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Regional Integration and Cooperation in Sub-Saharan Africa: Are Formal Trade Agreements the Right Strategy?

African Economic Policy Paper
Discussion Paper Number 20
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ABSTRACT

This paper examines the potential for success for trade-focused regional integration agreements in Sub-Saharan Africa, with particular focus on Southern Africa. The paper surveys the existing literature on regional integration, and attempts to distill the most relevant lessons about success and failure for the current integration initiatives in the region. It finds that there is little reason to expect significant economic gains form formal trade agreements at this time. Such agreements, in and of themselves, are unlikely to yield appreciable benefits unless they are preceded by decisions within member countries to follow more general open trade strategies. Indeed, it is possible that they could be detrimental to the economies involved, either because they might encourage import substitution or a regional basis (as has happened in the past) or simply because they absorb scarce administrative and financial resources. More open trade policies coupled with more disciplined fiscal and monetary policies (and hence more economic stability), perhaps augmented by regional cooperation efforts on transportation and communication infrastructure, appears to be a more promising initial strategy.

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I. INTRODUCTION

Sub-Saharan Africa (SSA) has a long history of regional integration and cooperation agreements. The South African Customs Union (SACU), for example, evolved from an earlier union that was established in 1910. Similarly, the countries of the recently-resurrected East African Community (EAC)—Tanzania (then just the mainland of Tanganyika, Uganda and Kenya—first established a common internal market early in this century, and the Congo Basin Treaty emerged from the Berlin conference of 1884. Since the wave of independence movements in the 1960s, African leaders have time and again spoken of the importance of regional cooperation and unity. In fact, there have been more regional integration and cooperation agreements consummated in Africa than on any other continent. But, with few exceptions (notably SACU and possibly the franc zones) these agreements have yielded disappointing results. They have not led to increased trade within the region, or between the countries of the region and the rest of the world. Moreover, except for the franc-zone monetary unions, they have had little success in actually integrating the economies of the member countries. Basically all analysts agree that the great amount of time, effort and resources expended to date in the name of regional integration in Sub-Saharan Africa has had little payoff.

Yet the enthusiasm for regional integration remains. Most notably, there is great hope that the political changes in South Africa can pave the way for increased integration and cooperation around the southern rim of Africa, and in turn, that the South African economy can be an engine of growth for the entire region. Several initiatives are under way, including an attempt to expand the agenda of the Southern Africa Development Community (SADC) to include trade policy, the Cross Border Initiative (established in 1991), and the Common Market of East and Southern Africa (COMESA), which was established in 1993. The resurgence is not limited to Southern Africa: the East African Community was re-inaugurated in March 1996, nineteen years after it was disbanded.

Are these new initiatives likely to achieve greater success than their forerunners in integrating African economies? Or will they simply divert scarce administrative talent and only undermine the credibility of member governments? This paper examines these and related questions by surveying the existing literature on regional integration and cooperation in SSA and attempts to distill the most relevant lessons for the recent initiatives. The paper distinguishes between *integration* agreements (that focus on trade and factors of production) and *cooperation* agreements (that involve selected policy harmonization or joint infrastructure projects). It makes a further distinction between the objective of economic integration and the specific mechanism of a formal regional integration agreement. It does not evaluate monetary unions, which would require a separate paper.

The basic conclusion is that at this time there is little reason to expect significant gains from formal regional integration agreements in SSA. Such formal agreements, in and of themselves, are unlikely to yield appreciable benefits unless they are preceded by decisions within the member countries (particularly South Africa) to follow a strategy of opening their economies to competition in global markets. This is not to say that there is no potential for further economic integration and deeper intra-regional trade in SSA (indeed, there *is* significant potential); rather that formal regional trade agreements are not the most appropriate mechanism to achieve these goals. There appears to be much greater potential for gains from individual country efforts to pursue a more outward-oriented trade strategy, especially if these actions are complemented by efforts towards regional *cooperation*, including the joint construction of transportation and communication infrastructure and other public goods (such as education and research facilities).

