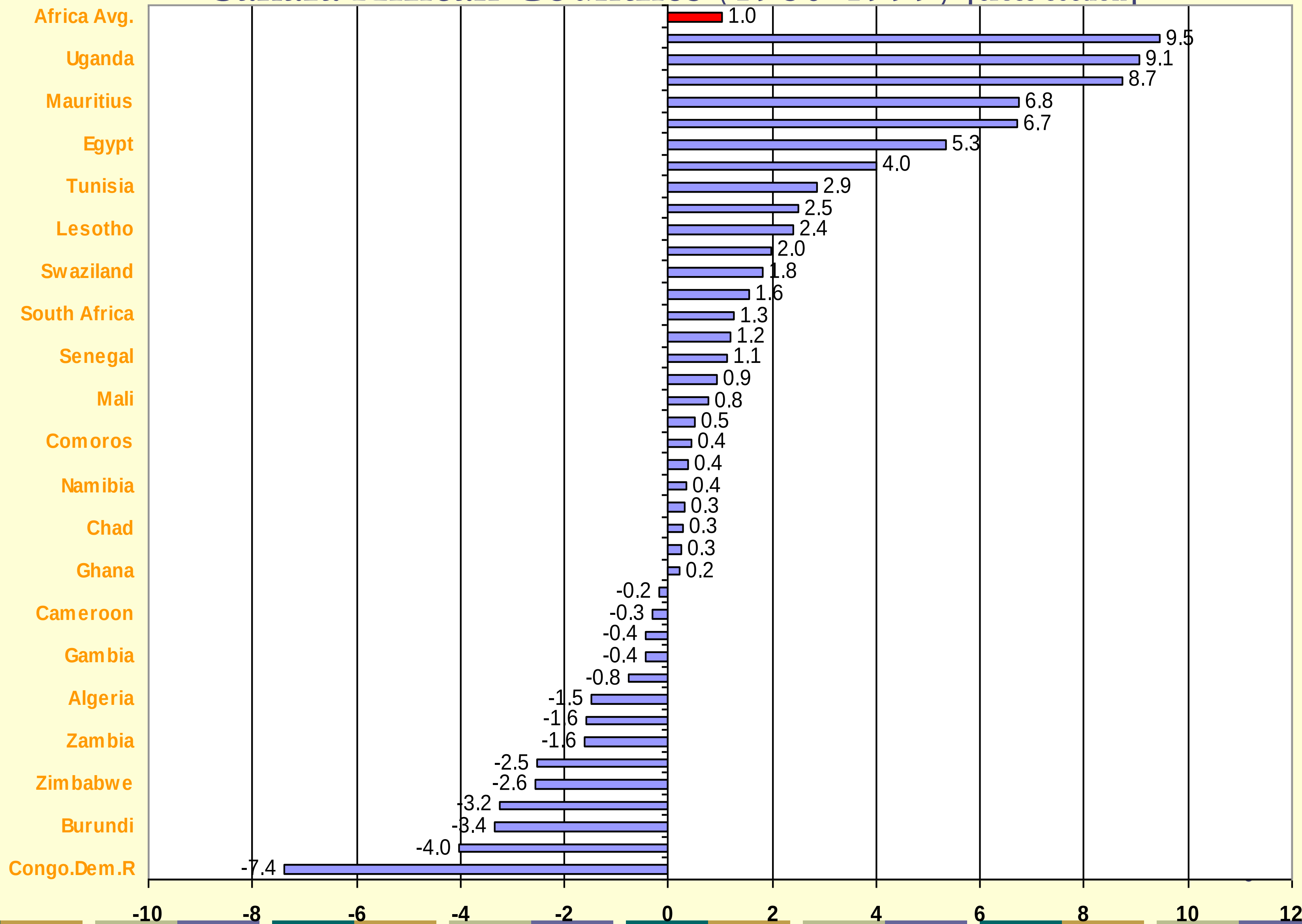
- Africa lacks economic and political convergence:

  Conditional convergence states that a country's long-run level of income and its growth rate are determined by factors such as macroeconomic and structural policies, as well as by how poor the country is relative to the rest of the world

  (Amponsah et al., 1999)

- Recent lessons learned about economic growth is that policy regimes make a difference in whether a developing country converges toward high income levels
- Countries that have pursued open-economy, export-oriented growth and development strategies have almost always done well (e.g., the "East Asian Miracle.")
- Rapid growth in many Latin American countries in the late 1980s and 1990s came about with domestic policy liberalization and open-economy models, which reduced trade barriers

Figure 1 Average Growth Rate in Percentage for Sub-Sahara African Countries (1980-1999) [cross-section]



Africa’s Challenges (cont’d)

- Despite successfully embarking on structural adjustment programs, Africa is generally characterized by low economic growth caused by :
  - Low rates of domestic savings
  - Endemic poverty
  - Excessive dependence on a few agricultural commodities
  - Lack of institutional transparency
  - Sub-Saharan Africa’s average GDP per head is anywhere around $509 ($297 if we exclude South Africa)
  - Exports concentrated in primary products
- Therefore, Africa may not continue in its present course of economic development if it wishes to exploit the benefits of globalization:
  - Increasing its available resources for productive investment
  - Enhancing efficiency of resource use
  - Facilitating transfer of appropriate technology to enhance production processes and to reduce poverty
- Consequently, because of the forces of globalization, African countries have little choice but to integrate into global markets, or risk being further marginalized. The suggested approach is to integrate regionally so as to facilitate wider integration into the global economy.
- Integration must be achieved through trade, capital flows, human migration, and infrastructure (e.g.. Transport and telecommunications)

