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Rethinking regional integration in Africa for inclusive and sustainable development: Introduction to the special issue

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Abstract

This article is an introduction to this Special Issue on Rethinking in Regional Integration in Africa which is based on a collaborative research project, implemented by African Economic Research Consortium (AERC), the leading economic capacity building institution in Africa, and funded by the African Development Bank (AfDB). This project is very timely given the establishment of the African Continental Free Trade Area (AfCFTA) which came into force on 01 January 2021. In this introduction, we first provide a brief background on regional integration in Africa. We next describe the AERC project and the process of selection of the papers and then provide a quick summary of the ten published papers and their contributions.

1 | INTRODUCTION: BACKGROUND ON REGIONAL INTEGRATION

Ever since independence, African countries have seen regional integration (RI) as a veritable path to sustainable development. To them, RI arrangements are best suited to address development challenges relating to small domestic markets and weak production structures; conflicts and political instability; and weak and unpredictable reforms.

African economies are characterised by low incomes and the need to access larger markets in order to exploit economies of scale, and competition in production is one of the strongest impetuses to the formation of RI in Africa. Indeed, access to factor and product markets of 1.4 billion people across 55 countries is one of the selling points of the recently implemented African Continental

Free Trade Agreement (AfCFTA). RI is also perceived as strengthening the production structures of African countries through cooperation, coordination, and harmonisation of policies. This perspective informs inclusion of different protocols relating to finance, investment, etc. in RI agreements. The need to address weak production structures of African countries is particularly important given the importance of regional value chains (RVCs) in efficient production. Beyond production and trade, RI arrangements in Africa are also cultural, social, and political instruments. The argument is that peace is a prerequisite for production and trade; hence, the need to minimise widespread conflicts and political instability are within the purview of regional bodies. RI arrangements are equally seen as offering lock-in mechanism for reforms; hence, they tend to ensure predictability of reforms. This is required in order to send the right signals and hopefully elicit optimal response from investors and other stakeholder groups.

The initial ambition was reflected in establishment of the Organisation of African Unity (OAU) in 1963, supported by the United Nations Economic Commission for Africa (UNECA) and other pan-African organisations. A number of Regional Economic Communities (RECs) were already established in the 1960s, including the *Union Douanière et Économique de l'Afrique Centrale* (UDEAC) in 1964 and the East African Community (EAC), first established in 1967. In this same decade, the initial basis was also set up for RECs formally established later, including the Economic Community of West African States (ECOWAS) in 1975; and the Preferential Trade Area for Eastern and Southern Africa (PTA) in 1981.

Since these early days, there have been various different phases of setting up RECs, with the experiences being discussed in many studies, including Faroutan (1993), Lyakurwa et al. (1997), Dinka and Kennes (2007), Hartzenberg (2011), and de Melo and Tsikata (2014).

The adoption by the OAU (now African Union, AU) of the Abuja Treaty in 1991, aiming to establish an African Economic Community by 2028 and meanwhile seeking to promote Free Trade Areas and customs unions at the regional level between 2007 and 2017, was an important step in seeking to re-energise the integration agenda in Africa. A number of important RECs were then established in the 1990s, including the Southern African Development Community (SADC), beginning in 1992, though following from an earlier antecedent; and the *Union Monétaire et Economique Ouest Africain*, (UEMOA), established in 1994. UDEAC was transformed into the *Communauté Economique et Monétaire de l'Afrique Centrale* (CEMAC) in 1994 in parallel with the formation of UEMOA, and the PTA became the Common Market for Eastern and Southern Africa (COMESA) in 1993. A number of other RECs were also established in later years. *Assessing Regional Integration in Africa*, a flagship publication of the UNECA, now in its tenth edition, monitors development of RECs in the continent.

Recent integration initiatives have sought to create larger free trade areas, an important recent example being the Tripartite Free Trade Agreement. This was initiated in 2015, bringing together COMESA, EAC and SADC, and so covering 28 countries, but still needs to be implemented. Most recently, the African Continental Free Trade Agreement (AfCFTA), discussed in more detail below, seeks to take regional liberalisation to a continent-wide level, as such aiming to implement the post-independence focus on continental-level integration.

