



# Integration Along the Abuja Road Map: A Progress Report

Jaime de Melo  
FERDI

Mariem Nouar  
University of Geneva

Industries Without Smokestacks Workshop

Helsinki, August 19-21

# Outline

- Preliminaries
- Progress at integration: A first look
- Diversity in Characteristics  
(economic, geography, culture)
- Design: Breadth vs. depth
- The political dimension
- Trade Patterns, Trade Costs and  
New Manufactures

## Preliminaries/Overview

- PTAs (FTAs, RECs) are good politics, but to survive need sound economic basis
- Previous surveys (Melo/Tsikata: Critique of Linear integration model; Newfarmer: Regional cooperation)

### Narrative:

- ‘Roots’ of development (intergenerational transmission of development (biological and cultural))
- ‘Institutions and Trade’ . Trade strongly depends on domestic institutions (rather than endowments/technology)

### Take Away (from stylized outcome patterns across RECS):

- Trade costs are still high (Trust, Institutions)
- Trade → Opportunity cost of conflict ↑

# Progress at integration: A first look

❑ How much progress? Difficult to ascertain

- Examples on tariffs in paper EAC (Rwanda) vs ECOWAS (Liberia)
- Examples of cooperation in RTAs in Newfarmer (2015)

❑ Below a patchwork evaluation (note RECs vs other RTAs)

|   | COMESA | EAC     | ECOWAS | SACU    | SADC  | AMU    | CEMAC   | WAMU    | CEN-SAD | ECCAS | IGAD  |
|---|--------|---------|--------|---------|-------|--------|---------|---------|---------|-------|-------|
| Type of agreement                             | CU     | CU      | CU     | CU & M. | FTA   | FTA    | CU & M. | CU & M. |         |       |       |
| Aspired coverage (an * indicates achievement) |        |         |        |         |       |        |         |         |         |       |       |
| Currency                                      | No     | Yes     | Yes    | Yes(*)  | No(*) | No     | Yes (*) | Yes (*) |         |       |       |
| Goods   | Yes    | Yes (*) | Yes    | Yes(*)  | Yes   | Yes(*) | Yes(*)  | Yes(*)  |         |       |       |
| Services                                      | Some   | Some    | Some   | Some    | Some  | Some   |         | Some    |         |       |       |
| Customs                                       | Yes    | Yes     | Yes    | Yes     | Yes   | Yes    | Yes     | Yes     |         |       |       |
| Intellectual Property                         | No     | Yes     | Yes    | Yes     | Yes   | No     |         | Yes     |         |       |       |
| Investment                                    | Yes    | Yes     | Yes    |         | Yes   |        | Yes     | Yes     |         |       |       |
| Labor   |        | Yes     |        |         |       |        | Yes     | Yes     |         |       |       |
| Competition                                   | Yes    |         |        | Yes     |       |        |         | Yes     |         |       |       |
| Dispute resolution                            | Yes    | Yes     |        | Yes     | Yes   |        | no      | Yes     |         |       |       |
| Govt Procurement                              |        |         |        |         |       |        | Yes     |         |         |       |       |
| Political Federation                          |        | Yes     | Yes    |         |       |        |         |         |         |       |       |
| ECA Index of Integration b/                   |        |         |        |         |       |        |         |         |         |       |       |
| Index:range: 0 to 1                           | 0.415  | 0.540   | 0.509  |         | 0.531 | 0.459  |         |         | 0.395   | 0.454 | 0.457 |

