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Regional Integration and Challenges in Africa

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Abstract: *Several efforts have been made over time toward regional integration in Africa, but do not appear to be an easy programme. Worried by this, the paper studied regional integration and challenges in Africa. The work sought: to determine why all efforts toward regional integration in Africa appeared impossible, and to find out if there are factors that need to be eliminated or put in place to enable regional integration in Africa. The* theory of regional integration guided the research. *The paper adopted the documentary method for data gathering, and findings revealed that Africa is a continent with innumerable members blessed with several resources which if and when integrated regionally would result in the reaping of efficiency gains, exploiting of economies of scale, and reduce the thickness of borders; but this appears to be difficult mainly because of lack of complementarities among partners, etc. The paper recommended that Africa should consolidate on having functioning free trade zone or free trade area amongst common markets of Eastern and Southern Africa, East African Community and Southern African development community to handle the overlapping membership difficulties, and concluded that the vested interests of member countries, which tend to override the shared interests of the region, have also posed a challenge to the integrative arrangement and must go into extinction.*

Keywords: *Challenges; Regional; integration; Africa, Eastern and Southern Africa.*

Introduction

Regional Integration is a process in which neighboring states enter into an agreement in order to upgrade cooperation through common institutions and rules. The objectives of the agreement could range from economic to political, to environmental. Most times, commercial interests are the target for achieving wider socio-political and security objectives, as defined by national governments. Regional integration has often time been organized either via earlier-national institutional structures or through the decisions made by the governments of the participating states, or a combination of both. Past efforts at regional integration have often focused on removing barriers to free trade in the region, increasing the free movement of people, labour, goods, and capital across domestic borders, reducing the possibility of regional armed conflict and adopting cohesive regional stances on policy issues, such as the environment, climate change and migration. Haas (1971, pp. 3-4) sees regional integration *as the process through which national states voluntarily mingle, merge and mix with their neighbors so as to lose the factual attributes of sovereignty while acquiring new techniques for resolving conflicts among themselves*. De Lombaerde & Van Langenhove (2007, pp. 377-383) described it as "a worldwide 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. Some scholars see regional integration simply as the process by which states within a particular region increase their level of interaction with regard to economic, security, political, or social and cultural issues. In short, regional integration is the joining of individual states within a region into a larger whole". It is noteworthy that, the degree of integration depends upon the willingness and commitment of independent sovereign states to share their sovereignty. "Deep integration that focuses on regulating the business environment in a more general sense is faced with many difficulties (Claar, Simone & Noelke, 2010, pp. 114-117). Regional integration initiatives, according to Van Langenhove, (2003, pp. 1-9) should fulfill at least eight important functions:

- the strengthening of trade integration in the region
- the creation of an appropriate enabling environment for private sector development
- the development of infrastructure programmes in support of economic growth and regional integration
- the development of strong public sector institutions and good governance;
- the reduction of social exclusion and the development of an inclusive civil society
- contribution to peace and security in the region
- the building of environment programmes at the regional level
- The strengthening of the region's interaction with other regions of the world.

It has been argued that Africa's stunted growth is attributable to the absence of a large economic platform, expansive market and productive base, which can support and drive economies of scale, which is a prerequisite for genuine economic development. This stems from the fact that large markets are needed to drive competitive production needed to satisfy demand and supply. However, the African continent, broken into a set of incongruent fifty four independent nations has not been able to muster the much needed critical mass of population for an effective market, and had thus lacked the sustained economic base indispensable to the achievement of the dream of a prosperous continent. The other issues of numerous armed conflicts within and between nations have brought to fore the need for regional integration. When this is going to be a reality, the continent must be ready to combat lack of complementarities among partners, and diminishing returns to the exploitation of resources that has reduced supply response to market-integration oriented regional policies as well as contend with the lack of uniform distribution of resources that has sharpened the trade-off between the profits of commonly accepted policies required to combat cross-border externalities and their costs, which are heightened by the sharp differences in policy preferences across member states. This will enhance achievement and mutual benefit of the region. Ipinmoye & Dauda (2015, p.1) agree that "in order to achieve a mutual benefit of maximizing self -interests, nations go into regional cooperation".

The theory adopted in this work, is the regional integration theory. Regional integration is a process in which neighboring states enter into an agreement in order to upgrade cooperation through common institutions and rules Van Langenhove (2007, pp.2-4), beside all other objectives, regional integration is concerned with commercial interest, as the focus for achieving broader socio-political and security objectives as defined by national governments.