Despite the number of REC countries signed up to and the increasing ambition in recent initiatives, the actual achievements of many have often been limited and disappointing. There has frequently been a failure to implement the liberalisation measures needed to make these effective. In the earlier post-independence period, trade volumes were smaller anyway and there was a strong preference for more protective trade policies. But countries were also concerned about what they might lose by implementing regional integration. With increasing globalisation, as well as stabilisation and structural adjustment policies in the 1980s and 1990s, many involving multilateral trade liberalisation, trade policies became more open and African trade volumes increased. Quite a lot of the increases in trade in this period were with countries outside Africa. There has been and remains a widespread perception that the volumes of intra-African and intra-REC trade was small, though this has been questioned by Mold (2022) in recent work. In any case, assessments are based on recorded trade data; there is a large volume of informal trade in Africa which is mostly not recorded, and almost all of this is intra-African trade.

The African Continental Free Trade Agreement (AfCFTA) offers the potential of being a game changer in relation to regional integration in Africa. It is strongly backed by the African Union, UNECA, and other leading pan-African institutions, including African Development Bank (AfDB) and African Export–Import Bank (AFREXIMBANK), and seeks to establish a free trade area of 55 countries by bringing together eight RECs recognised by the African Union (AU). By eliminating trade barriers, it seeks to establish faster industrialisation, promote higher levels of investment, and create substantial numbers of jobs. Some important dimensions of this include the substantial enhancement of trade in services (now Africa's largest productive sector) and the establishment of regional value chains. An early study by Mevel and Karingi (2012) identified considerable potential for an Africa-wide free trade area, suggesting the potential to double intra-African trade. The October 2022 version of the AfCFTA website highlights the potential economic impact of implementing the AfCFTA, which it estimates might lead to a gain in income of up to a 7% and a reduction of poverty by 30 million.

Fifty-four countries have signed the AfCFTA agreement and as of October 2022, 43 have deposited their instrument of ratification. A Secretariat has been established and a Secretary General appointed. The AfCFTA was launched in 2019 and trade under AfCFTA started at the beginning of 2021. There is at present a large political momentum behind this initiative and a high level of ambition. The challenge will be, as has always been, effective implementation of the needed underlying policies, including, but not limited to, full removal of all tariff and non-tariff barriers to intra-African trade. As noted by de Melo and Tsikata (2014), this is due to the uneven distribution of benefits associated with regional trade liberalisation and the lack of policies to address this. And as de Melo and Tsikata point out, these issues become more complex with the greater number of countries that are involved.

But promotion of intra-African trade is particularly important. With a current population of 1.4 billion, expected to grow quickly, the size of the African market is substantial. Current protectionist pressures in other world regions may also reduce export opportunities for African countries outside of the continent. Intra-regional trade also offers African countries the potential of developing a more diversified export basket with the important benefits that this offers. The impact of both COVID-19 and the Russia–Ukraine war are also likely to mean that intra-African trade becomes more and more important. The service sector in Africa has grown considerably in recent years; so far, there has been little trade in services and trade policies have not yet focused much on services, but the potential is considerable.

Many other policies beside regional trade liberalisation will also be needed to make the AfCFTA successful. Indeed, the AU's decision to establish the AfCFTA also endorsed an action plan to Boosting Intra-African Trade (BIAT). BIAT focuses on seven clusters which complements the implementation of the AfCFTA: trade policy, trade facilitation, productive capacity, trade-related infrastructure, trade finance, trade information, and factor-market integration. A pilot initiative to kick off trading under the AfCFTA launched in October 2022 with eight countries (Cameroon, Egypt, Ghana, Kenya, Mauritius, Rwanda, Tanzania, and Tunisia) should be expanded to include other key economies in the region, including Ethiopia, Nigeria, and South Africa, to play leading roles in building up the AfCFTA and demonstrating to others its importance.

2 | THE AERC PROJECT FOR THIS SPECIAL ISSUE

This Special Issue draws together a number of papers addressing current issues in regional integration in Africa, with much of this seen and interpreted in the context of the AfCFTA, even if some of the issues are more general. The papers were first written as part of a collaborative research project led and supported by the African Economic Research Consortium (AERC), which focused on "Rethinking Regional Integration in Africa for Inclusive and Sustainable Development".

Based in Nairobi but with a continent-wide focus and mandate, the African Economic Research Consortium's (AERC's) principal objective is to strengthen local capacity for conducting independent, rigorous inquiry into problems pertinent to the management of sub-Saharan African economies. This is achieved through a synergistic programme combining research with postgraduate training in economics and supplemented by communication and policy outreach activity to disseminate and share results to policy-makers and major actors. AERC is supported by a wide range of international and African funders. It is based on a vast network of universities, policy makers, researchers, educators, and international resource persons. It includes anglophone and francophone researchers almost equally and strives to establish increasing gender balance over time.

