



# African Regional integrations and the challenges of globalization

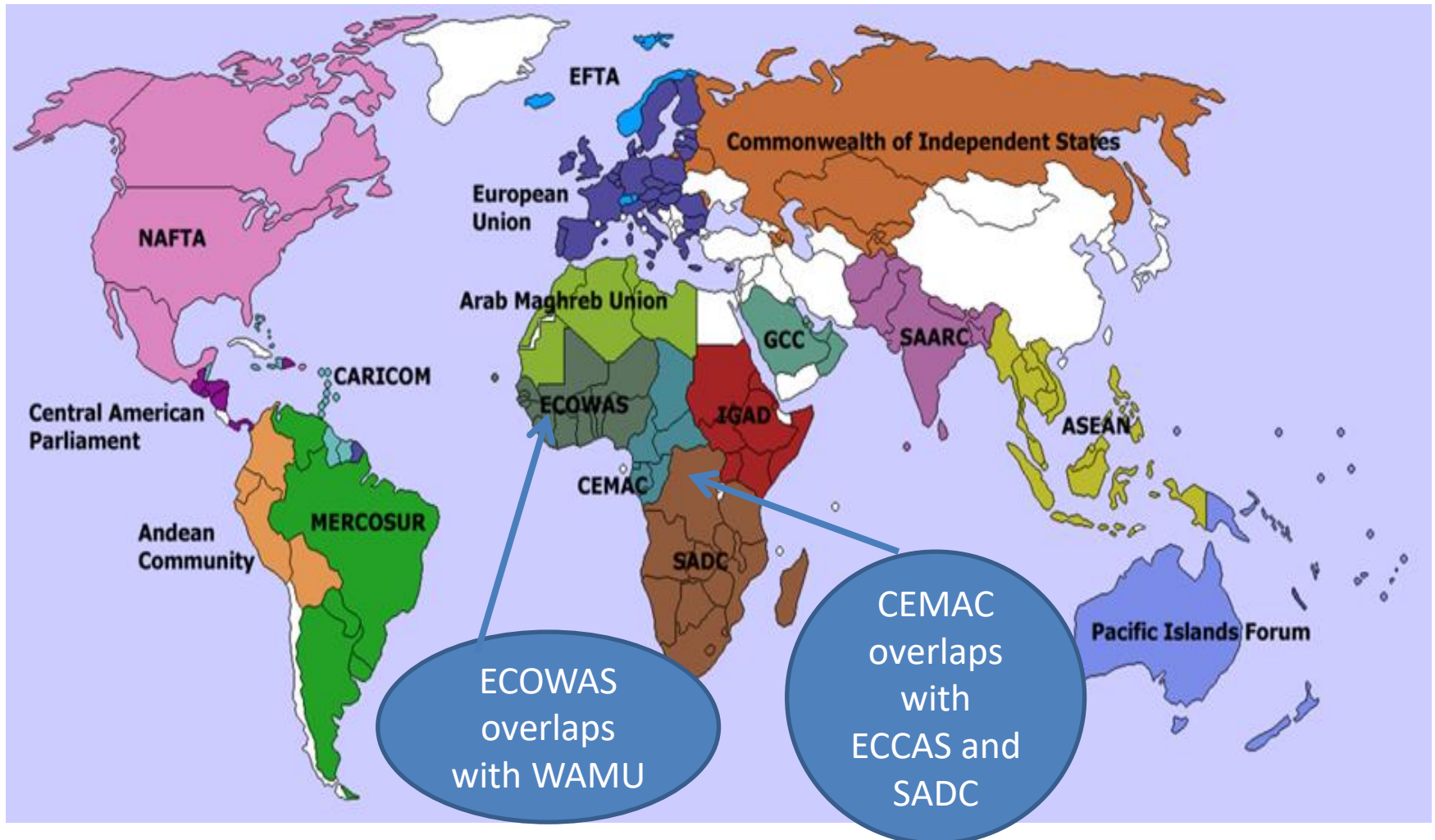
Patrick Plane

Research Director at CNRS, CERDI-FERDI, UCA

***African Strategic Consultative Committee***

Total, Paris, 12 October 2017

# Regional integration in the world



## **The Economic Commission for Africa (ECA) supported :**

- ❑ The Economic Community of West African States (**ECOWAS**), established in 1975 ;
- ❑ The Preferential Trade Area (PTA) covering East and Southern Africa, precursor of the Common Market for Eastern and Southern Africa (**COMESA**);
- ❑ The Economic Community of Central African States (**ECCAS**) for Central Africa.
- ❑ The Southern African Development Coordinating Conference (SADCC), established in 1980 that became the Southern African Development Community (**SADC**) in 1992. South Africa joined SADC in 1994.
- ❑ The Arab Maghreb Union (**AMU**), established in 1989

# *The conceptual storyline of integration*

- ❑ **Free trade area**. Countries sign an agreement reducing trade barriers (import quotas, tariffs). The trade can grow as a result of specialization according to the comparative advantages.



- ❑ **Customs union**. A free trade area with a common tariff and an external trade policy.



- ❑ **Common market**. A customs union with a common external tariff (CET) on imports from non-member countries and “relatively” free movement of resources (capital, labor, services)



- ❑ **Economic union**. A common market with an integration of economic policies. Members harmonize monetary policies, taxation and government spending. A single currency can be used



- ❑ **Political union**, the ultimate objective ?