Regional integration advocates for the removal of barriers to free trade in the region; increasing the free movement of people, labour, goods, and capital across national borders, and others. Those who have expanded the theory included, De Lombaerd & Van Langenhove (2007, p.5), who see regional integration as a worldwide 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 organization at the national. Other scholars who have expanded the theory are Van Ginkel, H. and Van Langenhove,L (2003, p.5). They see regional integration as "the process by which states within a particular region increase their level of interaction with regards to economic, security, political, or social and cultural issues". The objectives of regional integration as explained by these scholars are the bases of the idea of African attempt toward integration. Africa is richly blessed with enormous natural resources, and people with valuable productive potentials which if integrated will return Africa into her pride of place in the global system. Sadly, these natural resources and people operate at little level independently, isolated, and therefore often not recognized, which is why this theory is considered most appropriate for this work. The paper therefore adopted this theory as a guide to study regional integration and challenges facing the attempt toward integrating Africa.

Overview

Regional integration in Africa has its roots in the political forces determined by the colonial legacy that resulted in a configuration of geographically artificial states where arbitrary borders coupled with great ethno-linguistic diversity contributed to the continent's high number of conflicts and to its high trade and communication costs (Alesina et. al. 2003, p.2; Alesina et al. 2011, p. 8; Portugal-Perez & Wilson 2009, pp.34). In Africa as a whole, but in sub-Saharan Africa in particular, the Regional Economic Communities were to be the 'building blocs' of the hoped-for African union in the immediate post-colonial era. Now, they are central for implementing the New Partnership for Africa's Development. In short, the RECs were and continue to be the glue that will cement African unity. An early phase of integration started during the first decades of independence, and was enshrined in the Lagos Plan of Action, an initiative of the Organization for African Unity, adopted by the heads of state in 1980. UNEC (2010) remarked that, "the proposed framework was for African integration into pan-African unity and continental industrialization by the division of the continent into Regional Economic Communities that would constitute a united economy, the African Economic Community. Three regional integration arrangements were supported by the Economic Commission for Africa: Economic Community of West African States; Common Market for Eastern and Southern Africa, and the Economic Community for Central African States, and later, the Arab Maghreb Union.

Venables (2011, p.11) explained that, this first phase corresponded to the heyday of central planning when faster industrialization would take place if carried out at the regional level under free trade among members with high tariff barriers applied to non-members, and during which an inward-looking integration also reflected a desire to develop independently from the former colonial masters. Economic unification would be the solution to Africa's development dilemma and, for many, to work it would require a political union. However, the leaders of these young post-independence African states were reluctant to encourage the erosion of national sovereignty and the emergence of a supra-national authority, which would have been necessary to co-ordinate and manage the affairs of the hoped-for African union.

In addition, World Trade report (2011, p.12) notified that, the great diversity across Africa (resource-rich and resource-poor, coastal and landlocked, artificial borders, many ethnic groups and languages) translated into different interests that strengthened countries' insistence on the 'respect for the sovereignty and territorial integrity of each State and the inalienable right to independent existence' as written in the Organization of African Unity charter of 1963. Commitment to pan Africanism was weakened, leading to a vagueness and multitude of objectives, which helped states gloss over the issues that divided them.

The outcomes of the first phase of African Preferential Trade Agreements were insightfully reviewed by Foroutan (1992, p.234), who, after observing that the gross national product of Sub-Saharan Africa was about the same as Belgium's, noted that it would be hard to imagine Belgium divided into 'forty-something independent countries, each with its own isolated goods and factor markets. She also pointed out that, "the skewed distribution of benefits resulting from the great disparity among members required large compensation from the gainers to the losers, large partly because regional trade was mostly inter-rather than intra-industry: Absent central funding raised by less distortionary means, funds were either obtained by distortive taxes negating any efficiency gains from eliminating protection among partners, or trade barriers were not removed (p.234).

Thus, with the exception of integration of the franc zone in Economic and Monetary Community of Central African States and West African Economic and Monetary Union implementation never got to the Free Trade Area status, let alone deeper integration. Venables (201, p. 11) clarifies that, starting in the 1980s, and later, following the end of the cold war, initiatives entered a second, more outward-looking, phase. Most were a revival of previous efforts that had either been abandoned, such as the East African Community, or not implemented, such as the Common Market for Eastern and Southern Africa while others were new with significant membership overlap reflecting countries 'hedging their bets'. To this day, this overlap complicates the task of policy co-ordination and slows down attempts at 'deep integration' as large membership makes it difficult to reach consensus to delegate authority to regional bodies. He noted for example, that, Zambia is both a member of the Common Market for Eastern and Southern Africa Customs Union—which requires applying Common External Tariff to non-members—and of the Southern African Development Community Free Trade Area, putting the country in a conflicting position.