The mission of AERC rests on two basic premises: First, that development is more likely to occur where there is sustained sound management of the economy. Second, such management is more likely to happen where there is an active, well-informed cadre of locally based professional economists to conduct policy-relevant research and to disseminate to targeted policy-makers. Since starting in 1988, AERC has mentored over 4500 researchers from 41 African countries and produced over 4500 masters and PhD alumni. A large number of AERC graduates now hold positions as mid to senior level policy makers, including current and past Governors and Deputy Governors of Central Banks, very Senior Ministers and University Vice Chancellors throughout many countries in the continent.

While much of AERC's research is based on giving close and sustained mentoring and guidance to individual researchers, another important modality is through running collaborative research projects. The AERC has implemented many collaborative research projects over the past 30 years including on restructuring the regional and global value chains; growth, poverty income and redistribution; human capital development; financial sector development and inclusion in Africa; and this project, rethinking regional integration for sustainable and inclusive development in Africa. In such projects, the main participants are African researchers, but sometimes working in collaboration with researchers from outside Africa, all seeking to achieve maximum impact and quality and always seeking to support capacity.

One of the very first collaborative projects, conducted from 1994–98 studied trade liberalisation and regional integration in sub-Saharan Africa, led and coordinated by the premier African trade economist, Professor Ademola Oyejide. This produced an influential four-volume study (Oyejide et al., 1997, 1998; Oyejide, Elbadawi, & Yeo, 1999; Oyejide, Ndulu, & Greenaway, 1999). Among others who supported in the leadership of this project was one of the Editors of this journal, Professor David Greenway.

The project this Special Issue is based on, first initiated in 2017, choosing to revisit the theme of regional integration 20 years further on, then in the context of discussion about the AfCFTA as well as the Tripartite Free Trade Area. The project was supported financially by the African Development Bank (AfDB), as a part of a broader AfDB-AERC project on "Research Capacity and Knowledge Enhancement for Africa's Transformation".

African Economic Research Consortium collaborative projects typically involve a phase focused on generating framework papers and one on case studies, a model followed in this project. As in most other collaborative projects, a competitive call for proposals is made, and those researchers that were accepted are invited to three workshops, where they present in turn their proposals, their initial drafts, and their final papers. They receive comments and feedback from other researchers and from external resource persons, which in this case comprised the three Guest Editors of this Special Issue, and AERC staff.

In preparing this Special Issue, the Guest Editors sought to identify, in collaboration with the AERC Secretariat, the papers that were judged to have the most potential for reaching the high standard required for publication in *The World Economy*. We identified 13 papers from among those completed in the project; and we asked the authors to prepare shorter versions of their paper appropriate for publication in a Special Issue. We invited two reviewers for each paper and are very grateful to those who provided this very important service with such professionalism and commitment. We invited the authors to revise their papers taking on board the comments and then made a final editorial decision based on our judgement of the adequacy of the response to the comments and the quality of the final paper. In the end, we were able to accept 10 of the original 13 papers; the remaining three papers were judged to need significantly more work before they could reach the standard the journal should reasonably expect. We have given these authors advice on issues we think they need to address if they choose to take their work forward for publication in another journal.

As Guest Editors, we are very grateful for the very professional and constructive interactions throughout with the entire team at *The World Economy*.

3 | SUMMARY OF THE SPECIAL ISSUE CONTENTS

The first two of the ten papers included in this Special Issue focus explicitly on the AfCFTA. As already noted, a major challenge in relation to regional integration agreements has been the willingness of signatory governments to implement them and to undertake the liberalisation measures they signed up to. The first paper by Bruce Byiers and Sean Woolfrey is a conceptual analysis using a two-level game of the political economy factors which shape the extent to which a country does or does not implement a regional trade agreement. This is applied to the centrally important case of Nigeria, Africa's largest country, in relation to the AfCFTA. The reality is that in negotiating trade agreements, there are many parties with different interests or perceived interests, and this can limit domestic implementation when negotiators return from international negotiations; at the same time, Nigeria's active participation in the AfCFTA is very important for the success of the whole project.