## *Regional integration makes sense....*

- ❑ The continent is characterized by small countries, small economies .... small markets.



Integration as a solution to increase scale economies, to specialize in accordance of the comparative advantages

- ❑ Africa has a strong concentration on raw materials and is weakly integrated to international trade flows of manufactured and sophisticated products.



Integration as an opportunity to develop with diversification of exports and to extend the productive base





## .... And receive political support

- ❑ Regional integration historically considered as an important component of development strategies
- ❑ **Large number of regional arrangements.** Since the early 60s more than 200 organizations with a regional vocation
- ❑ Many arrangements overlap as seen earlier.

*But so far ....few success stories.*

*Beyond ambitious schemes, weak political will and unrealistic time frames*

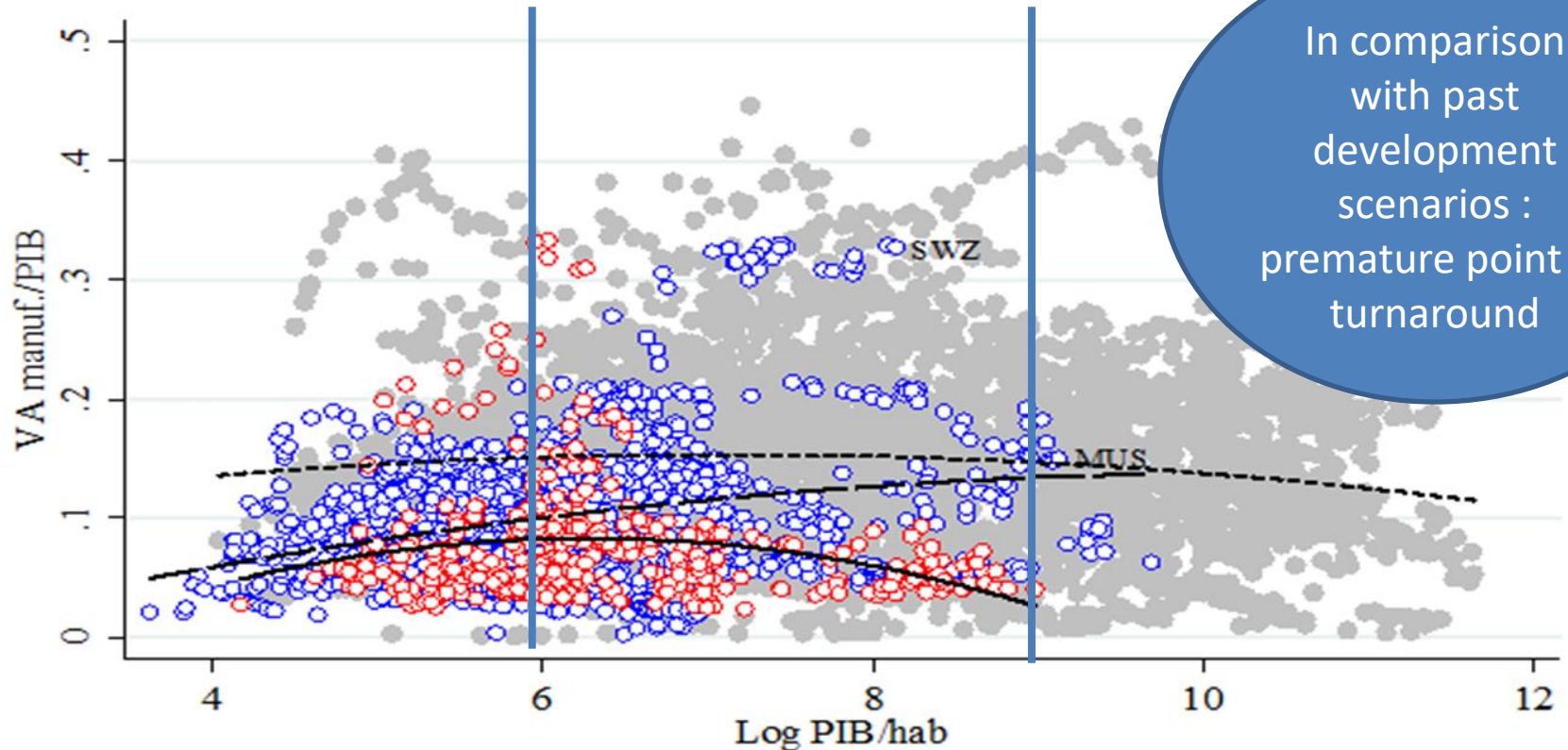
# Integration : Not an easy venture

- ❑ **Free trade area**. It does already by informal exchanges. Haoussas of Niger trade in live animals with Nigeria. But What does it mean if exchanges are mainly focuses on reexported Products ? (*rules of origin*)  

- ❑ **Customs union**. Problems for countries with a membership to different trade communities  

- ❑ **Common market**, Free movements of resources not implemented (fluidity, security). Individuals still need visas to cross borders (passport in CEMAC) = deep integration behind the border  

- ❑ **Economic union**. Harmonization of economic policy far to be implemented (ECOWAS). Weak ties with what the optimal currency area (mobility, economic characteristics, nature of shocks)  

- ❑ **Political union**, The political form of the integration is fuzzy (EU?)