WTO (2011, pp. 24-5) remarked that, the idea of preferential trade Agreements is wide-ranging and ambitious, reflecting the desire to dissimulate the heterogeneity of interests. In addition to advancing industrialization, the objectives include harmonization of regulations and policies-Ag-dir Agreement; monetary unions such as: Common Market for Eastern and Southern Africa; East Africa Communities, Gulf Cooperation Council, as well as promoting democracy and expanding the development of the least developed members, including the Pan Arab Free trade Area and Southern African Customs Union. The Economic Communities of West African States treaty calls for the establishment of a West African parliament, an economic and social council, and an ECOWAS court of justice to enforce community decisions. WTO (2011, p.23) further noted that, the community is also formally assigned with the responsibility of preventing and settling regional conflicts, which clearly indicates the importance of political purposes. Out of ten Preferential Trade

Agreements, only three had aimed for Free Trade Area status, all others aiming for deeper integration, with integration moving along the linear model of integration following a stepwise integration of goods, labour and capital markets and eventually monetary and fiscal integration. Goods market integration would start with a Free Trade Area, then move on to a Customs Union with a Common External Tariff. Along this sequence, excluding Southern African Customs Union, none of the Preferential Trade Agreements in Africa have yet reached full Customs Union status as many goods are excluded from the Common External Tariff; the Common Market of East Southern Africa Customs Union launched in 2009 only requires countries to give a list of goods they wish to submit to the Common External Tariff for a five year transition period. In the next phase, countries would move to a common market with integration of labour and capital markets culminating in a monetary union. For example, the East African Communities, the most advanced regional agreement among the six retained for further scrutiny, moved to a customs union in 2005, then to a common market in 2010, with the next planned step being a monetary union for 2015. Of the ten agreements, three agreements stood apart. It is noteworthy, as noted by the World Trade Organization, (2011, p.25) that "The Southern African customs union which is the oldest customs union in the world, is the only full customs union with revenue sharing among African Regional Trade Agreements, therefore, there is no need for Costly-to-meet rules of origin, that was established by a colonial power and which is not replicable and therefore not considered any more. With a high dependence on oil revenues and exports of services and shared religious beliefs, the GCC is also deeply integrated even though progress towards a monetary union is paralyzed because of its low applicability in other places; because of its membership in the franc zone, West African Economic and monetary Union and Economic Communities of West African States members share a common currency, and have achieved deeper integration. Since monetary unions figure prominently among African Preferential Trade Agreements purposes, West African and monetary Union is kept for discussion, but in all statistics, Economic Communities Of West African States will only include non-West African Economic and Monetary Union members. According to them, this leaves us with a focus on six agreements, namely,

- Common Markets of East and Southern Africa,
- East African Communities,
- Economic Communities of West African States (minus UEMOA members),
- West African Economic and Monetary Union,
- Pan Arab Free Trade Area,
- Southern African Development Community

The shift of Literature in Regionalism

The literature on regionalism in the recent past appeared to have shifted from early emphasis on efficiency, to the political economy of preferential versus multi-lateral trade liberalization and more recently to the possibility that regionalism could undermine multi-lateralism (Freund & Ornelas 2010, pp. 1-4). In Africa however, political motives, geography, and the distribution of gains across Free Trade Areas trump the traditional efficiency effects first discussed by Viner (1950, p.6). Effort is herein made to re-discuss it, as follows:

▪The political dimension

The prevalence of conflicts in Africa's recent history points to the importance of political motives in the region's recent Preferential Trade Agreements history. As put by the government of Rwanda, its trade strategy is to promote 'regional integration and cooperation' (underline added) and in the case of Economic Community Of West African States, the Community of States has the '... the responsibility of preventing and settling regional conflicts' (cited in Melo & Collison, 2011, 16). Establishing a regional trade bloc can provide security and confidence to build supra-national institutions that will deliver regional public goods as was done in the European Community over a half-century starting with the European Steel and Coal Community in 1953.

In the author's view, building a trade bloc will not only provide security and confidence among member states, it will also build hope and trust among member states not only for the present but also for the future towards establishing supra-national institutions capable of delivering regional public goods. This is truer, considering the fact that in the absence of such trust among member states, the estimate of security will be under serious doubt, hence, leaves every envisaged confidence a cry-in –the wilderness.