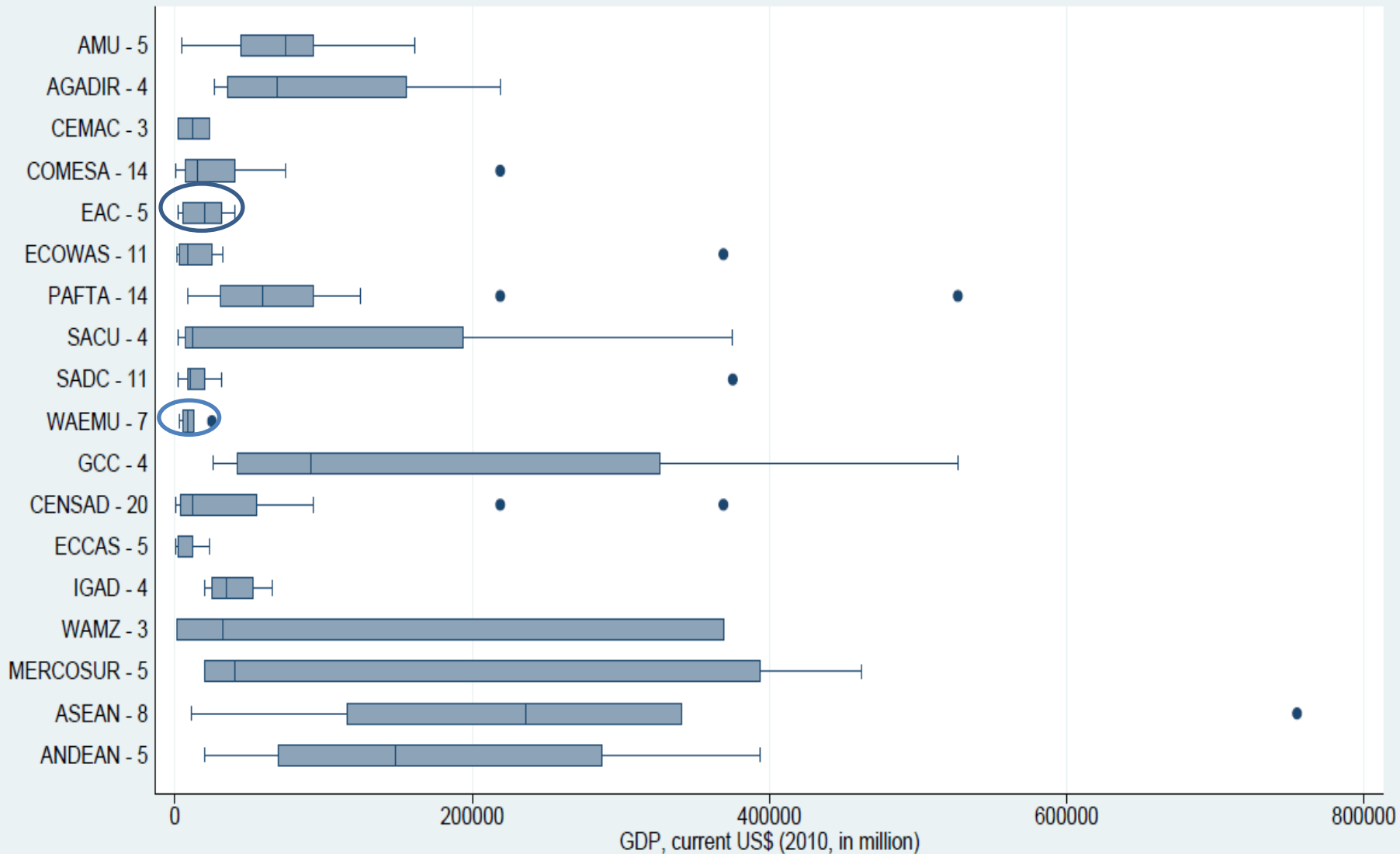
# Disparity / heterogeneity (1)

- Size dispersion:
  - Gains from economies of scale
  - Agglomeration (core-periphery) → need for compensation
- Per capita income dispersion:
  - Kenya (K), Uganda (U) both below average world K/L → FTA: gains for K, loss for U → need for compensation
- Natural resource dispersion:
  - Effects of shocks are magnified