The paper is organized as follows. The second and third sections describe different types of regional integration and cooperation agreements, the theoretical gains and losses from such arrangements, and some stylized characteristics of the types of countries most likely to gain from integration and cooperation. Sections Four and Five discuss the relevance of these issues for SSA by exploring the extent to which the countries of the region are likely to gain from formal integration and cooperation agreements. The final section offers some concluding observations.

II. TYPES OF REGIONAL INTEGRATION AND COOPERATION AGREEMENTS

Formal regional integration and cooperation arrangements vary widely in their structure, objectives, sector coverage, and membership. Regional integration agreements (RIAs) generally are aimed at removing discrimination between foreign and domestic goods, services, and factors of production (Balassa, 1976). There are four classic types of arrangements:

- *Free (or preferential) trade areas*, in which member countries reduce or eliminate trade barriers between each other, while maintaining trade barriers for non-member countries.
- *Custom unions*, in which member countries reduce or eliminate barriers to trade between each other and adopt a common external tariff towards non-member countries.
- *Common markets*, in which members expand the basic customs union by reducing the barriers to the movement of factors of production (labor and capital).
- *Economic unions*, in which members aim to more fully harmonize national economic policies, including exchange rate policy and monetary policies (e.g., a monetary union).

By definition, RIAs provide preferential treatment for members and entail discrimination against non-members. Bhagwati and Krueger (1995), among others, have emphasized this point with respect to free trade areas, and have argued that they instead be called *preferential* trade areas.

RIAs should be distinguished from *cooperation* agreements, which are aimed less directly at trade and factors of production, and instead commit members to work together towards a common end or purpose. Cooperation initiatives tend to be more selective in their coverage and generally require less long-term commitment than integration. There are two broad types of cooperation initiatives:

- *Selected policy harmonization*, such as the adoption of common standards and consistent regulations, similar tax treatment of foreign investors, mutual defense and security, and coordinated voting in international organizations; and
- *Joint production of public goods*, including infrastructure (e.g., railroads, bridges, communications systems) or institutions (e.g., education, research).

RIAs, whatever their specific structure, also vary in their objectives. A critical distinction is whether an RIA is established to support an inward-oriented or outward-oriented trade strategy. Many RIAs in developing countries are inward-oriented; that is, they were established to enlarge the domestic market for import-substituting firms in what members usually refer to as a strategy of self-sufficiency. In these arrangements, protected domestic firms operate on regional rather than national level. In some cases, these RIAs permit limited competition between firms with the region. In other cases, RIAs include complementation agreements that allocate authority over specific sectors to different members countries, which in turn provide their firms with monopoly power in the region and nearly complete protection from competition. By contrast, outward oriented RIAs are often established as a fist step towards integration with the global economy. These RIAs are designed to expose firms to regional competition with a view towards eventually competing in global markets. This fundamental difference in orientation has an enormous impact on the potential economic gains from integration, as we shall see later in this paper.

With respect to sectoral coverage, RIAs commonly are limited to industry, and more specifically, to manufacturing. A minority encompasses agriculture and services. In general, the more limited the agreement, the more likely it will exclude sectors in which some countries have a comparative advantage, which obviously reduces the potential gains from increased trade.

Finally, RIAs differ in terms of the relative income levels of their membership. Some RIAs, like the European Community, encompass only industrialized countries. Others, such as the North American Free Trade Area (NAFTA) and the Asia-Pacific Economic Cooperation (APEC) forum, include both industrialized and developing countries. Still others include only developing countries. The experiences of one type of country grouping may not always be relevant to others. Langhammer and Hiemenz (1990) refer to the tendency of governments from developing countries to assume that the experience of industrialized country RIAs can easily be replicated in developing countries as "the fallacy of transposition." They argue that "many initial conditions conducive to integration in Europe have been overlooked by governments of developing countries: e.g., a high level of intra-regional trade before integration was started; similarities in income and industrialization levels allowing for intra-industry specialization; political congeniality in foreign affairs; and capability and willingness to provide compensation payments."