Oates (1972, p.8) tells about the costs and benefits of common policies: A trade-off between the benefits of common policies which depend on the extent of cross-border policy spillovers and their costs, which depends on the extent of policy preference differences across member countries. Common decision making internalizes the spillovers but it moves the common policy away from its preferred national policy (i.e. a loss of national sovereignty). In Africa, spillovers are important as transport and communications infrastructures are under-provided, but the ethno-linguistic diversity across 'artificial' borders suggests strong differences in policy preferences hindering the supply of public goods through the adoption of common regional policies. The experience of Regional Trade Agreements around the world supports the view that economics and politics are complements (rather than substitutes as argued by the defenders of multi-lateralism). Regional Trade Agreements reduce the probability of war through two channels. First, trade-creating exchange takes place, increasing the opportunity cost of war. Second, as political scientists have argued, sufficiently deep Regional Trade Agreements reduce information asymmetries as partners know each other better. Then incentives for countries not to report their true options in an attempt to extract concessions are reduced. Discussions among members spill over to political issues diffusing political disputes that could escalate into political conflicts. These two channels reduce the probability of costly conflicts. By the same token, globalization which involves a shift of trade towards distant partners reduces this opportunity cost increasing the likelihood of conflicts. Martin et al. (2012, p.7) built these insights in a bargaining model where rational states will enter into a Regional Trade Agreements if the expected economic gains from trade creation and the security gains resulting from decrease in the probability of disputes degenerating into war exceed the political costs of entering the Regional Trade Agreements.

Martin et al. (2008, p.13) found that increased bi-lateral trade deters bi-lateral war because it increases the opportunity cost of war while multi-lateral openness has the opposite effect. In subsequent work, Martin et al. (2012, p.3) found support for their theory of Preferential Trade Agreements formation: Country-pairs with large economic gains from Regional Trade Agreements and high probability of conflict are more likely to sign a

Regional Trade Agreements. Although their data set does not include African countries, the findings should apply to the predominantly intra-regional African Preferential Trade Agreements (that is why they are often called Regional Economic Communities) even though the opportunity cost of war would be small for countries that trade little. Viewed in this light, the costs associated with negotiating the deep African Regional Trade Agreements are several, namely,

- Southern African Customs Union,
- Community of Central African States
- West African Economic and Monetary Union,

All the stated above have been borne by colonizers. Increased trade among members then raised the opportunity cost of future wars among members by increasing their inter-dependence. Guillaumont (2013, p. 7) reported that franc zone members have had about half as many yearly conflicts as other Sub-Saharan African countries.

- **Geography**

Country size, remoteness, uneven distribution of natural resources, and associated rents were not considered in the evaluations of the first wave of African Regional Trade Agreements. Africa's lagging performance was shifting from a discussion of external versus internal constraints (Collier & Gunning 1999, p.11) towards the role of physical and economic geography (Gallup et al. 1999, p.5; Collier & Venables 2009, pp.11-2; & Venables 2011, p.11). The implications of this emphasis on geography base of Regional integration are devoid of any qualification. Take a look at first, the size and scale effects. African economies are usually small, resulting in monopoly power. Price-cost margins will be higher for many growth-related activities. Transport cartels will raise further already high transport costs (Teravaninthorn and Raballand 2008, pp.13-4). Credit will be more expensive because of a monopolized banking sector. Savings will generate small increases in the capital stock because of the high relative price of investment goods in gross domestic product resulting from market power.

Larger cities are also known to result in higher productivity through a variety of channels (lower transport and communication costs, greater competition, etc.). Taking into account that country population and country area determine city size, citing evidence that a doubling of city size in developed countries is estimated to raise productivity by three to eight per cent, Collier and Venables (2009, p. 7) estimated that combining ten countries in which the largest city has three million people would lead to a country with the largest city having a population of 19 million, over six times more than the largest city in the fragmented countries. Emphasizing the benefits from a larger population and less instability, Guillaumont (2013, p.280) estimated that if each of the Community of Central African States and West African Economic and Monetary Union Customs Unions had been integrated into a single economy over the period 1976–2011, average annual per capita income growth in Community of Central African States cum West African Economic and Monetary Union would have been higher by 1.7 (1.9) percentage points, respectively. Diminishing returns to resource extraction and remoteness also point out to large gains from integration as, more than elsewhere; African Preferential Trade Agreements involve countries with very different characteristics in terms of access to resources. Take for instance Pan Arab Free Trade Area, which is a mix of resource-poor, namely, Djibouti, Egypt, Morocco, Sudan, Tunisia and the resource-rich, such as, Bahrain, Kuwait, Oman, Qatar, and United Arab Republic countries. Take also the East African Community, a mix of coastal (Kenya and Tanzania) and remote landlocked members (Burundi, Uganda, and Rwanda). Africa has 15 landlocked countries largely specialized in natural-resource-based production patterns that, unlike footloose manufactures, face diminishing returns. Remoteness coupled with sharply diminishing returns for resource-based exports results in a low-supply response to regional integration initiatives.