The second paper by Alemayehu Geda and Addis Yimer present' an empirical analysis to try to estimate the likely impact of the AfCFTA on intra-African trade in goods. They first use an approach based on trade indicator indices to try to estimate trade creation and trade diversion; this analysis suggests trade diversion dominates, and there may be limited short-term benefits from the trade liberalisation measures alone. However, a more detailed analysis based on a gravity model identified significant scope for trade creation and less trade diversion. It shows the scope for a significant stimulus to intra-African trade. But in the end, it is industrialisation rather than just trade policy changes by themselves that will bring the substantial benefits from the AfCFTA.

Critically important for the success of the AfCFTA will be the ability to develop new patterns of trade. One key issue, already noted above, which has been very successful in other world regions but less so far in sub-Saharan Africa, is the development of Global Value Chains (GVCs). The paper by Karishma Banga and Neil Balchin looks at the scope for producers in Southern African countries to supply intermediate inputs to South African exports. They analyse the ten leading export categories for final goods in South Africa, using two measures of competitiveness, and find that in different areas Botswana, Namibia, Zambia, and Mozambique can supply intermediate inputs on a competitive basis. There is clear scope then for the development of regional value chains. The paper also identifies policy actions needed to make this happen effectively, including actions relating to standards, capacity building, and support to further reduce costs. This approach allows countries to benefit from participating in GVCs which they might not be able to achieve by acting on their own.

As also already noted, it will be very important issue for the AfCFTA to be able to realise the scope for substantially increased trade in services. As in most of the world, the service sector in sub-Saharan Africa accounts for the largest share of GDP, but there is still limited trade in services, and trade policy discussions have often focused rather less on services than goods. Globally though, trade in services has become the most dynamic segment of world trade. The paper by Maureen Were and Maureen Odongo examines this issue for the case of sub-Saharan Africa, focusing on the competitiveness and diversification of the exports of services. Revealed comparative advantage measures show that sub-Saharan Africa lacks comparative advantage in modern commercial services, only having comparative advantage in the traditional services of tourism and transport. That notwithstanding, the region's share in global service exports remains minimal. Many factors have led to the poor trade performance of the service sector, including restrictive trade policies, technological and infrastructural constraints, and a poor regulatory environment. Based on analysis, Kenya and Nigeria may be developing comparative advantage in areas of financial services; but the authors argue that it is the AfCFTA that can provide the major opportunity for increasing service exports for the continent.

Liberalised trade policies for services can also offer important benefits for the performance of the industrial sector, as shown in the paper by Matteo Fiorini, Bernard Hoekman, and Dennis Quinn. In their paper, they look at the impact of restrictions on foreign direct investment and restrictions on international payments for invisibles. An index of service trade restrictiveness, available for only 1 year, shows significant differences across countries, but some sectors are restrictive in all countries. A regression analysis, analysing the case of eight African countries, shows that service trade liberalisation has significant effects on countries where service inputs are higher and the quality of governance is sufficiently good; this effect disappears with poor quality governance. This generally applies in aggregate and for specific services sectors. For a larger set of countries, the authors also show that reducing restrictions on international payments increases labour productivity significantly. It is clear from these two papers that there is scope for considerably increased volumes of trade in services, and that increased trade in services has benefits in other sectors.

The next two papers then look at the key issue impact of trade policy changes on intra-African trade flows. The paper by Ebo Turkson, Abena D. Oduro, Priscilla Twumasi Baffour, and Peter Quartey takes a continent-wide perspective and looks at the impact of past regional integration arrangements as well as other factors such as financial integration and factors that can be understood as general non-tariff barriers to trade such as distance, landlockedness, or differences in language influence trade flows between sub-Saharan African countries. The authors include these factors as explanatory variables in a gravity model of bilateral trade flows between 43 sub-Saharan African countries from 1960 to 2015. Participation in RECs in general is found to have a significantly positive impact on trade flows, but in terms of specific agreements, this is most notable for SADC and ECOWAS among those considered. Deeper financial integration, and especially having a common currency, are each found to have a strong positive impact on trade, suggesting that it is not just trade policy that is important. Unsurprisingly, factors creating higher trade costs such as large distances between countries and absence of a common language lead to reduced trade flows.