III. EXPECTED GAINS AND LOSSES

The structure, objectives, sectoral coverage, and membership of RIAs can substantially influence their potential economic gains and losses. Both economic theory and a vast body of empirical evidence point towards the superiority of full multilateral (rather than regional) free trade as the best strategy for a government to maximize national welfare. RIAs are a second-best arrangement, and are at most a step towards the ideal of multilateral trade. One way to evaluate RIAs, then, would be to compare their outcomes against hypothetical outcomes from more open trade. However, in most models, the net benefit of RIAs are measured relative to the initial starting point, rather than against the standard of multilateral free trade. Using this standard, RIAs can be expected to lead to both static and dynamic gains (de Melo, et al, 1993; de la Torre and Kelly, 1992; Langhammer and Hiemenz, 1990, Robson, 1987, Balassa, 1961).

Static Gains

Static gains result from a one-time reallocation of economic resources such as land, labor, capital, or natural resources. The static effects of RIAs depend primarily on the relative sizes of *trade creation* and *trade diversion*, a distinction first make in the classic analysis of customs unions by Viner (1950). Trade creation takes place when a member switches from consumption of goods produced domestically (at relatively high cost) to goods imported from a lower cost firm located in a partner country. For example, consider a domestic shoe company protected by a 50 percent tariff, sufficient to preclude shoe imports. Following the RIA, the tariff on shoes from member countries is eliminated. If a second member country can produce shoes at a lower cost, the first country will import shoes from the second country, thereby creating trade.

Viner was the first to show that trade creation is welfare enhancing, providing gains on both the supply side and the demand side (Viner, 1950; see also de la Torre and Kelly, 1992; and Balassa, 1961). Supply side benefits accrue from the reallocation of resources away from protected industries and towards firms producing goods for the regional market (assuming full employment), once protection in other member countries is reduced. On the demand side, consumers benefit from being able to buy from the lowest-cost producer in the region. These effect can have important distributional consequences: previously protected producers lose, while consumers and low-cost producers gain.

Trade diversion takes place when a member switches from consumption of lower cost goods imported from outside the region to higher cost goods produced within the region (which face lower tariffs after integration).[1] Trade diversion is generally welfare reducing (although strictly speaking this may not always be the case). The loss from trade diversion stems from the reduction in government revenue as imports from outside the region (with high tariffs) are replaced by imports from within the region (with lower tariffs). Although there is an offsetting gain because consumers face lower prices (with an increase in consumer surplus), a portion of the price they pay effectively subsidizes producers in other member countries, rather than accruing to the government for reallocation within their own country. This cross-border subsidy represents a decrease in aggregate economic welfare.

There are at least two theoretically possible ways in which trade diversion will not necessarily be welfare reducing. First, it is possible that the cross border subsidy can be fully compensated by the increase in consumer surplus (resulting from lower consumer prices), in which case trade diversion is not welfare reducing. Second, if member countries jointly constitute a large share of world trade in specific commodities, RIAs may be able to influence world prices (Robson, 1987). Members could conceivably act as a cartel and lower the price of imports form the world or raise the price of exports to the world. This terms of trade effect could be enhanced by the possibility of member countries jointly imposing an optimal tariff on either exports from or imports to the region. Both of these outcomes however, are highly unlikely.

Members can also gain from the reallocation of factors of production across the borders, if barriers to movement of capital and labor are removed by the agreement. An expansion from country to regional markets for factors of production is assumed to lead to more efficient use of resources.

[1]RIAs in which tariffs for non-members are *raised* can lead to trade *suppression*, in which imports from non-members are replaced by higher cost regional production. This strategy, however, is against WTO rules and so is rare.

However, even in the complete absence of legal or administrative barriers, factors of production may still face natural obstacles to mobility. These may include, inter alia, transportation and moving costs, incomplete information, greater risks, and psychological and sociological costs of displacement.

Dynamic Gains

Dynamic gains from RIAs stem from the impacts on productive capacity and potential output, and the resulting impact on income growth. RIAs will expose firms to greater competition in regional markets, which should bring about greater efficiencies in production and marketing, and possible gains from industry restructuring. Perhaps most importantly, a large competitive market will induce firms to produce more specialized products, facilitating the expansion of firms serving niche markets. This benefit was particularly important for the EU. However, RIAs can also result in *less* competition, either because of cartel-like cooperation between firms in the region, or because in some RIAs, members allocate control of different sectors to different countries.