# Disparity / heterogeneity (2)

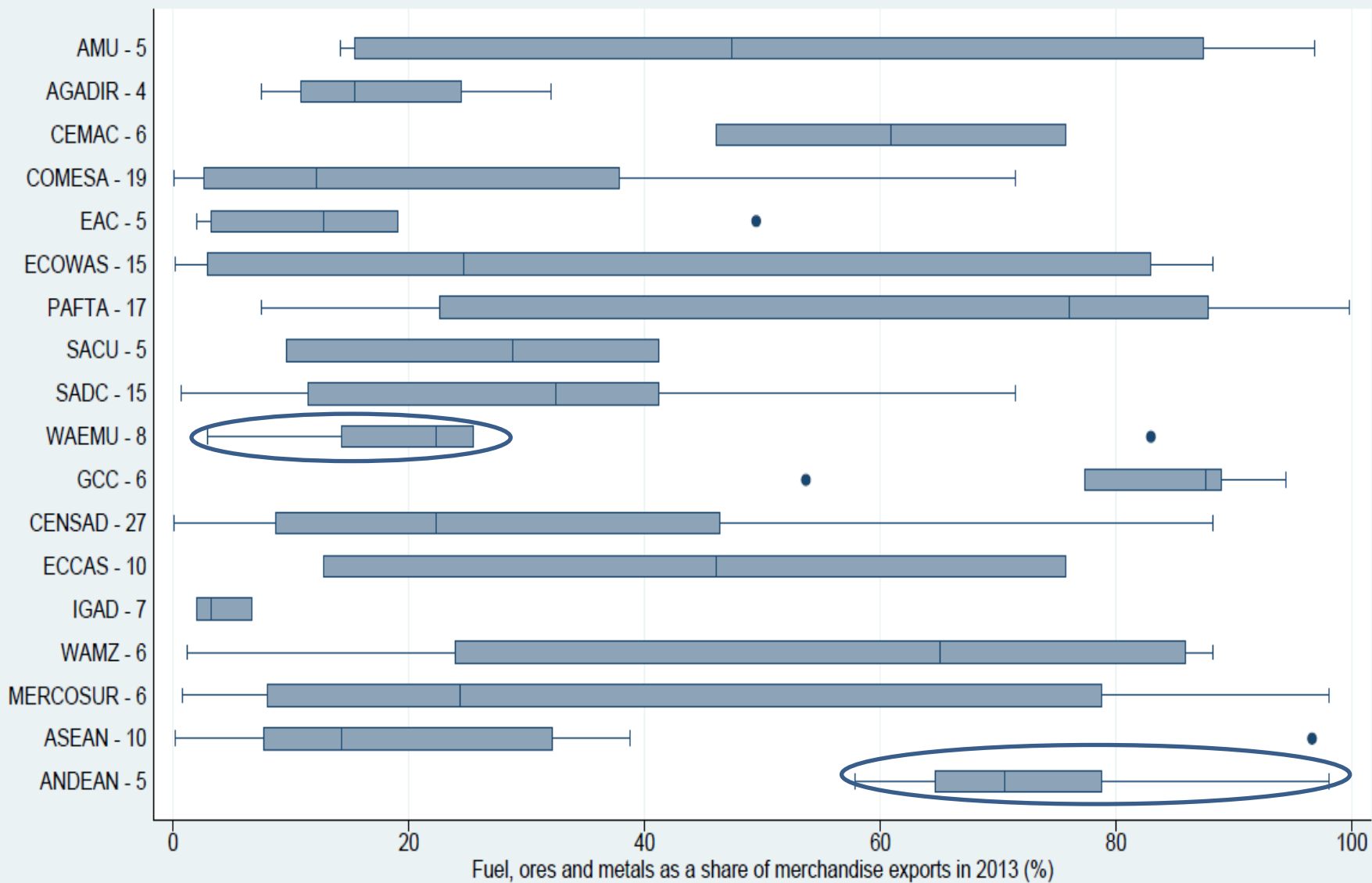
- Strong Intergeneration transmission (biological, cultural)
  - High biological dispersion persists → low trust
  - →  $\Delta$  GDP persists
  - → high trade costs
- Measures:
  - Biological: bilateral subpopulation weighted genetic distance
  - Trust: Ethnolinguistic (or polarization) index
- Bilateral trade is negatively correlated with measures on next slides (to be explored further)

# Heterogeneity (1): size



Number of countries with available data is specified after RTA name.  
Brazil is dropped from MERCOSUR sample, its 2010 GDP was superior to US\$ 2 trillion.

