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Towards Transformative Regional Integration and Measuring Integration Progress

Vers une transformation de l'intégration régionale et mesure des progrès

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Towards Transformative Regional Integration and Measuring Integration Progress

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The state-driven and trade-centred regional integration approach needs to be replaced by a participatory, transformative and inclusive regional integration approach.

In this contribution arguments about the dynamics and the performance of regional integration processes in Africa are presented, and some policy considerations follow. It is intended to look at the limits of the “linear regional integration model” and then to present as an alternative the “transformative regional integration model”. Increasingly the second model is accepted by researchers and policymakers.

The Linear Regional Integration Model and the Reality of African Regionalism

Important lessons can be drawn from the long and complex formation period of regional economic communities (RECs) in Africa. It would be wrong to consider the long and contradictory formation process of RECs in Africa as a failure. Since 1958, Africa has seen the rise of pan-African and post-colonial regional economic communities. The process was uneven and often interrupted by external impacts and internal developments. Economists describe the process of regional economic integration in Africa largely as a failure in terms of trade, investment, global and regional value chains, skilled labour and entrepreneurship mobility, business cooperation, and policy coordination. But, the steps towards the Lagos Plan of Action, towards the African Economic Community (AEC), and towards NEPAD are successes as they provide a frame for continent-wide action, which is based on a common vision. It is true that in regard of trade, investment, global and regional value chains, skilled labour mobility, business cooperation, and policy coordination, the economic results in the formative period of RECs are poor, at least when looking at the official figures?

But, the processes of regional economic interaction and of policy coordination have nonetheless contributed directly and indirectly to deeper forms of regional integration. Looking at the direct effects,

regional integration was strengthened because trade between border areas was always important, capital flows occurred to countries in the region with more effective macroeconomic policies, skilled labour moved to places with higher salaries and better working and doing business conditions, and regional government to government cooperation was always used as a tool to strengthen the countries of the region in their third-country negotiations (with EU, USA, China, World Bank, IMF, and WTO). Also, indirectly some positive effects can be mentioned, as regional integration was strengthened because informal trade, labour movements and capital transactions have always worked as a corrective for bad national policies. Too large deviations between official and parallel exchange rates led to adaptations of actors dealing with foreign exchange; too large disparities in food prices led to illegal/informal flows of staple goods across borders; and too large impediments of doing business and entrepreneurship led to movements of farmers, entrepreneurs, investors and traders to neighbouring countries.

The whole regional integration process was trade liberalisation-centred. It was assumed that the “behind-the-border trade barriers” will be eliminated in tandem with the “border barriers”. This model was taken from the classical theories of regional integration and borrowed from experiences of the European Union (EU) and some Asian and Latin American regions (like ASEAN and MERCOSUR), with strong states and strong institutions in Europe and significant business-to-business cooperation in Asia and Latin America (Ebaidalla/Yahia 2016). The linear model assumes that the path from preferential trade zones to free trade areas, customs unions, single markets, monetary and economic unions, and ultimately political unions is undisputed and straight. The number of procedures for registering enterprises is a proxy for the complex chain of action towards the “behind the border trade barriers” in terms of infrastructure and logistics, transport, standards, con-

nectivity, and other factors. The focus was and still is on border trade barriers. Therefore, the neglect of behind the border trade liberalisation measures in regional integration negotiations led to biases in the whole process. The lack of coordination of trade policies with market policies, infrastructure policies, competition policies, investment policies, entrepreneurship and skills development policies, and mobility-enhancing policies has impeded progress in regional integration.

But beside of these coordination failures of national governments with impacts on regional integration, explicit and implicit strategic and policy objectives and interests of governments matter. The Rules of Origin (RoO) have a key role in the formation process of RECs, and are either part of a protectionist agenda or of an open market agenda. There are significant differences between RoO of SADC (more sector- and product-specific) and of COMESA and EAC (being more generally drafted), and also application of common RoO differs from country to country. These RoO may impede inter- and intra-regional trade. RoO can be a protectionist instrument of a government in a REC and towards other RECs, by leading to arbitrary procedures, but they can also function as instruments for future-oriented industrial and trade policies to prepare the economies for a more open regional integration. RoO can be used as a protective and as a liberalising instrument, and government administrations may change their character quickly and often. Although RoO are important as key border trade barriers, action is needed on both, border trade barriers (BTBs) and behind-the-border trade barriers (BTBTBs); these two groups are therefore parts of the broader concept of "trade facilitation". Action is needed in many areas (lowering import tariffs and quotas, eliminating excessive documentation requirements, burdensome customs procedures, corruption, inefficient port operations, and inadequate infrastructure and logistics). Non-tariff barriers (NTBs) play a huge role, such as technical, safety and health standards, and therefore harmonization of NTBs is important in the individual REC and in negotiations with other regional economic communities. These are the measures to reduce trade costs and all the related transaction costs. Focussing only on import tariffs, on trade facilitation at port and customs, and on rules of origin (RoO) as prescribed in the linear model of regional integration would miss the point. The current great interest in harmonizing the RoO between the RECs signals that even the first step of the linear regional integration model (trade integration) is not far advanced (see Draper et al. 2016 and UNECA/AU/AfDB/2013 on the trade rules harmonization tasks). While there is action also on further steps in the linear model like customs union, single market, monetary unification, economic policy coordination (in line with the AU phases of deepening regional