As pointed out by Collier & Venables (2009, p.11), these are the circumstances when regional integration has the highest payoff. Consider the implications of diminishing returns and the lack of foreign exchange. Take two identical isolated economies with a fixed labour supply and a foreign exchange constraint—their isolation preventing them from entering footloose activities. Were they to integrate, their size would double and their output would increase and the brake of diminishing returns would be pushed back. Next, consider isolation where one partner is landlocked and the other is a coastal partner having access to an activity for the world market that is not subject to diminishing returns. The coastal partner's wage will be set by the world price for the footloose activity while the wage for the landlocked partner will be lower, determined by labour supply and diminishing returns. Migration from the landlocked to the coastal economy would close the wage gap and bring efficiency gains. Large migratory movements have indeed taken place in Africa but, in the absence of deep integration, the non-citizen status acts like a border for trade in goods, giving rise to a political backlash all the Efficiency and distributional effects Evaluations of the first phase of African Regional Trade Agreements reviewed by Foroutan (1992, p.4) were largely concerned with Viner's (1950, p.7) trade creation and trade diversion effects resulting from the second-best nature of discriminatory trade liberalization. In the African context, the consensus was that Trade Division was likely to dominate Trade Creation for several reasons, inter alia, first, preferences were granted among partners with very limited supply capabilities so that the partner receiving preferences would not be able to displace entirely third-country exports, a prerequisite for a welfare-improving change since price in the partner granting preferential access would remain unchanged. Second, there were large cost differences between the most efficient members in the group and the lowest-cost external producers resulting either in no effect from granting preferential access—or negligible effects on intra-regional trade. And in the case of discernible trade effects, these large cost differences would all but guarantee that the net effect would be welfare-reducing as the Trade Division effects resulting from subsidizing the inefficient partner would dominate any Trade Creation effect via a lower price on domestic markets. As discussed in Melo et al. (1992, pp 1-14), recognizing the benefits from the possibility of exploiting economies of scale would still not be enough for preferential trade liberalization to trump non-discriminatory liberalization, uni- or multi-lateral.

Viner's(1950, p.7) analysis was most relevant for 'similar' economies where cost differences were not too pronounced so the choice of a partner did not matter much as there was scope for the pro-competitive, scale, rationalization, and increased variety gains associated with an increase in intra-industry trade to take hold. These are the large gains that were only recognized in the 'new trade theory' of the 1980s inspired by the success of European integration that resulted in intra-industry rather than inter-industry specialization. In the African context, none of these gains materialized as inter-industry trade remained low and intra-industry trade continued to be non-existent (Brulhart 2009, pp.2-4). Moreover, whatever limited increase in trade between members, distributional effects were likely to be large which explains why, in the absence of compensatory funds, integration efforts were abandoned.

▪Effects on Efficiency and distribution

Evaluations of the first phase of African Regional Trade Agreements reviewed by Foroutan (1992, p.4) greatly Focused on Viner's (1950, p.4) trade creation and trade diversion effects resulting from the second-best nature of discriminatory trade liberalization. In relation to Africa, the agreement was that Trade Diversion was likely to dominate Trade Creation for numerous reasons. First, preferences were granted among partners with very limited supply capabilities so that the members receiving preferences would not be able to displace entirely third-country exports, a prerequisite for a welfare- improving change since price in the partner granting preferential access would remain unchanged. Second, there were large cost differences between the most efficient members in the group and the lowest-cost external producers resulting either in no effect from granting preferential access—or negligible effects on intra-regional trade. And in the case of discernible trade effects, these large cost differences would all but guarantee that the net effect would be welfare-reducing as the Trade Diversion effects resulting from subsidizing the inefficient partner would dominate any Trade Creation effect through a lower price on domestic markets. Melo et al. (1992, pp.1-14), was of the view that the benefits could come from exploiting economies of scale would still not be enough for preferential trade liberalization to trump nondiscriminatory liberalization, unilateral- or multi-lateral. The analysis of Viner (1950, p.11) was most significant for 'similar' economies where cost differences were not too pronounced so the choice of a member did not matter much as there was scope for the pro-competitive, scale, rationalization, and increased variety gains associated with an increase in intra-industry trade to take hold. These are the large gains that were only recognized in the 'new trade theory' of the 1980s inspired by the success of European integration that resulted in intra-industry rather than inter-industry specialization. In the African context, none of these gains materialized as inter-industry trade remained low and intra-industry trade continued to be nonexistent (Brulhart 2009, p.8). Moreover, whatever limited increase in trade between members, distributional effects were likely to be large which explains why, in the absence of compensatory funds, integration efforts were abandoned. Brulhart, remarked that two roots were at play here:

First was a likely divergence in incomes across partners rather than a convergence as was seen during the successive waves of the integration of Europe. Even though several factors contributed to the world's ranking by per capita income, there is a tight fit between a per capita ranking of countries and one according to their physical or human capital per worker. Take a look at a Free Trade Area between two Northern countries of Europe, France and Portugal, both above the world's average per capita income (and hence capital-labour endowment), and two Southern countries, Kenya and Uganda, both below the world average capital-labour endowment. As revealed by Venables (2003, p.11), an FTA between Kenya and Uganda will be trade-diverting as Uganda will substitute low-cost Northern manufactures by high-cost Kenyan manufactures while Kenya will benefit from the low-cost imports of agricultural products from Uganda. By contrast, by the same reasoning, a Free

Trade Area between the two Northern partners will close their income gap as Portugal benefits from France's low-cost manufactures while France shifts towards Portugal's relatively costly agricultural products. He concluded that, if the partners of a Regional Trade Agreements cluster have economies functioning above average, the forces of agglomeration will prevail and convergence will occur as resources flow to the weaker members, but, if the cluster is with no strong economies, probably in part because of weak institutions, resources will channel to the strongest partner, which will certainly result in divergence.

Further, Venables (2003, p. 7) reasoned that, a Free Trade Area between landlocked countries with very limited access to world markets can only hope to sell to its geographically close neighbour, and a member that is less isolated with relatively more natural resources. These two countries are undoubtedly price-takers on world markets, but due to its lesser neighbourhood isolation, under preferential access the landlocked country could trade a range of products with its neighbour. Venables (2011, pp.1-3) revealed that, "a Free Trade Area between the two will lead to trade creation for the relatively resource-poor landlocked country whose terms of trade will improve while the resource-rich partner will experience trade diversion". Carrère et al. (2012, p.12) posits that, estimates for Pan Arab Free Trade Area support these predictions: Once controlled for other determinants of trade in a panel gravity model, they show Trade Creation effects for the resource-poor members and Trade diversion effects for the resource-rich members. There may be a very large disparity in per capita US$ values of various products across states in different groupings and also among members in any group, at the same time, the situation can result in the greatest gains period from economic integration for partners. However, achieving these greatest gains may be thick-and-thin because of opposing interests between partners.

Effect of Regional Integration on Trade

Studies, including WacZiarg and Welch (2008, pp.32-34) have revealed that trade, investment, and growth have multiplied following the reductions in protection. But, with great volatility in growth coupled with external and internal shocks, detecting any growth effects of African Regional Trade Agreements has so far proved elusive. Even in the case of the deep integration in West African economic and monetary union, when compared with other non-oil exporting Sub-Saharan African countries, Guillaumont (2013, p.13) failed to find lasting differences in growth rates over the last thirty years. The paper restricts discussion to ex-post studies. The first expected effect of a Preferential Trade Agreements is an increase in trade among members via three channels, namely:

▪The first is a reduction in tariffs between members;

▪The second is a reduction in Non-tariff
Barriers;

▪The third, and hardest to apprehend, is via the two components of 'trade facilitation: a 'hard' component related to tangible infrastructure such as ports, roads, highways and telecommunications; and a 'soft' component related to transparency, customs management, the business environment and other intangible institutional aspects that affect the ease of trading. The first two are the outcome of measures taken under 'shallow' integration and are easier to capture than the third which is associated with 'deep' integration. Because the data on trade patterns only reveals the outcome of all measures taken (and other intervening factors), it is difficult to disentangle effects due to regional trade policies from those due to trade facilitation that could be undertaken on a regional or unilateral basis. Together, these three channels makeup trade costs whose outcome is revealed in trade data.

Evidence on these three channels can be viewed using the model-based estimates: The evolution of intra-regional trade shares in Gross domestic products is traceable around the time of the implementation of the regional trade Agreements. These intra-regional trade shares are violatile and usally low with only Pan Arab free trade Area and Southern African development community showing rising trends. In comparison, the World Trade Organization(2011, pp.22-4) figure showed, excluding the European Union, the share of intra-regional trade Agreements trade worldwide rose from 18 per cent in 1990 to 34 per cent in 2008. But when compared with other gravity-based estimates of the increase in bi-lateral trade upon entry into a free trade Area between 37 per cent for Martin et al. (2012, pp. 18-19) and 68 per cent for Baier and Bergstrand (2007, p.12) these increases in trade are small. Apparently, when countries enter into a Regional Trade Agreements, other changes may be taking place, including a reduction in their external- and internal-trade costs and also in their trade costs with non-Regional Trade Agreements partners. Most of these changes can be captured by estimates from a gravity model estimates. A further step towards a model-based prediction assume, along the lines of the well-accepted gravity model that, in a frictionless world, potential trade would be proportional to the trading partners' Gross Domestic Products. Then, multiplying Gross Domestic Products by the distance between the partners and summing over all partners gives the frictionless gravity-predicted average distance of Regional Economic Communities, averaging over members in a Regional Economic Communities gives a measure of the potential distance of trade. This measure will increase when there is less dispersion in the group and over a long period when there is convergence in incomes.

