

WHAT ROUTE FOR AFRICAN ECONOMIC INTEGRATION?

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Abstract

Efforts to move towards regional integration of Africa continue to occupy center stage in Pan-African politics. Evidence of this is the establishment of NEPAD-related institutions to give the desired momentum. These actions represent an attempt at what could eventually be a total regional economic integration. Regional integrations themselves affect the members differently. There are however factors that indicate that Africa's goal of total regional integration is still very far if at all achievable. The present thinking of African leaders show there are mainly two approaches – the “exclusive club” approach and the inclusive “pluralism” approach. Because of the situation in which Africa finds itself including the presence of numerous regional integration arrangements which overlap in membership, and the unequal level of development, a particular route to regional integration. This paper looks at the negative factor and then suggests a route to follow.

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Regional economic integrations, a form of regional integration agreements, are groupings of countries that are formed with economic liberalism as an objective, that is, the reduction or total removal of trade barriers between members. One can trace the development of these arrangements from the early times of colonialism as trading arrangements pertaining then. The European Economic Community (now European Union) founded in 1958 is one such arrangement that came into being in modern history. The development of regional integration arrangements has increased since the middle of the 1980s (Venables, 2000). Today, there are numerous regional economic integrations of various forms in all continents including island nations. These regional integration arrangements differ in form, depth and original purpose. They can be categorized on the basis of their original objective roughly into three categories, namely, those whose formation were based on the need for preserving peace and security; those whose formation was based on the need to present a unified front in response to global or regional development; and thirdly those whose formation was based primarily on the recognition and the need to jointly deal with a persistent natural threat, e.g. drought or to exploit an important natural resource economically, e.g. a river flowing through member countries. Whatever the form and original objective a regional integration assumed, the underlying economic motive sooner or later becomes apparent and predominant.

Economic theory tells us that economic integration represents a movement that affects free trade (Appleyard et. al, 2006). This is the case whatever the form it takes. When countries form a free trade area or any other forms of regional integration thereby extending preferential treatment to members to the exclusion of nonmembers, the consequential outcome will be dynamic and static effects (Viner, 1950). The net static effects of trade creation and trade diversion can point to either a welfare gain or a loss by the group. The net outcome will depend on the economic performance and

the structure of the economy of each subsequent member prior to the formation of the regional integration arrangement. This implies that in the formation of regional integration arrangements, there will not only be losers and gainers within each member country, but also the different members will likely experience to varying degrees imposed costs and benefits. Lipsey (1957) argues that if countries that are already trading partners form integration, that integration will not likely cause trade diversion. The dynamic effects on the other hand will represent benefits to the member countries albeit not to the same extent. These dynamic effects flowing from the integration are likely to affect the structure of the economy of a country especially in the production and manufacturing sectors. The importance of technology in production and manufacturing suggests that the gains many countries will be expecting are in those relevant sectors. Of course integration also expands the market and opens up member countries to the international investors who opt for tariff jumping by locating their manufacturing plants in an integrated group. This is because the trading partners are both the lowest cost suppliers.

While there are desirable ends in engaging in integration, one gets an observation that seemingly among the existing regional integration arrangements, the success differs to a large degree in terms of their effectiveness and performance. There are those whose success toward complete integration is evident, good example being the European Union on one side, and those whose development does not show notable progress. A theory on regional integration suggests sequential steps in the development towards full integration. These steps can roughly be enumerated as starting from first the formation of a free trade area (FTA), then the custom union (CU), next the economic union (EU), then follows the common market (CM) and lastly the total economic integration (Balassa, 1961). The progression from a free trade area to the total integration is accompanied by a concomitant and progressive loss of sovereignty at each step as the integrated group assumes more and more the powers and responsibilities that are akin to a state.