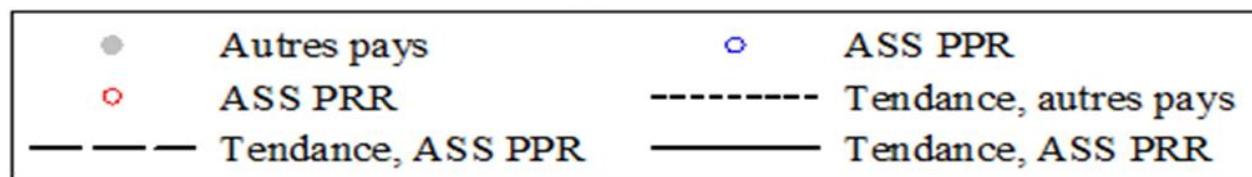
- ❑ **According to WTO: Africa** accounted for 7.3% of the world exports in 1948, 5,7% in 1963,... **3% in 2014.**
- ❑ Intra-african trade is far from initial expectations. Today, only **12% of total trade is an intra-African trade** against 40% in North America, 60% between European countries.
- ❑ The **promises of industrialization** have not been fulfilled. Economies are still concentrated on raw materials and the participation to the global value chains are very limited. Some economists worry about a potential **premature deindustrialization**



# Premature deindustrialization?



In comparison  
with past  
development  
scenarios :  
premature point of  
turnaround





## *The institutional level of integration matters*

### **Monetary unions in francophone countries (WAMU, CAMU/CEMAC) :**

- ☐ A common market with integrated monetary and fiscal policies
- ☐ A common currency (CFA franc) pegged to the euro.

### **Clear impacts with the nominal convergence:**

- ☐ Low inflation rate, weak instability of prices
- ☐ A predictable nominal exchange rate, no cost of hedging and a full convertibility of the CFA franc
- ☐ Macroeconomic convergence across countries (criteria)



## *But heterogeneous real impacts*

*Intégration régionale pour le développement en zone franc,  
Economica, 2013*

### **WAMU (1995-2006)**

- ❑ Intra-community trade flows are important, more than they might be expected without a union (gravity model)
- ❑ The long run economic growth rate of the GDP is a little bit higher than in Sub Saharan countries outside the franc zone

### **CEMAC (1995-2006)**

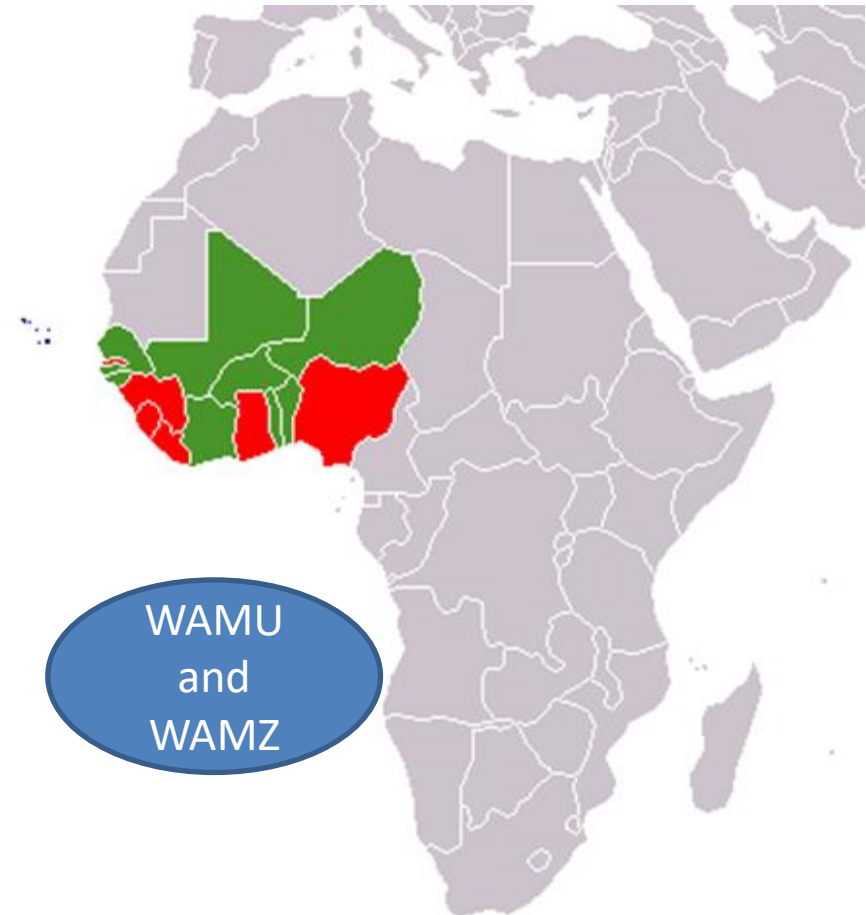
- ❑ Bilateral trade flows among members are very weaker
- ❑ The economic growth rate is higher than elsewhere, but for reasons in relation with natural endowments of members (oil, gas, ores, wood...)