Where the gravity model is an adequate description of bi-lateral trade, and if integration fosters convergence in incomes among members, then the ratio of actual trade to potential is an indirect measure of trade costs; declining in a regionalization of trade and convergence then reflects a decrease in relative trade costs plus/or convergence in incomes.

Appraisal of Regional Trade Agreements

Three features make it very relevant to assess the trade effects of African Regional Trade Agreements. First, gravity underlines that a country's per capita income is closely related to the country's 'real market potential. For instance, where Gambia or better Liberia is close to is close to Nigeria, it should have a high market potential. Second, it lends itself to the incorporation of trade costs indicators beyond bilateral distance so that it can capture the bilateral trade effects of any reduction in trade costs. Thus, Gambia or Liberia, a close neighbour to Nigeria, will have a smaller market potential than Belgium, another small country because of high trade impediments in Nigeria. Liberia's market potential will also be low if Liberia's capabilities are low, perhaps because of deficient hard and soft infrastructure. Third, dummy variables can control for other important determinants of bilateral trade: common border, common language, landlocked, etc. For any appraisal of Regional Trade Agreements, dummy variables that capture membership in a Regional Trade Agreements or in a monetary union have routinely been incorporated in many applications of the gravity model that have been put together in various meta-analyses.

Head & Mayer (2013, pp. 18-20) reported two robust results from their compilation of estimates from a large number of gravity models. First, dummy variables for Free Trade Area membership are always statistically significant (median coefficient of 0.28 implying a Free Trade Area-induced increase in trade of 32 per cent after controlling for other intervening factors). The trade effects of common currencies have larger positive coefficients. In the whole, high standard errors indicate that these coefficients are not estimated precisely because of problems of "endogeneity", missing variables and the choice of econometric techniques to handle the large number of zeroes in the data. As an example, these estimates are confronted with the possibility of endogeneity as countries could be brought to sign a currency union because they trade a lot as of first instance.

A recent study of the West African economic and monetary union, by Carrère (2013, pp.18, 64) estimates that, intra-regional trade for members is four times above gravity-predicted trade (trade creation) while extra-regional trade is 20 per cent less (trade diversion). She also establishes that the greater intra-regional trade associated with sharing a common currency comes from less volatility in bilateral exchange rates which accounts for 50 per cent of the increase in intra-regional trade. Finally, using a composite index for 'hard' infrastructure along the lines proposed by Limão and Venables (2001, p.34) simulates the effects of a harmonization of the value of the infrastructure index at the regional level to the mean across partners, obtaining large increases in exports from harmonization of infrastructure.

Another approach, was adopted by Engel and Rogers (1996, p.36), who drew on time series of prices of three agricultural commodities: millet, sorghum, manioc, across 142 markets in 15 national and regional markets in West Africa, from which approach, Bonjean and Brunelin (2013, p.18) found: "(i) that a reduction in relative price differences through time across West African Economic and Monetary Union members; (ii) a larger variance in relative prices when markets are separated by a border; (iii) controlling for distance, a much stronger 'border effect' for country-pairs involving one West African economic and monetary union and one non-West African Economic and monetary union country than for country-pairs involving two West African economic and monetary union countries".

The significance of logistics and delays in reducing trade of African countries also comes out from Freund and Rochas (2011, p.16) study of African exports based on the shipping of a standard 40 foot container for a large sample of countries. They estimate that "Africa's export volumes are 16 per cent below what is expected but that once the time-to-export is entered as a proxy for trade facilitation in a standard gravity trade model, the significance of the African dummy disappears in accounting for bilateral trade volume". A one-day reduction in inland travel time translates into a two percentage point decrease in all importing country tariffs. Of the three components of domestic delay: documentation, transit time, and port handling and customs clearance, they found that inland transit is the most important. Moreover, including global positioning system travel time, which accounts for the quality of the road, does not affect the coefficient of the doing-business inland transit-time, suggesting that the problem for inland transit is soft-border delays and/or efficiency of security checkpoints, rather than hard-quality of the road network infrastructure. Institutions and soft infrastructure would then be more important than geography in accounting for Africa's low trade volumes.