Benefits of Regional Integration

- Access to markets where they can express their comparative advantage. Therefore, need for open, transparent, rules based, and fair trading system (Krueger, 1999). Countries need to negotiate as a trading bloc that is regionally integrated.
- Economic benefits from regional integration justified in terms of the trade creation and trade diversion effects that arise when the barriers to trade are removed between members within a regional integration zone (African Development Bank, 2000)
- According to modern trade theory (Helpman and Krugman, 1985) and the new growth theory (Grossman and Helpman, 1991), dynamic gains from trade provide the fundamental argument for free trade and a vital causal link between exports and economic growth.
- RTA's present firms in member countries with opportunities to exploit economies of scale (Viner, 1950)
- Regional integration may promote policy credibility (Whalley, 1996; Francois, 1997; Baldwin, 1992).
- Regional integration boosts investment and results in growth (Brada and Mendez, 1988; Baldwin, 1992).
- Trade Openness results in rapid economic growth (Agama, 2001; Dollar, 1992; Ben-David, 1993; Sachs and Warner, 1995, etc)

Benefits . . . . .

- The benefit from openness lies on the import side - ability to import ideas, goods and inputs from advanced countries (Rodrik, 1999)
- Fundamentals for long term growth in Africa are human resources, physical infrastructure, macroeconomic stability and rule of law (Rodrik, 1998)
- Regional integration helps prevent conflicts, and tends to be viewed as an instrument for fostering diplomacy and regional stability (Mansfield, 1993).
- Trade among neighboring countries provides security directly by raising the level of interaction and trust among the people of those countries, by increasing the stake that each country has in the welfare of its neighbor, or by increasing the security of access to the neighbor's strategic raw materials (Schiff and Winters, 1998).
- Trade integration should contribute to valuable political rapprochement (African Development Bank, 2000).
- Trade theory and economic geography literature indicate that regional integration affects industry location in developing countries. Puga and Venables (1997) have suggested that agglomeration benefits accrue to firms that are located close to other firms.

Benefits. . . .

- Economic geography literature seems to suggest that economies of scale and location specific costs provide justification for regional integration (Baldwin, 1995).
- Regional integration built around some larger and/or rapidly growing member countries that serve as growth-poles for the integrated region, could have growth-enhancing effects for the entire region (African Development Bank).
- Nothing in the trade literature guarantees equal distribution of benefits under free trade.
- Benefits from trade depend on the production and demand characteristics of the goods that a country produces and trades, the economic policies pursued, and the trading regime adopted.
- Note: In Africa, over 80 percent of export earnings derived from sale of primary commodities. Price of primary commodities relative to manufactures has been deteriorating for at least a century at an average rate of approximately 0.5 percent per annum (Thirwall, 1995).

Implications of the African Union

- Opportunities to expand trade, pool resources for investment, enlarge local markets, and industrialize more efficiently by taking advantage of the scale of production that large markets afford. Most national markets in Africa too small and inadequate to sustain large-scale economic operations.
- Economic integration must be viewed as important for utilizing Africa's human and physical potential, instituting credible policies, and for realizing its prime objectives of accelerating economic growth and reducing poverty (African Development Bank, 2000).
- Regional trade agreements can help countries build on their comparative advantages; sharpen their industrial efficiency; act as a springboard to integrate into the world economy; help strengthen the political commitment to an open economy; improve technical, management and negotiation skills and competence; educate the public; and more actively engage the business community.
- Integrated African market should provide greater access to regional trade institutions to harness human resources and re-orient policy instruments.

Implications. . . .
Of The African Union

- Dearth of research-based information networks to inform decisions – importance of regional institutions such as UNECA, African Development Bank, academic research centers, etc.
- Regional harmonization of trade policy instruments such as tariffs reduction and institutional development. Challenge of ceding authority to regional institutions.
- Unilateral macroeconomic and structural reforms by each sovereign nation (e.g. exchange rate policy, export diversification, tax reforms, infrastructure development, role of the state, reforms of legal and regulatory frameworks, liberating investment laws, offering fiscal incentives, etc.) See Page 18 of the paper
- Achieve economic policy and institutional convergence by establishing a timetable for each nation to implement parallel reforms, work toward establishing regional institutions, and make available resources to implement institutional reforms.

Implications . . . .
For African Union Integration

- Interventions by international organizations and donor groups
  - Market access
  - Flows of capital
  - Institutional linkages with global financial and extra-legal systems
- Major challenge is how to educate trade negotiators on how to negotiate based on trade and investment rules and laws, and if there were to emerge failures of institutions, how to efficiently manage and amicably resolve potential conflicts.
- Promote good governance and protection of human rights.
- Regional Security Initiative, for example creation of ECOWAS Monitoring Group's (ECOMOG).

Opportunities for Africa's Effective Participation in the WTO

- WTO established in 1995 to provide a forum for global trade and trade related negotiations.
- Integration process should develop institutions to strengthen African trade, provide capacity building to comprehend WTO processes, enhance capacity of policy makers to support and guide their trade negotiators, and maintaining presence in Geneva to contribute to shaping the rules and regulations for managing the WTO negotiations process.
- African countries need also to comprehend the comprehensive "give-and-take" that is entailed in the process of negotiations.
- African countries need to understand and effectively use established rules and institutional mechanisms to ensure that each country's rights are enforced.
- Benefits from full and effective participation at the WTO:

  - Safeguarding market access
  - Gaining substantial reduction in external barriers facing African exports
  - Resisting undesirable protectionist measures through reciprocity
  - Maintaining more rational trade regimes (African Development Bank).