# *Regional integration in Africa*



ECOWAS



WAMU  
and  
WAMZ

Perspective to have an only one zone

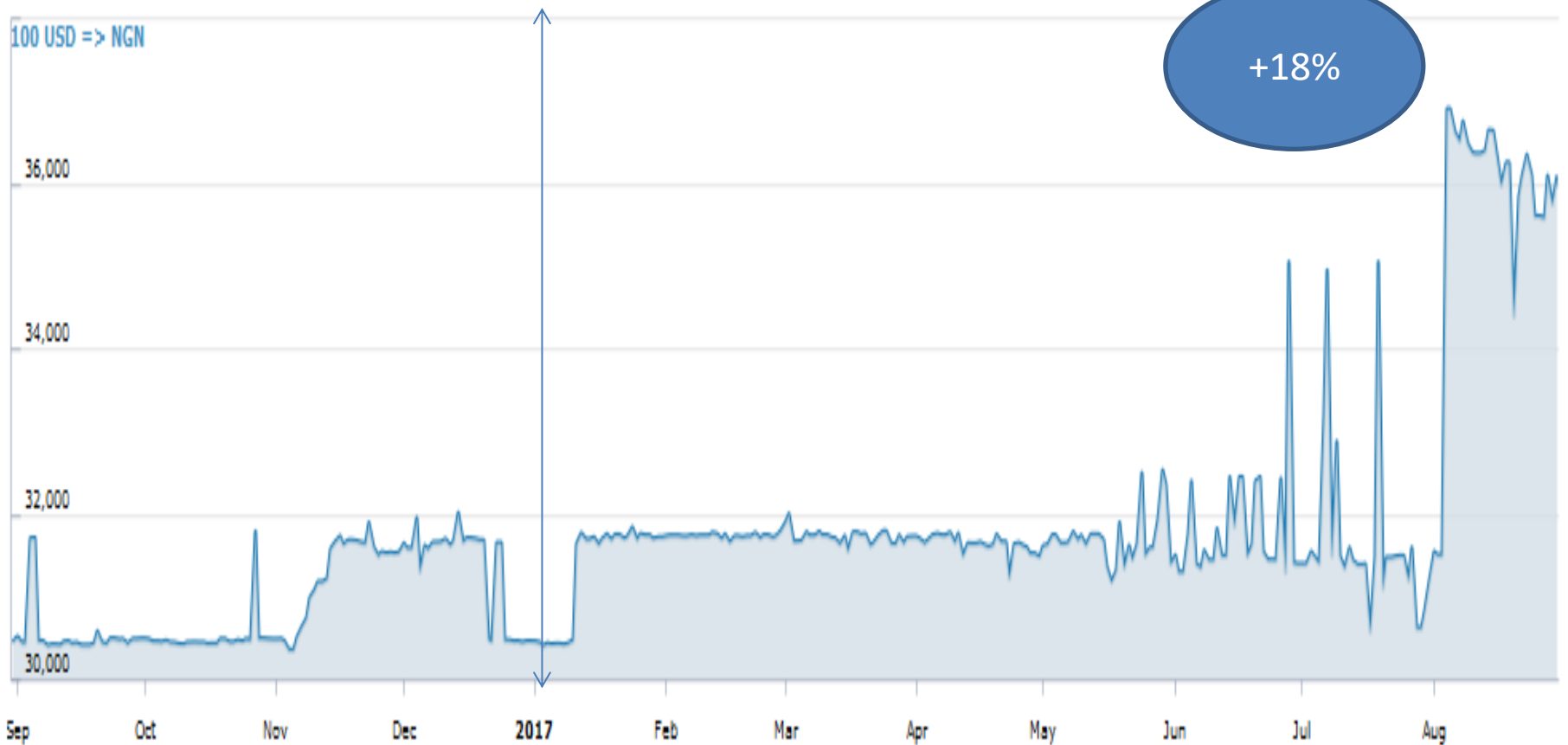


## *The move towards integration in ECOWAS is not evident*

- ❑ Integration of economic policies among the two zones (WAMU, WAMZ) meets significant problems in a context of low oil prices
  - ❑ The move of the Nigerian authorities to a floating exchange system, the significant depreciation of the Cedi in Ghana after the high level of inflation in the 2016
- ➡ Difficulties to converge, to integrate between non diversified economies facing asymmetric shocks