This global development saw the African countries also taking part so that today all African countries belong to at least one regional integration arrangement. A number of African countries have multiple memberships. The economic and political environments in the earlier times were much different from today's. Africa today as a developing continent has to contend with increasing globalization and fast changing international scene on many fronts. It can then safely be surmised that the underlying motive behind the establishment of regional integration arrangements today will differ to those of yesteryear. In those times the motive was mainly to achieve import-substitution. Thus the regional integration had the effect of withdrawing the members from international economic engagement. Today, in the wake of increasing globalization, the motive for regional integration arrangements is mainly to enable the members to take advantage of the growing international trade. Regional economic integration continues to occupy centre stage in global political relations. This is true of Africa whose leaders evidently devote much of their talking and meetings to this issue. Pan-African politics has in recent years managed in some way to plan some bold developments in this direction. Evident of this is the establishment of NEPAD and related institutions such as the Pan African Parliament. Further, arrangements that purport to give effect to decisions have been brought to life such as those that deal with justice and human rights, and the famous peer review mechanism. These institutions have started to function although their effectiveness is still to be felt especially by the ordinary people. These institutions represent an attempt at what could eventually be a truly united Africa in a political and economic sense. Yet in spite of this noble ideal, there seem to be little real achievements by global standards that one can honestly be proud of when coming to integrating economies of the continent. The economic integration continues to move at a comparatively slow pace and meets formidable challenges. This unsatisfactory situation is likely to impact negatively on development efforts of African governments. In view of this, it is imperative for African leaders to critically rethink about the roadmap to that ideal goal which they so enthusiastically strive to. This paper looks at the routes that confront African leaders as they make a choice to follow to a successful regional economic integration. From the onset, I think that the concept of regional integration

may have different connotations to different people. Regional integration can be viewed from a political perspective or from an economic perspective. I am well aware that there could be other perspectives, but the two mentioned here are relevant to this paper. However, these connotations are very closely related and not mutually exclusive.

Observation of the current talks on Africa's integration efforts, somewhat gives one a view that may sound discomfoting to those who work so hard on initiatives contributing to Africa's full integration as a region. The view is that Africa may actually fail to achieve the complete stable regional economic integration that is so critically needed. Some of the factors that may lead to this undesirable outcome are first, the issue of unequal partners trying to integrate, second, low level of or the absence of intra-African trade and investment and thirdly, other factors including governance issues, security, economic and political systems. The three factors are not the only one, but this paper addresses them among others because they can be regarded as being the most critical for a continent that is just emerging from colonialism and from the influences of the consequences of fierce competition by world powers.

When countries of different levels of development form a unit, the result may not be a coherent unit. The actions and policies of a seemingly dominant country in terms of trade, manufacturing and investment may be viewed by other member countries with suspicion. The view from these member countries may be coming from the fear of being dominated and losing out on the integration. In other cases the fears may be justified by the fact that potential MNC when engaging in FDI may engage in practices that are detrimental to the host countries. Some MNCs from the dominant member can locate in the host member country with a stated intension of investing, but instead occupy existing idle capacity and start trading. One other outcome may be the deindustrialization in small member countries as industrialists seek larger more sophisticated markets in the dominant member country. These concerns are significant and vital for the success of the integration process and should therefore be

attended to. The answer may be found in ensuring that in the integration arrangement, protection measures, albeit in the short to medium term, are incorporated in favor of small member countries.

It will be interesting to evaluate the likelihood of the functioning of integration schemes among highly unequal and dependent countries that attempt to diversify their production structure through industrialization. De Palacios (1982), citing the experience of the Andean Group, suggests that the integration turned to be stagnating because of several problems among them. The narrow commitment because of the countries' national economic objectives meant that integration was not given the priority to succeed. Some countries with more advanced economies would be expected to sacrifice their national goals in order to pull up those whose economies were less developed. The differing values and conflicting interpretations of the concepts of integration can result. The concepts to be questioned can be those of industrialization, social efficiency, specialization, costs and benefits and, the very goals of integration. For the more developed countries, efficiency means rationalization of industry to secure the lowest possible cost of production. Therefore they likely to favor a low and non-dispersed common external tariff and a regional industrialization policy guided by concepts of efficiency measured in international terms. For the less developed countries, the concept of efficiency signifies the creation of a structure within which industry can develop more intensively while making the best possible use of productive resources, which in an open economy may remain unutilized. What are benefits for the latter group are long-term costs for the former; while, in reverse, the benefits for the more developed countries are immediate costs for the less developed group because of the opening up of their markets.

This in the African context will almost certainly create problems because even those countries with the more advanced economies are still battling with their national economic objectives.