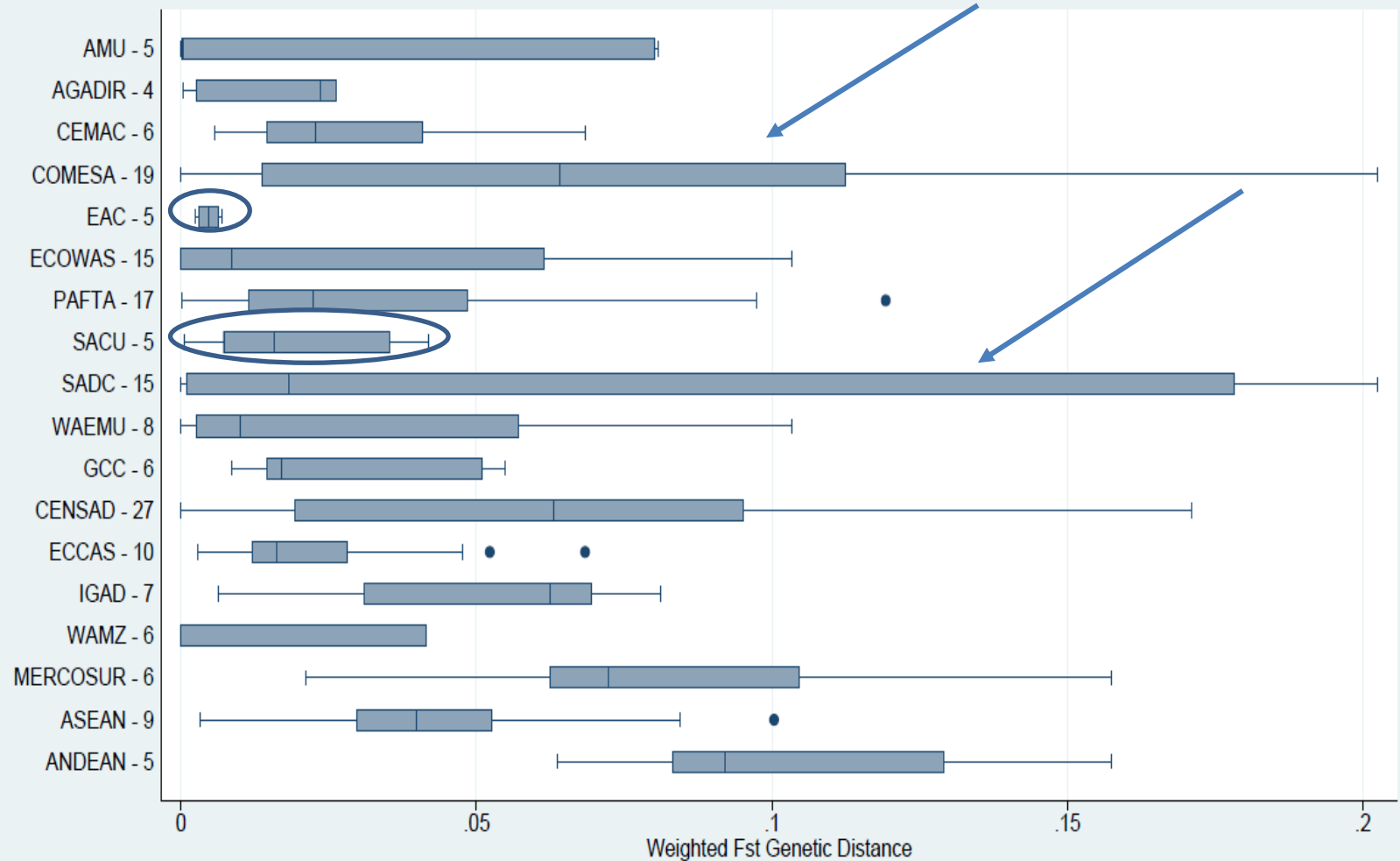
# Heterogeneity (1): Natural capital



Number of countries with available data is specified after RTA name.