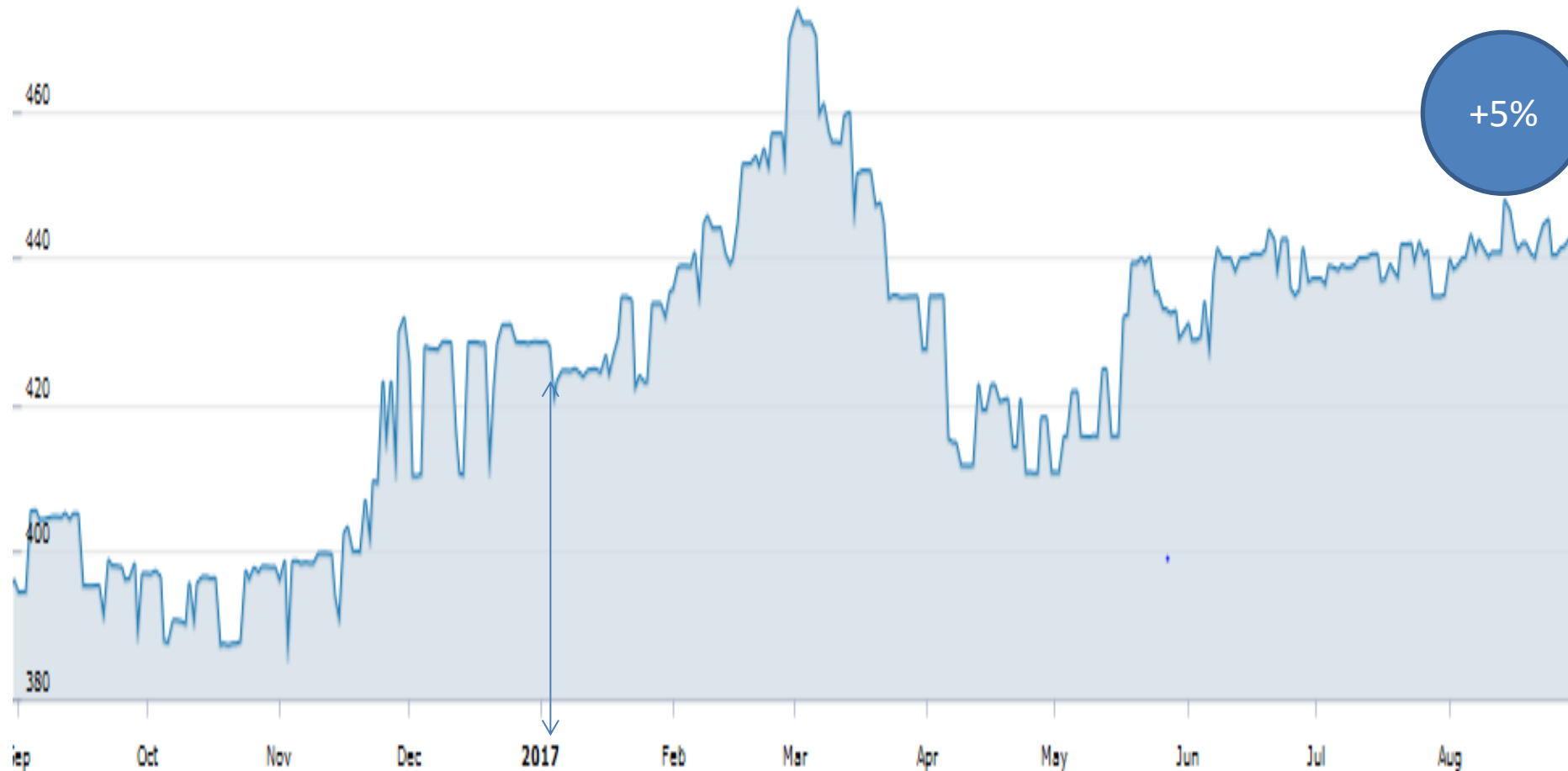
# 2017- The exchange rate of US dollar in nairas (Nigéria)

<https://www.mataf.net/fr/conversion/monnaie>



# 2017- The exchange rate of US dollar in cedis (Ghana)

100 USD => GHS





# *Inflation rate in Ghana over the last 5 years*





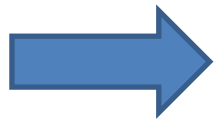
# 2017- The exchange rate of US dollar in CFA-Franc





## *Why has the regional integration been so difficult to promote ?*

- ❑ The decision-making underlying the emergence of industries. Duplication rather than playing comparative advantage rules (sugar factories, cemeteries)
- ❑ Political economy conflicted with integration. National policies remained weakly harmonized, not enough coordinated with what regionalization required



Moving from *formal* (exogenous) to *real* institutions

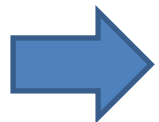


# Structural adjustment strategies

## *Moving to free trade as a solution*

*The Washington consensus: recipe*

- ❑ Trade liberalization with the removal of quantitative restrictions and the decrease of the tariff level
- ❑ Openness to FDI
- ❑ Financial liberalization