Additionally, if there are economies of scale in specific production processes, a larger market may enable firms to lower unit production costs (de la Torre and Kelly, 1992; Langhammer and Hiemenz, 1990, Robson, 1987, Balassa, 1961). Similarly, region-wide transportation and communications networks are likely to be cheaper on a per unit basis; larger markets may also be conducive to spillover effects such as transfers of knowledge from producers to users. Mutual gains can be realized from the joint production of public goods of common interest. For example, member countries can cooperate in the construction of connecting roads or rail networks, or from joint management of natural resources (such as ocean or river fisheries).

Several other dynamic gains may result from RIAs, including the sparking of greater investment (from both inside and outside the region) as the size of the market increases and internal trade barriers fall, improvements in technology from imports of capital goods, and the importation of best practices and new technologies.

The dynamic gains could be especially large if the RIA is designed as an intermediate step towards global integration, rather than as an end in itself. In this view, which is essentially an infant industry argument, firms can progress from being domestically competitive to regionally competitive to globally competitive. The assumption in this "training ground" argument is that extending protection to a regional basis will have beneficial impacts on quality control, marketing techniques, and management capabilities that will enhance the capacity of firms to eventually compete on global markets (Langhammer and Hiemenz, 1990). Krugman (1984) has referred to this strategy as "import protection as export promotion." While this argument has some theoretical merit, it assumes that member country governments can distinguish "infant" industries from "sunset" industries, or more generally, that members are able to determine which sectors have potential to eventually compete in world markets. It also assumes that member governments actually will be willing to eventually expose firms to global competition.

Thus, the most important dynamic issue is whether or not an RIA is likely to lead to even greater integration with the world economy, a step which would increase joint welfare beyond the limits of an RIA (Lawrence, 1995, Bhagwati and Panagariya, 1995; Bhagwati, 1993). In other words, what will be the impact of a formal regional integration agreement on the incentives for decision makers to pursue more extensive multilateral integrations? Theoretical work on this issue is in its infancy, and economists and political scientists are divided on the likely outcomes. RIAs could impede further integration, for several reasons. First, member governments might believe the regional market in an RIA is large enough to meet their objectives. Second, the principal motivating factor behind forming the RIA may be for politically influential firms to take advantage of opportunities created by trade diversion, or to extend their protected market to a regional basis. In these circumstances, there may be few political incentives for further global integration (Grossman and Helpman, 1995, Krishna, 1995). Third, because of the smaller number of members in an RIA (relative to full multilateral trade), political opposition can focus more easily on a prospective new member, threatening to derail the process of expansion of the agreement. For example, groups opposing the NAFTA agreement in the United States were able to raise fears at home by focusing attention on policy issues specific to Mexico, a strategy that might be less successful in a more diffused multilateral agreement (such as the GATT).

Other analysts argue that even if RIAs are inferior to full liberalization, they should be viewed as a positive step in that direction. In this view, regional integration is seen as establishing a long-term dynamic towards more complete global integration, and thus is likely to be beneficial in the long run (Summers, 1991). RIA are seen as easier to negotiate than full multilateral agreements because they involve fewer members, so that some level of integration can take place more quickly. Furthermore, the establishment of an RIA can be costly for nonmembers (if they are hurt by trade diversion), creating an incentive for them to try to join. In this "domino" effect, the more non-members that eventually join, the closer the RIA becomes to approximating world trade (Baldwin, 1993).

Non–Economic Benefits

Langhammer and Hiemenz (1990) identified three non-economic benefits from RIAs. First, RIAs can improve the collective bargaining power of member countries vis-a-vis non-member countries. Acting in concert, member countries may be better able to demand access to markets (or to withstand demands from non-members for access to the region) or to increase their voting power in international fora. Second, RIAs may facilitate member's commitment to political objectives of common interest. RIAs are likely to increase regional dialogue and discussion, which may help diffuse potential regional disputes, and engender mutual political support. Such agreements can expand to security and defense issues. Effectively, RIAs can provide a means towards a modicum of political integration without governments sacrificing the independence of the nation-state.[2]