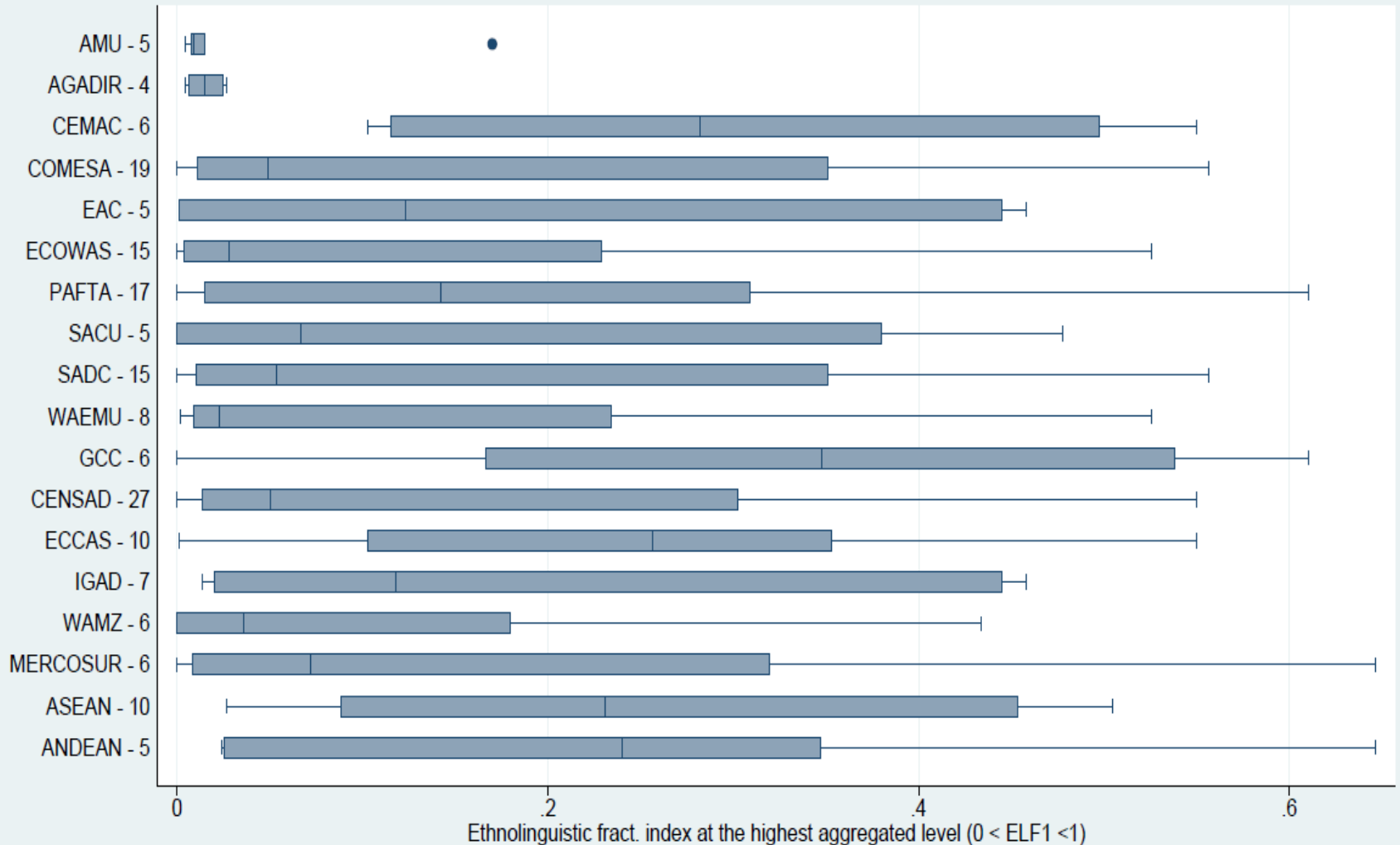


# Heterogeneity (2): Genetic distance



Number of countries with available data is specified after RTA name.  
Weighted genetic distance for world sample ranges from 0 to 0.203.

# Heterogeneity (2): cultural (ELF)



# Design: Breadth vs. depth

- Narrow: EAC (Rwanda) vs wide: ECOWAS (Liberia).  
TFTA: too much breadth (large membership)?

How Deep is RTA coverage in S-S (and SSA)?

| <b>WTO +</b>   | <b>COMESA/ECOWAS<br/>/SADC</b> | <b>Other S/S (18)</b> |
|--|--------------------------------|-----------------------|
| Trade-related (6)  | 0.94                           | 0.79                  |
| Investment-related/GATS/TRIPs (4)                              | 0.56                           | 0.31                  |
| Domestic trade-related (SPS, TBT,<br>etc.)(5)                  | 0.40                           | 0.34                  |
|  |                                |                       |
| <b>WTO-X</b>   |                                |                       |
| Capital and labour (7)   | 0.33                           | 0.20                  |
| Domestic trade-related (environment,<br>competition, etc.) (5) | 0.80                           | 0.16                  |
| Others (audiovisual, cultural,<br>cooperation, etc.) (25)      | 0.27                           | 0.09                  |