More Challenges of Regional Integration in Africa

Part of the dilemmas facing Regional Economic Communities can also be seen in: when a country is landlocked, to reflect that, landlocked and coastal countries have opposite interests as coastal members wish to control, and hence raise costs of goods crossing their territories. When this happens, the countries are likely to have great low gains from trading with each other as the two countries exhibit and/or do not exhibit complementarities. On the whole, there is every indication that there is a negligible efficiency gains from specialization-induced gains through inter-industry trade. Brulhart (2009, p.7) posits, that "On a world-wide basis, measures of intra-industry trade are also the lowest for African Regional Trade Agreements". More so, Remoteness in addition to sharply diminishing returns for resource-based exports results in a low-supply response to regional integration initiatives. Again, consider isolation where one partner is landlocked and the other is a coastal partner having access to an activity for the world market that is not subject to diminishing returns. The coastal partner's wage will without doubt be set by the world price for the footloose activity while the wage for the landlocked partner will be lower, greatly influenced by labour supply and diminishing returns.

There is also the problem of **regional instability**. Mulugeta (2009, p.18) and Medhane (2003, pp.101–102), noted that "member states are confronted by many intra and inter- state conflicts. Sudan had gone from crisis to crisis; Ethiopia had fought long, bitter wars and is still battling internal insurrections; Kenya remains a fragile state whilst the duo of Uganda and Eritrea are faced with internal issues of armed rebellion and political challenges. The regional states have a long history of intervening in each other's internal affairs and supporting rebel groups for mutual destabilization. Generally, the regional governments are characterized by "bad governance, poor human rights records and weak democratic institutions and culture". (Mulugeta, 2009, p.18) noted that "apart from the intra and inter- state conflicts the roles of the Arab States in undermining the effectiveness of Inter-governmental relations is visible; Egypt has repeatedly been accused of undermining the peace initiatives in Somalia, while Quatar and Saudi Arabia have been accused of funding arms support to Al-Shabbab".

Lack of a regional power is another heavy challenge

The fact that the region lacks a regional power has meant that no country has the capacity to assume an unchallenged regional leadership, close to Nigeria's leadership of ECOWAS and South Africa's leadership of SADC. Ethiopia has the military and population required but lacks a strong economic base whilst Kenya does not have the military power to assume regional leadership. Sudan has oil wealth, but is weakened by internal conflicts whilst South Sudan is engaged in multiple ethnic armed conflicts.

Lack of political values is yet another great challenge to regional integration in Africa. The absence of political values such as democracy, respect for human rights, tolerance for diversity as well as weak economic bondage are the factors that hamper the development of common policy (Medhane, 2003, pp.101–102).

Findings

The reason behind the inability of Africa to integrate regionally owe to lack of complementarities among partners, and diminishing returns to the exploitation of resources which has reduced supply response to market-integration oriented regional policies. In addition, the lack of uniform distribution of resources has sharpened the trade-off between the benefits of commonly accepted policies required to combat cross-border externalities and their costs, which are heightened by the sharp differences in policy preferences across member states. More so, African Regional Economic Communities have pursued the 'linear model' of integration with a piecemeal integration of goods, labour, and capital markets, as well as eventual monetary and fiscal integration. With the exception of the franc zone, the Regional Economic Communities have not yet completed goods markets integration plus the lack of adjustment funds to address the non-uniform distribution of profits across members are responsible to the delay. The absence of political values such as democracy, respect for human rights, tolerance for diversity as well as weak economic bondage are the factors that hamper the development of common policy (Medhane, 2003, pp.101–102).

Conclusion

The little, sparsely populated, fragmentation of, and often isolated economies across Africa demands that these economies integrate regionally in order to reap efficiency gains, exploit economies of scale, and reduce the thickness of borders. Unfortunately, the vested interests of member countries, which tend to override the shared interests of the region, have also posed a challenge to the integrative arrangement.

Recommendations

To overcome the challenges of regional integration in Africa, it is herein recommended among others that:

▪Africa should embark on a successful huge infrastructure projects that would contribute towards the defragmentation of Africa such that there would be a reduction in transport cost.

▪Africa should consolidate on having functioning free trade zone or free trade area amongst common markets of Eastern and Southern Africa, East African Community and Southern African development community capable of handling the overlapping membership difficulties encouraging a functioning free trade among member states.

▪ Effort should be made towards completing goods markets integration plus the adjustment funds to address the non-uniform distribution of profits across members.

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