Third, membership in RIA entails some loss of sovereignty, which can be either positive or negative. Governments, especially those in newly independent countries, are loathe to give up any of their new-

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[2]However, regional defense and security commitments created a dilemma for The Gambia in 1989 when its membership in two separate regional groupings called for conflicting courses of action following a series of border skirmishes between neighboring Senegal and Mauritania. As a member of the Senegambia Confederation with Senegal, The Gambia was committed to a mutual defense treaty with its neighbor. Hence, Senegal demanded that The Gambia join in its defense. But The Gambia was the chairman of ECOWAS at the time, in which capacity it was committed to mediate disputes between members, including the dispute between Senegal and Mauritania. The Gambia chose the latter course, which was a major factor leading to the demise of the Senegambia Confedeation later that year.

found power. However, regional agreements can serve as a scapegoat for unpopular policy decisions. By committing to a schedule of tariff reductions, for example, governments effectively give up some of their policy options to the supranational organization, but can then deflect criticism for any negative outcomes by citing the importance of the larger goal of regional cooperation.

Net Gainers or Losers: Some Stylized Characteristics

Integration theory suggests some general guidelines about the relationship between the characteristics of regional agreements and the likelihood of net gains for member countries. These guidelines are at best rules of thumb: there are circumstances under which each of them may prove to be incorrect. Nevertheless, several broad generalizations emerge from the literature.

- The larger the share of intra-regional trade in total trade for the member countries *before* the RIA, the more likely that trade creation will dominate trade diversion (Langhammer, 1992). That is, the greater the existing trade links, the less likely trade will be diverted from low cost firms outside the region to higher cost firms within the region.[3] This observation suggests that neighboring countries may be logical candidates for RIAs. However, Bhagwati (1992) has pointed out that it is not necessarily the case that neighboring countries form natural trading partners. Other factors, such as geo-strategic alliances, former colonial links, and complementarity of production can play a far more important role in determining trade flows. The possibility that Chile may become the next member of NAFTA is a case in point.

- The higher the initial tariffs between partner countries, the greater scope for trade creation. Reducing high tariffs between members is likely to lead to the replacement of goods previously produced by highly protected domestic firms with output from more efficient firms elsewhere in the region. In this situation, the grater the difference in cost structures of firms in different member countries, the greater the scope for increased trade and production efficiency following integration.

- The higher the tariffs facing non-members after the formation of the RIA, the greater the potential for detrimental trade diversion, and the less beneficial the RIA.

- The smaller the elasticity of substitution between member and non-member goods, the smaller the likelihood of trade diversion. That is, if goods produced by member countries are not close substitutes for goods previously imported from non-members, trade diversion will be smaller (Bhagwati, 1992).

- The greater the membership, economic size, and share in world trade of the RIA, the greater the scope for trade creation, and the smaller the tendency for trade diversion (Langhammer, 1992, Robson, 1987). In other words, the larger the membership, the more likely that the lowest cost producer of any particular good will be included in the arrangement, and the greater the potential for specialization. The ultimate extension of this argument, of course, is

[3]Bhagwati and Panagariya (1996) show that even this widely-held result may not always hold, depending on the redistributional impacts of changes in tariffs.

complete multilateral integration.

- Similarly, the broader the sectoral coverage of the RIA, the greater the possibility that all members will enjoy comparative advantage in some products. In more limited arrangements (e.g., to certain manufacturing sectors) it is possible that countries with comparative advantage in excluded sectors (e.g., agriculture) will gain little, and may in fact lose from the RIA.

- The higher the transportation and communication costs among member countries, the lower the potential gains from trade creation (Langhammer and Hiemenz, 1990; Balassa, 1961).

- Because RIAs require a great deal of negotiation and compromise, the greater the history of political harmony and support between member countries, the larger the scope for integration and other cooperation. Countries with a history of animosity are unlikely to be good candidates for RIAs.