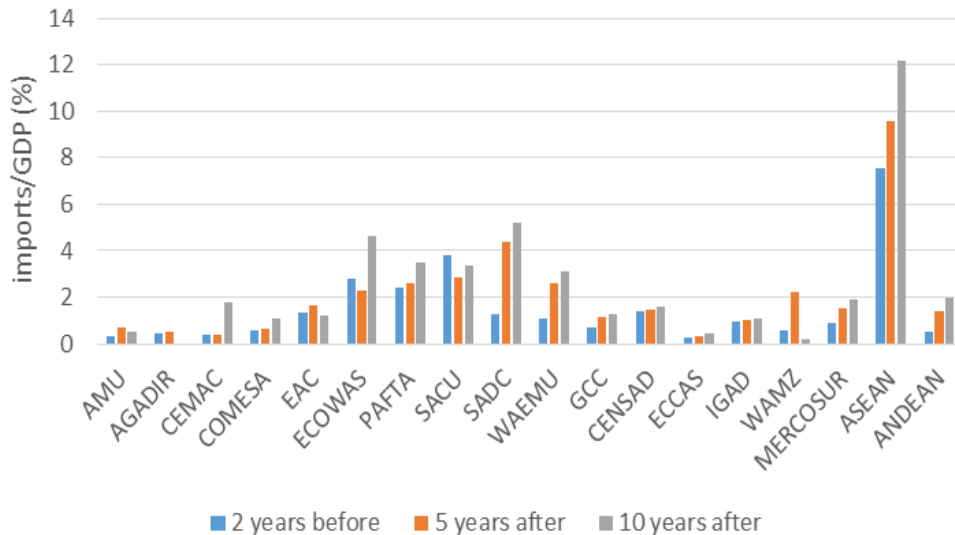
# The political dimension

- RTA: Eases political tensions (?)
  - Opportunity cost of conflict up → RTAs bring peace (Martin, Mayer, Thoenig)
- RTA: trade-off between benefits (address Externalities via regional cooperation) and political costs (common policy is away from preferred national policy).

# 3 'before-after' Trade outcomes

1. Intra and extra-regional import patterns
2. Gravity-inspired trade costs estimates (approximated by average distance ratio –ADR)
  - $ADR = (\text{average distance of trade } ADOT) / (\text{average potential distance of trade } ADOTP)$
  - $ADOTP = \frac{Y_o Y_d}{Y_W}$ ;  $Y_W = Y_o + Y_d$
  - If ADOTP unchanged by RTA  $\rightarrow$  ADOT  $\downarrow$  as countries trade more regionally to exploit reduction in trade costs
3. Destination of new manufactures (HS-4 level)
  - Following scatters (before and 5 and 10 years after): If ADR  $\downarrow$  (scatter below 45° line) relative costs of trading regionally falling more rapidly than other dimensions

Intra-bloc imports/GDP for all goods



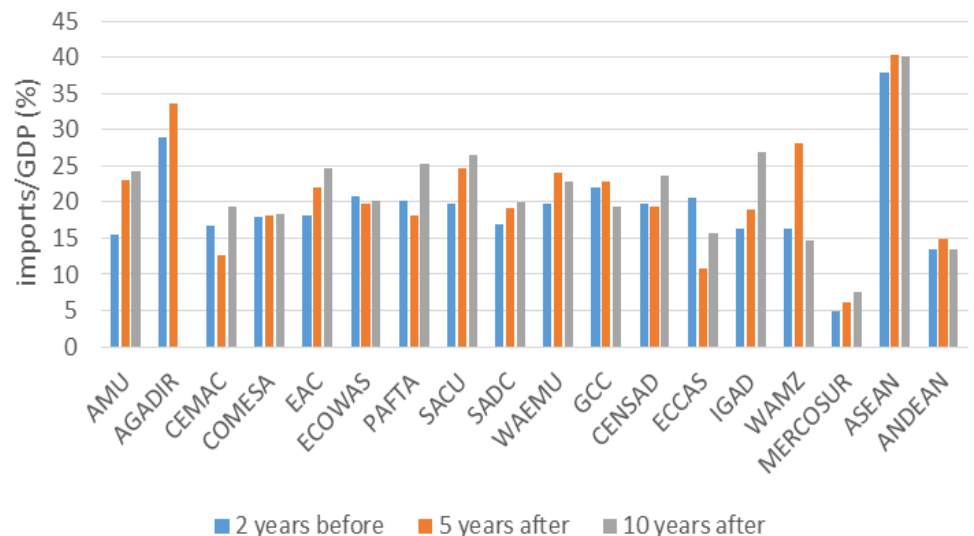
Intra-RTA shares very low for all African RTAs/RECs except ECOWAS, WAEMU, SADC.

For all African RECs, 10yrs on, Intra-bloc share in 2%-4% range? Implication for ATE panel gravity estimates...