Those African countries with a relatively greater level of development are likely to gain immediate benefits in integration because of their a greater elasticity of supply of

industrial output and will therefore respond more quickly to the negative initial stage of integration when tariff barriers are abolished. The less developed countries cannot respond so quickly, and therefore stand to gain little from the freeing of the market. Their interest lies mainly in the later stages when the integration has some time being in operation. At these later stages the benefits to the less developed countries can be traced in the policy that aims at the growth of their industrial sector, with the least possible social cost. The majority of countries have will actually miss the Millennium Development Goals. With Africa already experiencing a growing number of economic migrants, integration among unequal partners can have negative unintended consequences. Wholesale movement of factors of production can affect both the receiving country and the country of origin adversely. Now statistics from The World Bank reflects a picture showing stark inequalities among African countries, for instance, in as far as intra-regional trade, allocation of resources to education and health, GDP growth rates and employment levels. One can therefore expect that the efforts of regional economic integration for African countries will continue to be a formidable challenge.

The next factor that negatively counts against a successful regional economic integration involving the whole continent is that of trade. Palacios (1982) suggests that the dynamic effects of increased trade on growth of the member countries can have the following:

1. A considerable increase in intraregional trade in primary agricultural commodities and light machinery.
2. The dynamic effects of trade, especially the promotion of new areas of production and the mobilization of investment, can be limited and negligible. Other possible dynamic effects can be in the improvement utilization of existing facilities, an increase in industrial employment and a change in income distribution. (De Palacios,1982)

A very small number of African countries engage in meaningful trade with their fellow countries. This trend is also noticed in the case of existing regional integration arrangements. Intra-regional trade is substantially small as compared with trade

taking place between Africa and the rest of the world. This situation can probably be ascribed to the fact that African countries export primary commodities and these tend to be similar. Their imports are mainly capital goods from developed countries. Perhaps if the countries can improve productivity and develop their industries to the level of beneficiation and production of capital goods intra-Africa trade can be enhanced.

The recent pronouncements by the heads of governments on the possible formation of the United States of Africa clearly indicated two distinct thoughts. Some leaders were opting for what can be termed a gradualist approach whereas others were proposing what can be termed a tornado approach. The argument for the former approach is premised on the fact that the time is not ripe for such a decisive move. The latter approach is probably premised on the long held wish for such a move and perhaps the urge to see it succeeding instantly during one's currency in power. Indeed a movement toward economic integration can possibly take various different forms. Whatever form or approach is taken, there seem to be generally two routes on the roadmap. There is the "pluralism approach" and the "exclusive club approach". In the case of the pluralism approach, the aim is for inclusiveness as an ideal. An appeal is made to all potential member countries to come to the popular party. Such an appeal is usually championed and promoted mainly by political leaders and is predominantly politically influenced and directed. In this approach pluralism is viewed as a constructive force that will unify countries with differing systems of government and economy. The result of this development is that countries that have different economic status, economic systems and political arrangements join together. The exclusive club approach, on the other hand, happens when a few countries sharing similar values and economic-political philosophy form initially what can be viewed as an "exclusive club" of countries in a regional integration arrangement. In this approach, emphasis is placed on strict criteria that must be met before a country can be admitted to this grouping. The member countries that come together agree on stringent criteria upfront and then apply them first to themselves. These criteria form an important accession agreement for any future candidates to membership. Member

countries forming this grouping usually have similar economic systems, political arrangement and more or less the same level of development. The economic integration unit thus formed facilitates convergence in macroeconomic policy which is one of the most important determinants of successful sustainable regional economic integration.

The above discussion suggests that African countries must pursue a route to their declared intention of full integration through a strategy that is practical and yet acceptable. The route that can be exploited should be the one that recognizes the progress made thus far and the unique situation of the African experience. Presently Africa is home to a number of regional integration arrangements with individual objectives. Some members in these groupings hold dual memberships. It is human nature that in such situation sooner or later some kind of subtle competition among these grouping will arise. It will then put these countries with dual membership in a predicament of having to declare “loyalty”. Africa also is displaying unequal level of development and a variety of political arrangements. Their brand of democracy is also not the same throughout the continent. Under the circumstances, the view that it is too early for Africa to take a bold step to total integration now seems to hold. It is clear that a lot of work still needs to be done to prepare for this. The existing regional groupings should be deepened and countries brought to the same level in governance and macroeconomic policies. A strict adherence and implementation of the NEPAD principles can go a long way to preparing Africa to eventual total regional integration. In the meantime the leaders should make an effort to get support from their nations because a move to total integration essentially implies loss of sovereignty. It should be noted however that it is not an easier than said if the recent experiences in the European Union enlargement exercises are to go by.

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