integration), it is obvious that deeper integration is basically sought through links from trade to growth and development.

Another policy issue refers to the structure of firms in Africa. Regulatory frameworks and requirements (RoOs, BTBs, BTBTBs, and NTBs) make it extremely burdensome for firms, especially for the small and medium enterprises in Africa, to trade, and these firms cannot mitigate these costs by business strategy. But all these instruments have their specific focus for government interventions (industrial policy, food security policy, tax policy, etc.). As firms in Africa are mainly small and medium ones (formal or informal), it is not possible for them to influence decision-making processes; they have just to rely on the fairness and efficiency of government decisions and to manage themselves and without adequate assistance these complex bureaucratic instruments. Despite of all the policy coordination failures, the strategic uses of border and behind the border trade barriers for specific national policies, and the practices of discriminating certain countries (like land-locked and undiversified countries) and producers (small and informal ones), some progress has occurred in regional integration. All this has happened in a highly-constrained manner and was supported by a specific combination of national policies. But this is not so different from the case of the EU as we now see, as limits to a further deepening emerge. For businesses in Africa this type of a state-driven regional integration process has disadvantages as trade is not rules-based but driven by changing policies and priorities. Therefore, more interventions are requested from the private sector (firms and business associations) to shape the regional integration process in Africa. The classical theory of regional integration with its linear progression model is nothing more than a frame for policy formulation, performance evaluation and measurement, but cannot guide fully the reforms and transformations of the regional integration process.

Towards a Transformative Regional Integration Model and the Perspectives of Structural Transformation in Africa

Africa is discussing now modalities of a Tripartite Free Trade Area (TFTA) and of a Continental Free Trade Area (CFTA). The basic objectives are harmonization of the regulatory framework of regional integration and creating links between the eight building blocks (the African Union-approved RECs). The basis is the African Economic Community (AEC) model of continental integration, and it follows largely the logic of the linear regional integration model; the model is trade-centred. What are then the lessons to be drawn from the African Economic Community (AEC) model of integration with its five action pillars for

policy focus and action, with its eight regional economic communities as building blocks, and with its six phases of implementing the AEC by 2028? The AEC model (based on the 1991 Abuja Treaty) presents six stages of regional integration from Phase one (1994-1999) to Phase six (2023-2028), and it is obvious that it was based on the linear regional integration model in the sequencing of actions (see: UNECA Observatory, 2016). Also, the other three earlier reports in the series "Assessing Regional Integration in Africa", which are presented by UNECA, give regularly status reports on regional integration in Africa. The new information from the Africa Regional Integration Index (ARII) 2016 also shows that the linear model is still prevalent - as a guiding philosophy for the regional integration formation process and the evaluation of regional integration performances in the eight building blocks and in the member countries (see on the ARII Report 2016: AU/AfDB Group/UNECA 2016). However, there is a big difference between these reports in terms of criteria of reference. The Abuja Treaty mentions as the five action pillars "trade and market integration", "macroeconomic policy convergence", "free movement of persons", "peace, security, stability and governance", and "harmonization of sectoral policies", and with the last one "structural transformation" at the REC level is explicitly mentioned. The ARII Report 2016 however has a different set of criteria/action pillars: "trade integration", "regional infrastructure", "production integration", "free movement of people", and "financial integration and convergence of macroeconomic policies". Not only to mention this difference, with implications on criteria such as "structural transformation" and "peace and security". Also, the status reports are not treating the five Abuja Treaty criteria equally, as "harmonization of sectoral policies" and "peace, security, stability and governance" are largely bypassed. And, "production integration" in the ARII Report 2016 is not a full substitute for "harmonization of sectoral policies". A new concept of "structural transformation" is needed to accelerate regional integration in Africa, incorporating the creation of jobs, the adaptation to climate change, and the development of vibrant hubs of agri-business (Lopes, 2016b). This perspective is not part of the TFTA/CFTA agendas.