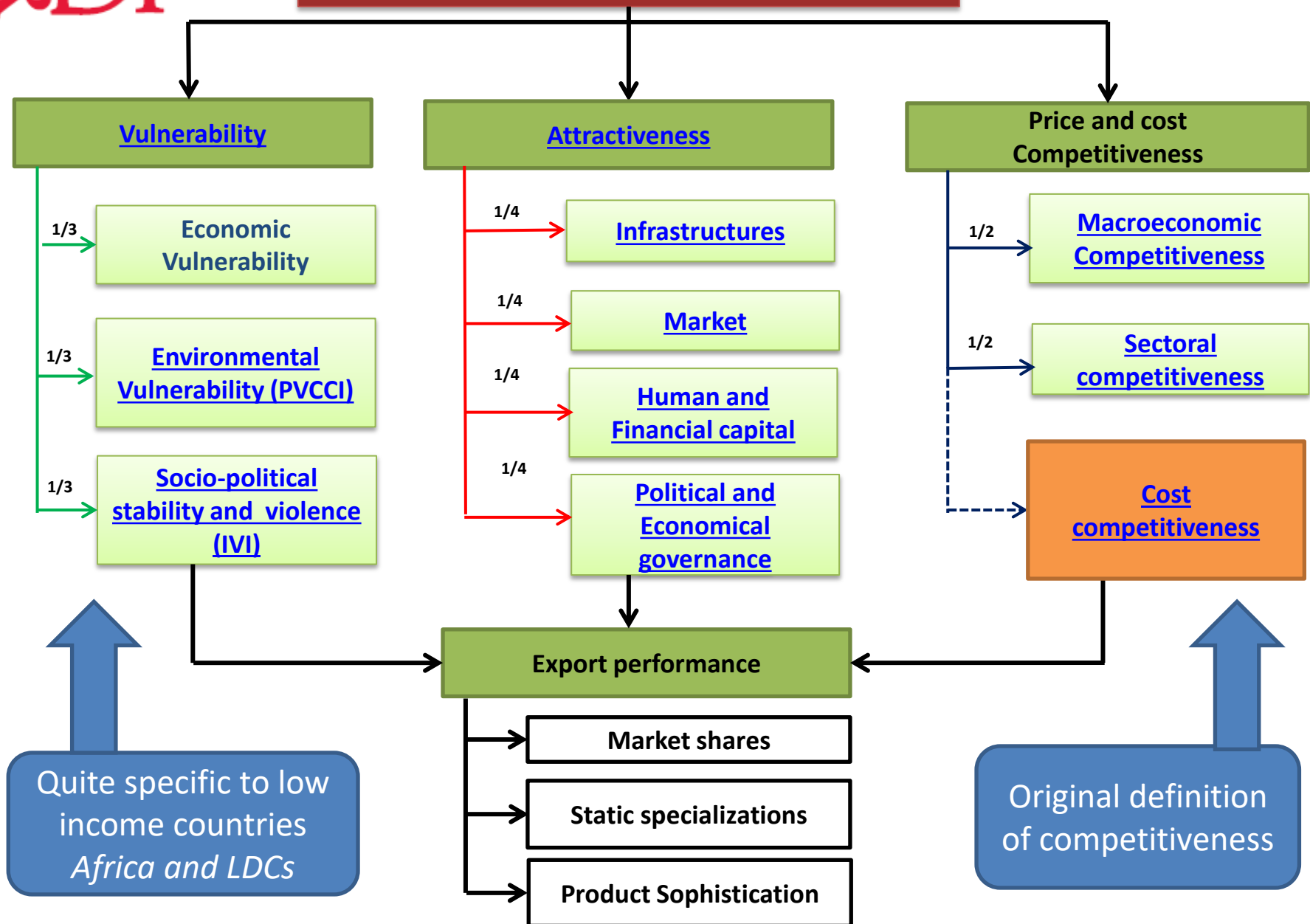
The virtues of free market pushed too far  
*When destruction occurs without creation*

- ❑ Maintaining the benefits of past reforms in terms of market incentives and good governance.
- ❑ National trade protection for African economies doesn't make sense in the global economy. But past success stories deliver limited lessons for the « last movers » (tigers, Mauritius)
- ❑ The region as the right space to build dynamic comparative advantages. Protection can be thought at this level provided that it is not endogenous to economic inefficiency

How can governments act on the  
**sustainable competitiveness ?**

- ☐ By improving the resistance to various forms of **vulnerabilities**
- ☐ By promoting the **attractiveness** of national territories
- ☐ By measuring and influencing **price and cost competitiveness**