- Theory provides conflicting hypotheses about the impact of differences in member country's incomes. On the one hand, income levels tend to be correlated with factor endowments, so the larger the difference in income levels, generally speaking the larger the difference in factor endowments, and the larger the potential gains from trade (driven by comparative advantage). In other words, dissimilar countries may make better partners because their economies are potentially complementary, rather then competitive (de Melo and Panagariya, 1992). On the other hand, countries with similar income levels and consumer demand patterns may be better able to reap gains from intra-industry specialization and product differentiation. This latter issue may be most relevant for RIAs involving industrialized countries because the demand for more specialized products tend to increase with income (de Melo and Panagariya, 1992). More importantly for developing countries, disparities in income are likely to be accompanied by differences in transportation systems, communication networks, and legal systems that may make the potential for increased trade more difficult to realize. Partly because of these differences, the economic gains from integration are likely to accrue more rapidly to the richer country (McCarthy, 1994, Hazelwood, 1979). Firms will tend to prefer to locate their major operations in the wealthier country, since it is likely to have better infrastructure, better developed financial markets, and larger product markets. This of course, is precisely what happened with East African Community, where most firms gravitated to Kenya.

IV. REGIONAL INTEGRATION EXPERIENCES AND THEIR RELEVANCE FOR SUB-SAHARAN AFRICA

The balance between the potential gains and losses from RIAs is ultimately an empirical question. The vast experience with RIAs around the world allows us to go beyond these stylized guidelines to explore the characteristics of the country groupings and the arrangements where RIAs have been successful or unsuccessful in the past, and the relevance of these experiences for RIAs in SSA.

Basic Outcomes

In general, RIAs involving *developing* countries have failed to promote trade or industrialization, or to result in significant economic gains for member countries. Empirical evidence suggests that RIAs have had little, if any, impact on intra-regional trade.

Langhammer and Heimenz (1990), in their comprehensive survey, could find no case in which an RIA made up solely of developing countries had made a significant contribution to trade expansion or economic development. Most other analysts have come to the same conclusion. Of course, there are some RIAs with developing country members in which trade has grown rapidly (e.g., APEC, NAFTA), but in each case trade expansion *preceded* the RIA. Within SSA, only the South African Customs Union (SACU), with South Africa as the key member, has achieved any significant integration of goods markets (Foroutan, 1993). The Communautè Economique de l'Afrique de l'Ouest (CEAO) appeared to have a modest positive impact on intra-regional trade immediately following its formation, but trade growth stagnated thereafter. Other RIAs within SSA had no discernable impact (Foroutan and Pritchett, 1993).

The record has been somewhat better with agreements involving industrialized countries (such as the EC), where RIAs generally are considered to have stimulated increased trade and economic growth. There are several reasons for this different outcome (de la Torre and Kelly, 1992). First, trade creation appears to have been relatively larger in industrial country RIAs, at least partially because member countries where more integrated before the agreement. Second, industrialized counties have exploited gains from intra-industry specialization and product differentiation, which are more important in larger, high income markets. Expansion in intra-industry trade has been a clear outcome in the EC. But in poorer countries where the market for different products is more limited, intra-industry trade has not increased. Third, RIAs in high-income countries have a much better record of actually implementing agreed policy changes, often ahead of schedule.

More fundamentally, the failure of many RIAs in developing countries can be traced directly to their basic strategy of attempting to foster industrialization based on import substitution. Inward-oriented RIAs have consistently failed to support the expansion of either trade or industry (Langhammer and Hiemenz, 1990; de la Torre and Kelly, 1992; de Melo and Panagariya, 1993). Indeed, trade diversion was an implicit objective of many RIAs, with members aiming at expanding intra-regional trade as a substitute for world trade, rather than to foster competition (Langhammer, 1992). Almost all such RIAs have broken down as a result of internal conflicts over the distribution of the costs and benefits of the agreement. Member countries in inward-oriented RIAs have tended to develop high and widely dispersed levels of effective protection. In many cases, the high levels of protection led to excess capacity in the protected sectors. To avoid this problem, many developing country RIAs either allowed member countries to impose barriers to entry, or explicitly included complementation agreements that allocated specific industries to different member countries. These clauses often led to conflicts, as there were no clearly articulated criteria to guide such allocation decisions (de la Torre and Kelly, 1992). These issues, plus the limited size of the regional market, ultimately led many governments to view (probably correctly) inward-oriented RIAs as at best zero-sum games (Hazelwood, 1979). As a result, member countries attempted to exempt more sectors, further limiting the potential gains from these agreements. Finally, inward oriented RIAs have tended to foster the creation of vested interests, rather than competition. Protected industries have been more likely to fight integration with the world economy, and are less likely to be able to eventually survive such competition. In practice, then, the "training ground" rationale for RIAs has not applied, as they have not helped prepare firms to compete on global markets.