The paper by Chinyamata Chipeta and Angella Faith Montfaucon presents a careful and detailed analysis of the impact of import taxes on imports from Africa for one country: Malawi. Their paper studies the impact of import excise, VAT and duties on the quantities, values and prices of Malawi's imports from other African countries, based on very disaggregated monthly import data and taking account of the different regional trade agreements, Malawi participates in. The import taxes lead unsurprisingly to increases in import prices, and import values also increase. However, import volumes only fall in some cases depending on the trade agreement. The authors then try to assess the impact of participation in the AfCFTA by incorporating a term for relative market access in a model for the probability of importing for each African country. Reducing the tariffs on all intra-African trade to zero increases the market access for member states compared to non-member states and increases the probability of importing from other African countries, even if the effect is not necessarily very large and further reduced by the presence of other import taxes.

It has been noted throughout here that while implementing regional trade liberalisation is clearly of critical importance to the success of the AfCFTA, the scope for both increases in trade volumes and in living conditions across sub-Saharan Africa depends on many other factors being in place. Two very important areas considered here are competition policy and infrastructure. The paper by Simon Roberts, Witness Simbanegavi, and Thando Vilikazi highlights the importance of effective competition by analysing the case of the cement industry, a highly oligopolistic sector, in Southern Africa. This sector has been characterised by economies of scale, by the presence of few players (often acting on a cross-country basis) and cross-border collusion, legally confirmed in some cases and also suggested by data shown here on price movements. Instances of new entrants though have resulted in downward movements in prices and in increased trade between countries. Low levels of competition are therefore a factor leading to lower levels of intra-African trade. Strong regional competition authorities are required to challenge collusion and other restrictive practices and to facilitate new entrants through reducing barriers to entry, so enabling new entrants.

The critical importance of infrastructure is covered here in two papers. The paper by Patrice Ongono, Verena Tandrayen-Ragoobur, and Jiong Gong uses an infrastructure augmented gravity model to assess the impact on bilateral trade flows of hard and soft infrastructure, the latter focusing specifically on trade facilitating infrastructure. Both hard and soft infrastructure are found to be significant influences on trade, and the use of an effective infrastructure measure in some models shows that they complement each other. Among the types of hard infrastructure considered, electricity has the biggest impact on trade, though transport and information and communications technology (ICT) also matter. Countries need to invest substantially in infrastructure to promote higher trade levels, but at the same time countries need to simplify, modernise, and harmonise their trading rules and procedures.

The final paper by Chuku Chuku, Anthony Simpasa, and Akpan Ekpo uses similar data to the previous paper but looks more at the impact of infrastructure on catalysing trade. An international comparison shows that Africa is less well-endowed in infrastructure than other world regions. The analysis looks at the impact of infrastructure on different stimuli to the economy, considering aspects including employment, income, trade volumes, trade facilitation, productivity, and innovation. Separate models consider the impact of infrastructure and specific dimensions of it on these outcomes, all of which show significant effects. Infrastructure is important not just for its direct positive effect on trade but also on many other factors which are themselves important for trade and development more widely. The most important forms of infrastructure identified in this analysis are in order ICT, transport, electricity, and then water. Among the different regional integration arrangements, the impact of infrastructure is greatest in the East African Community, which is also one of the RECs that has made most progress in terms of integration.

As already noted, the AfCFTA is a potential major step change in terms of regional integration in sub-Saharan Africa and the trade and development benefits this can potentially bring. Effective implementation though is critically important, meaning the need to make the agreed trade liberalisation measures, in relation to goods but also services, which offers major and increasing potential over time. It is very clear though that trade policy measures need to be complemented and supported by interventions in other areas, many indicated in the BIAT, as well as implementation of meaningful regional competition policy. These issues were often insufficiently addressed in the implementation of previous regional integration initiatives. These measures do facilitate trade, but they also have positive development impacts of their own; combining these measures with trade policy reforms can also make it politically easier for governments to implement the trade policy measures which are central to the AfCFTA.

Needless to say, there are many issues we have not been able to consider in these ten papers, such that there is scope for considerable further work in this area. In addition, the implications for the AfCFTA of more recent developments which happened after this AERC project was undertaken need to be considered, including the implications of COVID-19 and the Russia–Ukraine war as well as the implications of changing global patterns of trade. Africa is increasingly well-placed to increase its global presence, and successful implementation of the AfCFTA can be a very important factor enabling this.

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DATA AVAILABILITY STATEMENT

Data sharing is not applicable to this article as no new data were created or analyzed in this study.

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