# Observatory of sustainable Competitiveness

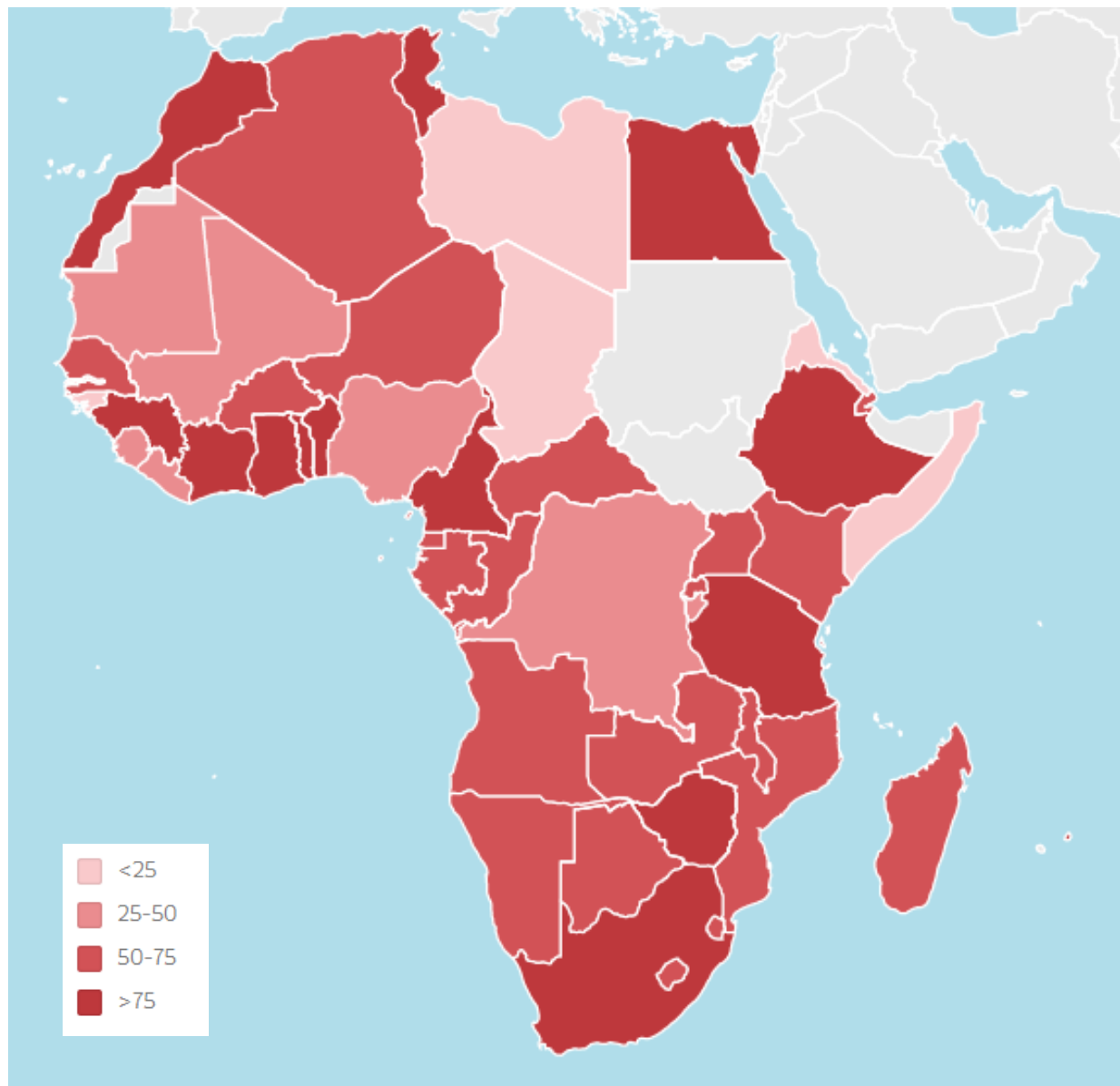




## *Diversification : incentives and regional market competition*

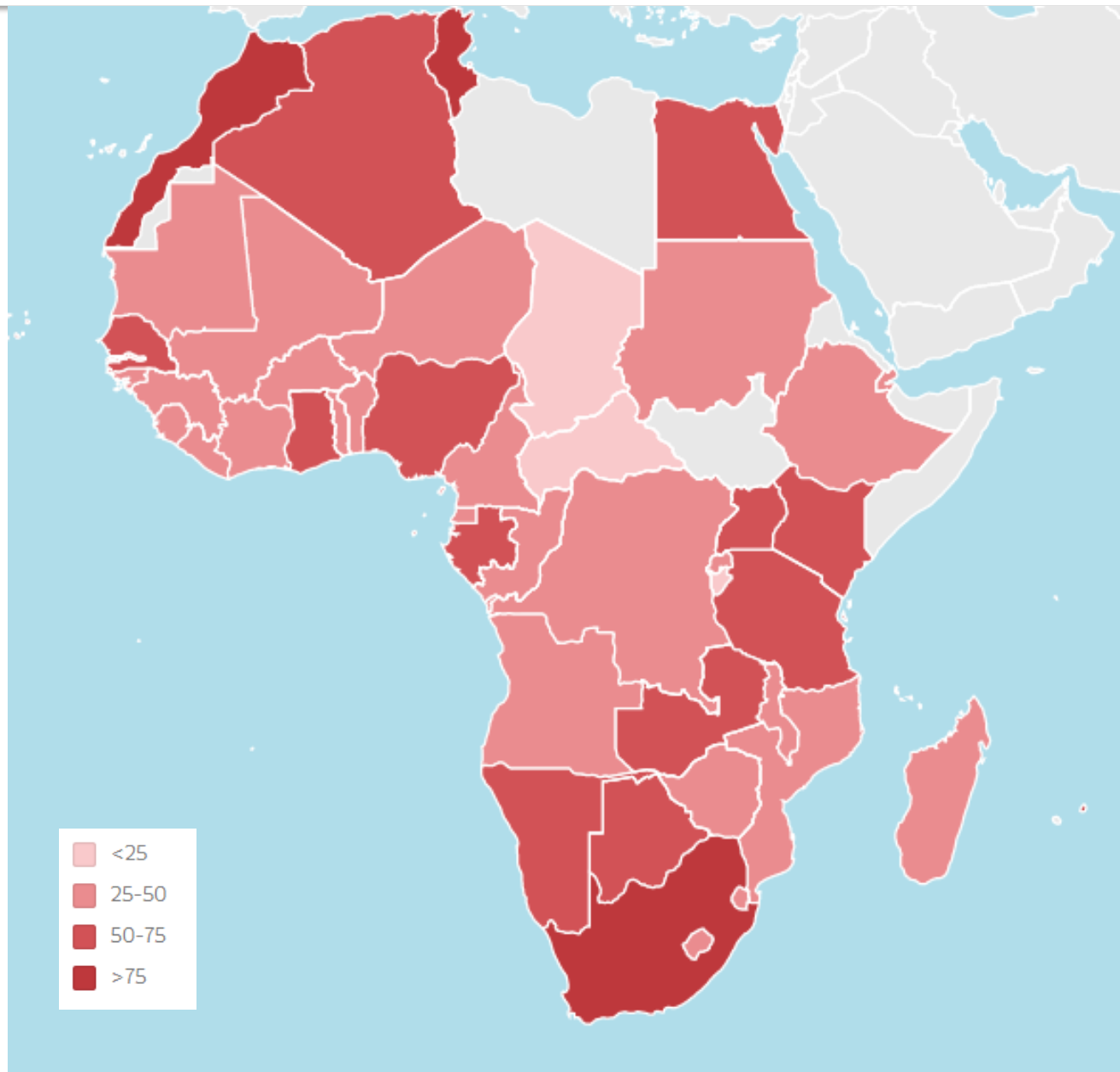
- ❑ Infrastructures: The need to be **selective** in what is done. Power matters for firms as well as ICT, but also roads (secondary roads) and logistics
- ❑ Think about **hard** but also **soft** infrastructure (use of corridors with less transaction costs)
- ❑ ***International transportation***: long run tendency of prices to go down (Baltic dry index) = lower natural protection of African products. ***Domestic transportation and the logistics*** remain high in Africa (customs, port, road transportation = rents )