It is obvious from these reports, indexes and assessments that there is no concept of "structural transformation" at the base of the Abuja Treaty and the current negotiations about RECs, TFTA and CFTA. However, UNECA, African Development Bank, African Union and UNCTAD have worked in recent years on these requirements for more regional integration dynamics. The Africa Regional Integration Index (ARII) is a step in the right direction as it allows the identification of those criteria where the

region falls short (AU/AfDB Group/UNECA 2016, and Lopes 2016a). Binding constraints to regional integration can be found out. So, one can see that ECOWAS is underperforming in "trade integration", COMESA in "regional infrastructure" and "free movement of people", SADC in "productive integration", and EAC in "financial integration and macroeconomic convergence". And the Community of Sahel-Saharan States (CEN-SAD) is underperforming in regard of most of the criteria. This helps to identify the binding constraints to regional integration and to structural transformation in the region. It is considered necessary to make regional integration more transformative and inclusive by pursuing six fields of regional action: regional institutions, regional infrastructure, regional finance, regional migration, regional trade and investment, and regional value chains (see AfDB 2014); the focus on trade is too narrow. Infrastructure bottlenecks could be removed which impede regional cooperation; management of regional migration could be strengthened to remove bottlenecks of skills at sub-regional levels; a better regional financial infrastructure could remove barriers to trade, investment and value chains. By cooperating on a broad concept of "trade facilitation" regional value chains can become reality. Cooperation on remittances requires more regional financial integration and deeper macroeconomic convergence.

The Status Reports on "Assessing Regional Integration in Africa" reveal that at the level of these six fields of cooperative action (institutions, infrastructure, migration, finance, trade and investment, and value chains) concrete action at the regional level is recorded regularly related to infrastructure, but is scarcely recorded related to other fields. There is for most fields of action only reference to national action (and proposing government-to-government negotiations), but not reference to genuine regional action. Nothing less than a mandate for "structural transformation" at the level of RECs is needed to make regional integration in Africa transformative and inclusive. This is demanded by UNCTAD (UNCTAD/Osakwe 2015), by UNECA (Lopes 2016b), and by the Research Group on African Development Perspectives Bremen (Wohlmuth et al. 2016, Osakwe and Wohlmuth 2016). Bringing these six action fields of regional cooperation together with determined industrial policy initiatives, structural transformation will be enhanced at the regional level. Then pushing for trade reforms will lead to more trade and this will have positive repercussions on growth and inequality, so that poverty is ultimately reduced. This Framework of Transformative Regional Integration is quite opposite to the logic of the linear model of regional integration which starts with trade liberalization before moving to other areas such as investment, services, money and finance, and macroeconomic coordination. Just this linear integration

model is replicated in the current negotiations on TFTA and CFTA, while the six areas of cooperation are largely missed on the TFTA/CFTA agendas. The recent interest in a transformative industrial policy for Africa is important to recognize (UNECA 2016), but needs to be attached to the Framework of Transformative Regional Integration. Then, regional integration will even increase the policy space for industrial policy.

In recent years, it was shown that a transformative regional integration agenda is needed in the sense of finding out the specific binding constraints to regional integration in all the African countries, the eight RECs, and at the continental level. Some knowledge about the binding constraints to regional integration has emerged since 2002, when the African Union and NEPAD were established. It was observed that there is demand for cooperation in the fields of doing business, infrastructure, institutions, rule of law, trade cost and trade facilitation, skilled labour mobility, production integration, finance, and policy coordination. But, these factors are broad areas of concern and can act as highly specific constraints - to countries, to RECs, to the continent; they must be addressed and removed in a specific way to make regional and continental economic integration a viable concept for Africa. Only in recent years (since 2014) we see an increasing awareness about the need for a transformative regional integration agenda. How can progress with such a transformative regional integration agenda for Africa be continuously assessed and measured, and the agenda on this basis then extended and redeveloped? Beside of the Observatory of African Regional Integration (UNECA), the Regional Integration Status Reports (UNECA), the African Peer Review Mechanism (APPR), and other comparative analyses for the RECs (such as COMESA's Key Issues and the Annual Reports of the other RECs in Africa), the Africa Regional Integration Index (since 2016) is a key instrument to install a valuable review mechanism by comparing changes for the five groups of criteria (trade integration, productive integration, mobility of persons, regional infrastructure, macroeconomic and financial policy coordination), and for all the eight RECs and its member countries (with some countries being members of various RECs, like Rwanda in EAC, COMESA and ECCAS). This action complements and supports the Continental Free Trade Area (CFTA) ambitions (with the real start in 2016/2017). For the first time, such an instrument for comparing regional integration performances has been installed by pan-African institutions. But the state-driven and trade-centred regional integration approach needs to be replaced by a participatory, transformative and inclusive regional integration approach.

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