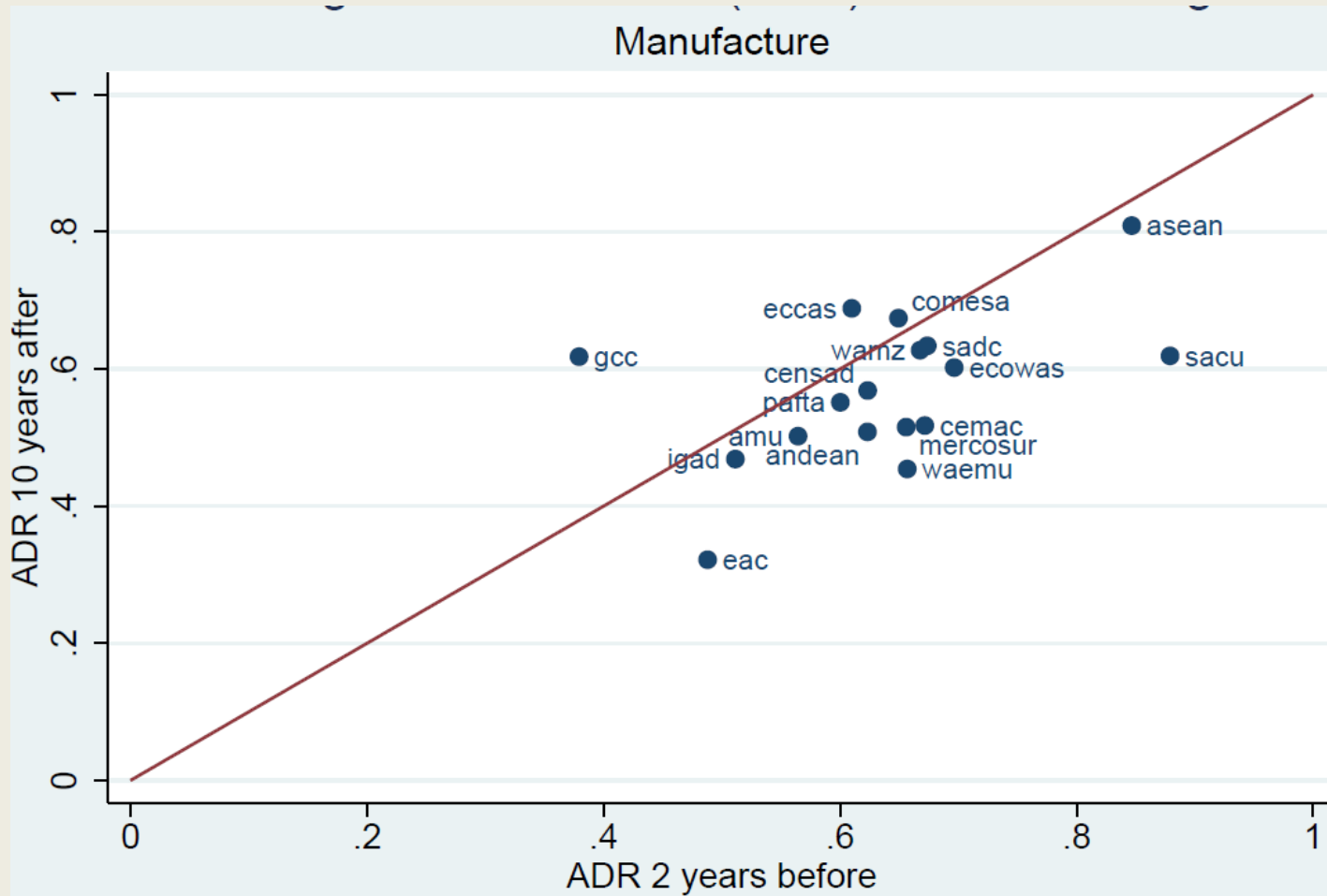
Intra-bloc shares for EAC(3) stagnant but extra-bloc shares up

ASEAN most open: Intra and extra-bloc shares increase 5 and 10 years after RTA.