By contrast, RIAs in industrialized countries have tended to be outward oriented, with members generally aiming to ultimately expand the agreement and become more integrated in global markets. Outward oriented RIAs have been far more successful than inward oriented arrangements, especially when member countries adopted a basically open stance before the agreement (e.g., APEC, NAFTA, EC). *In other words, formal RIAs have worked best when they have built on previous steps towards openness and integration. They have not worked well when they were a first step towards openness, and have had especially poor outcomes when they acted as a substitute for more fundamental trade liberalization.* For example, a common conclusion about the true benefit of NAFTA for Mexico is that it locked in earlier reforms and set the stage for future liberalization, rather than introducing new policy changes as part of the agreement (Lawrence, 1995; de Melo and Panagariya, 1992).[4]

In general, the countries of SSA continue to be inward oriented and have only modest trade linkages. For example, the share of intra-group exports in total exports was less than 6 percent for all of the major RIAs in SSA in 1990, with the exception of the CEAO, where it reached 10.5 percent. The comparable shares for ASEAN, NAFTA, and the EC were 19 , 42 and 61 percent (Foroutan, 1993). Although the magnitude of *actual* trade flows in SSA is almost certainly larger than the official figures indicate because of unrecorded flows (Husain, 1993; Barad, 1990), the basic conclusion remains that most existing trade takes place with countries outside the region. Foroutan and Pritchett (1993) used a gravity model to show that the relatively small share of intra-regional trade in SSA is about what should be expected, given relative income levels and the geographical characteristics of the countries in the region. Because of these small existing linkages, the potential for trade diversion is high, and the potential gains from expanding existing trade are relatively small.

One reason for these weak intra-regional trade ties is the strategy of inward-oriented import substitution that has guided so many African governments. As long as this strategy is in place, the possibility of exploiting the gains form trade will be limited, particularly on a regional basis. Foroutan and Pritchett (1993) concluded that "the fundamental explanation for the failure of regional integration in SSA to increase intra-regional trade share is to be linked to the inability and/or unwillingness of these countries to carry out the preferential trade liberalization measures that represent the prerequisite for trade creation among integrating markets."

One difficulty faced by African governments in reducing import tariffs and following a more outward-oriented strategy is that tariffs account for a large share of government revenue, much larger than in other developing countries. As a result, tariff reductions have an immediate and relatively large impact on the budget and related macroeconomic balances. It follows that to the extent a more outward oriented basic strategy is necessary to facilitate greater regional trade, significant expenditure and tax reform is a prerequisite for (or must accompany) trade reform.

A second reason for the lack of trade integration within the region is that, in many cases, the structure

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[4]Bhagwati and Krueger (1995) argue that Mexico could have locked in its earlier reforms through the GATT, and that NAFTA was unnecessary to achieve this goal.

of output across countries is not complementary. On the export side, diamonds from South Africa, copper from Zambia, and coffee from Kenya will not find a large market within Africa. On the import side, demand for capital goods and certain intermediate inputs (such as steel) can not be met on an efficient basis within the region. There is of course some scope for complementary trade (especially in diversified agricultural products), but it is more limited than in other RIAs.

Intra-regional trade is also inhibited by weak infrastructural linkages (Stern and Gugerty, 1996). Poor port facilities, weak communications links, and underdeveloped road networks all limit the potential for expanding regional trade. Moreover, in many cases, rail, road, and port facilities were designed to strengthen trade ties with the former colonial power, not for trade with neighboring countries. Similarly, many of the strongest commercial ties are between domestic firms and those in former colonial countries, especially where African firms have preferential access. These existing arrangements reduce the scope for significant trade expansion in the region, especially in the immediate future (Langhammer and Hiemenz, 1990).