# *Resilience to vulnerabilities in 2014*

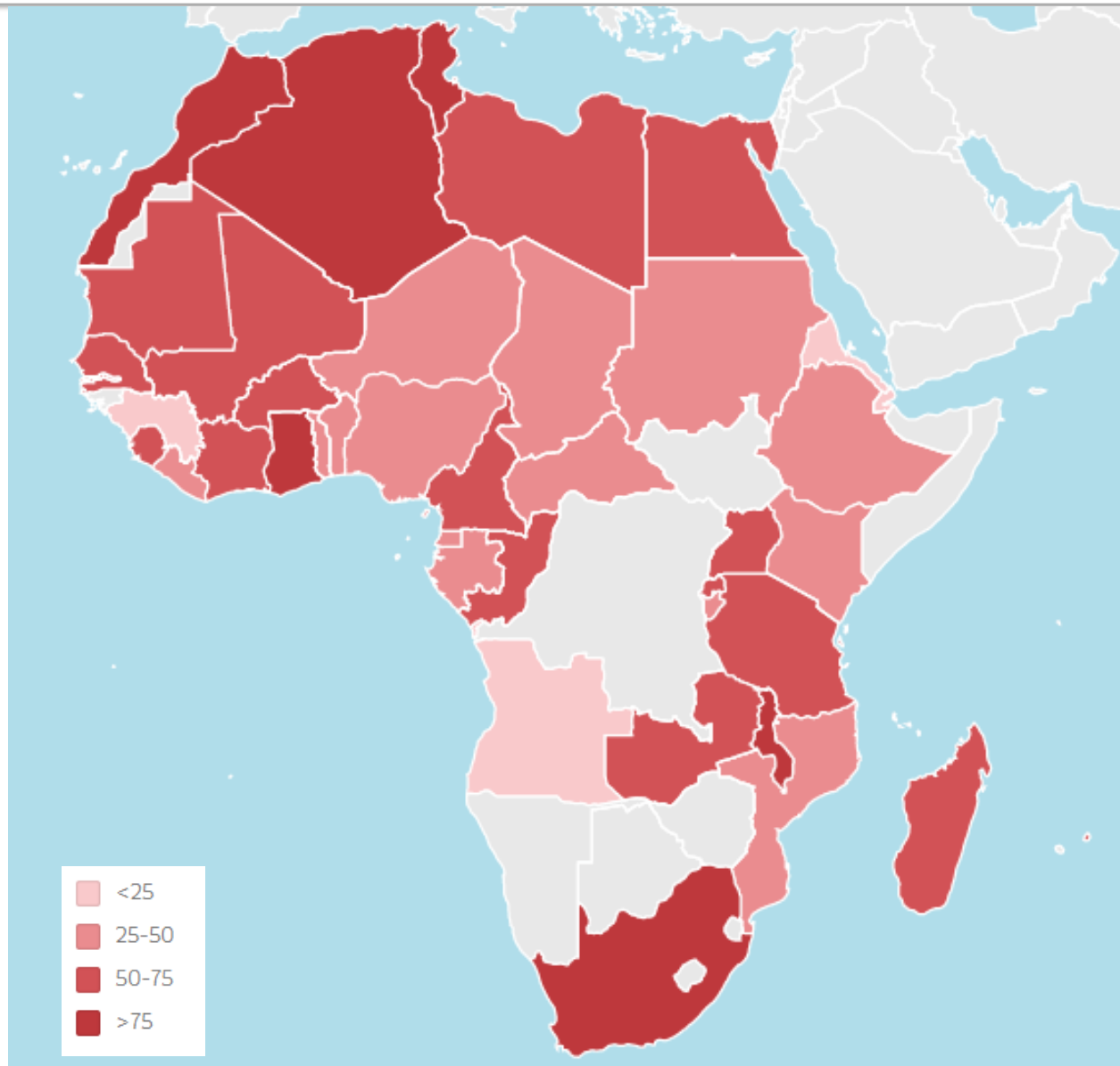




# *Attractiveness in 2014*



## Price competitiveness in 2014





***Thank you  
for your attention***