Extra-bloc imports/GDP for all goods

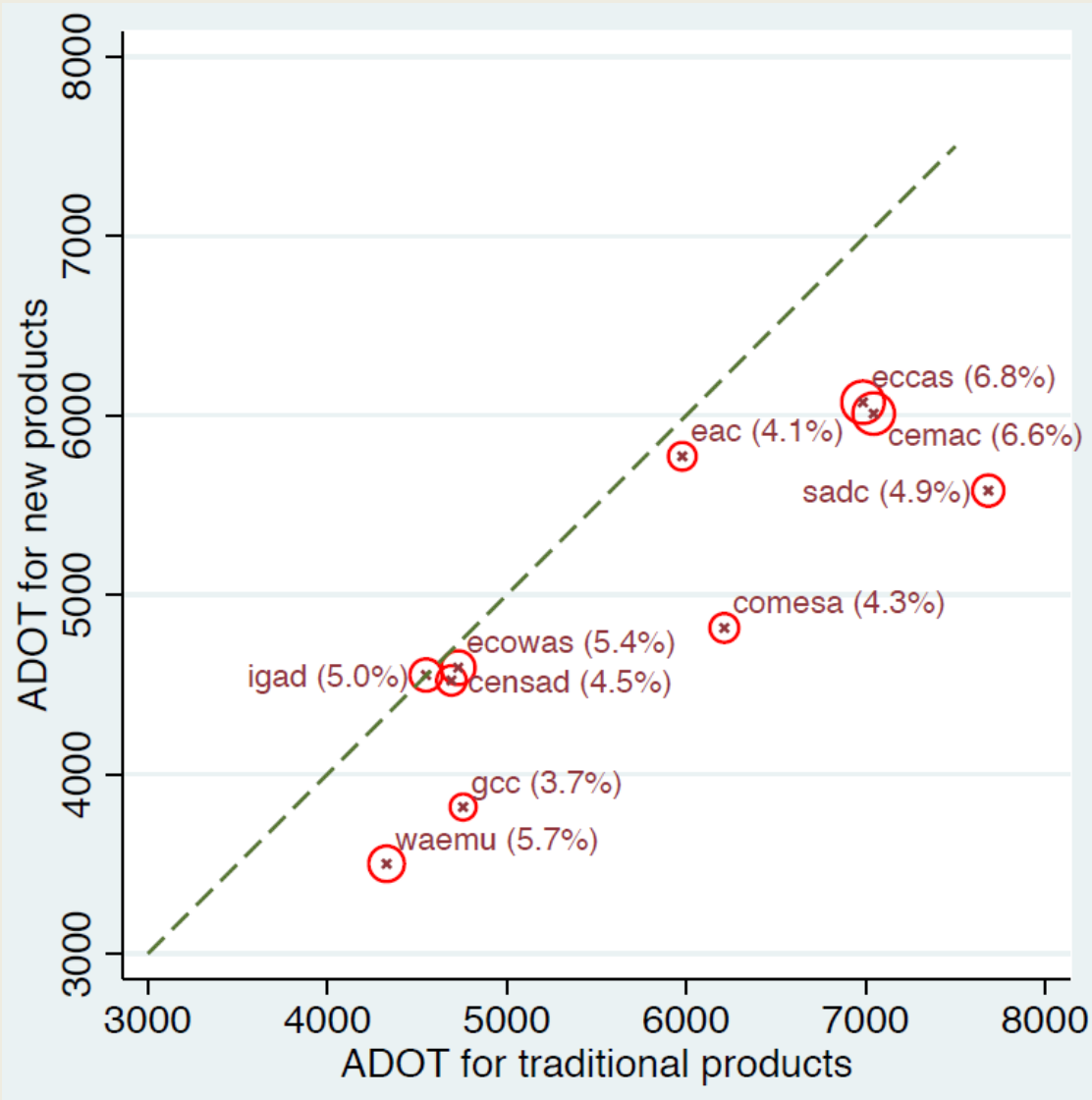


# Trade Costs estimates (intensive margin)



$$X_{od} = \frac{Y_o Y_d}{Y_w} \phi_{od} \quad ; \quad Y_w = Y_o + Y_d \quad ; \quad \phi_{od} < 1 \quad \text{o= origin, d=destination}$$

# Trade in new manufactures (2000-08)



Average distance of trade (ADOT) for manufactures (HS-4 level) in 2000-08 over 1995-00 traditional products

Average over all REC members

New products: must be exported for at least 3 consecutive years.

Figure in parenthesis is percentage number of new products .



# Some Challenges Ahead

- Recap: Gains greatest (economic heterogeneity) where political-economy is most adverse (biological/cultural).
- (Indirect) intra-regional trade cost measures still high
- Beware of linear model of integration (21st vs 20th century RTAs). Africa still on exchange of market access instead of domestic reforms for FDI exchange to develop backbone services complementary input to goods trade)
- Tri-partite FTA (breadth) rather depth (with services?). Variable geometry because of compensation issue so big among very heterogeneous partners is at expense of depth
- Regional cooperation: Pan-African transport projects= Addresses both physical externality and social capital necessary for trust to devolve to supra-national authority