The experience of RIAs around the world also suggests that macroeconomic stability in each member country is a prerequisite for long-term success. Instability tends to lead members to impose controls on imports or capital flows, which can ultimately undermine an RIA. This has been especially true for inward-oriented RIAs, in which members have less economic flexibility and are less able to adjust to external shocks. These concerns are magnified when member countries depend heavily on a small number of primary commodities for their export earnings, and thus are more prone to large terms of trade shocks. Moreover, the periodic imposition of controls is more likely when members are developing countries, because each member is likely to impose restrictions on other developing countries (including other members) rather than on industrialized countries from which they import technology and capital equipment (Langhammer, 1992). This problem arose in the EAC in the mid-1970s after the oil crisis (Hazelwood, 1979).

African countries' history of both macroeconomic and political instability suggest that they would be relatively poor candidates for membership in RIAs. In the uncertain political and economic environment that continues to prevail throughout much of the continent, it is highly unlikely that many of the theoretical dynamic gains from RIAs (e.g., increased investment, product and process innovation) can be achieved. These concerns suggest that taking preliminary steps towards export diversification and achieving and maintaining macroeconomic stability would be prerequisites to successful trade integration in the region.

Similarly, where RIA agreements (and member governments) have lacked credibility, investment has not occurred. Investors have shied away from projects that have relied on the regional market and the existence of the integration agreement.

The experience of RIAs has also shown that where the member countries have very dissimilar underlying economic and political strategies, there is much smaller likelihood of successful integration. Integration between a state-centered economy and a more market-oriented economy can be problematic, as was shown with Tanzania and Kenya in the East African Community. Similarly, countries with a history of political support, cooperation, and mutual global interests make better candidates for RIAs, whereas countries with antagonistic histories find it more difficult to negotiate and compromise. It is difficult to generalize about these issues within the context of SSA, as each pair of countries has a unique historical relationship. But given the history of regional and domestic conflicts, and the difference in and uncertainty about basic economic strategies, negotiations on a multilateral trade agreement can be expected to be slow.

Implementation issues

In addition to these structural characteristics, RIAs in Africa have suffered from weaknesses in design and implementation. Most agreements in SSA have limited their sectoral coverage to industry, which has not allowed member countries to exploit their comparative advantage in other sectors, especially agriculture (Langhammer, 1992). For example, Barry (1994) and Salinger and Stryker (1993), among others, found that removing the barriers to trade in cereals, non-cereals, and livestock could increase intra-regional trade in these products.

Moreover, policy instruments in most RIAs in SSA have been limited to tariff reductions (Langhammer, 1992). Progress on removing other barriers, such as quantitative restrictions, impediments to factor flows (with the exception of the monetary unions), barriers to entry, and other administrative and legal obstacles, has been limited. These impediments have reduced the scope for trade expansion, even in cases where tariffs have been reduced.

Implementation of RIAs, both in SSA and elsewhere, has been particularly slow where tariff reductions have been negotiated product-by-product rather than across-the-board. Similarly, less progress has been made when RIAs have relied on positive lists of sectors to be included, rather than negative lists of sectors to be excluded. Case-by-case negotiations and positive lists give members considerably more latitude to exclude sensitive products from liberalization (de la Torre and Kelly, 1992), limiting the scope for gains from integration.

A different set of problems in developing country RIAs has arisen from the distribution of benefits, especially when the benefits have been perceived to accrue more rapidly to richer member countries. In principle, the richer country could compensate the poorer country through explicit financial transfers, differing schedules for tariff reductions, changes in the allocation of industrial location, or location of infrastructure to support the agreement (e.g., regional development bank, organizational secretariat). But in practice, the calculation of the appropriate size and distribution of the compensation payments has proven to be difficult, and has been the source of friction between member countries. Three types of problems have arisen. First, members tend to rely on simple, seemingly transparent measures of economic gains and losses (such as lost tariff revenues), but often the indicators are very misleading measures of true economic gains and losses. Second, member have not always followed through with agreed compensation payments. Third, even where cross-border compensation takes place, it generally is not distributed to the individuals and firms that lose from integration; more often it accrues to the government budget for more general distribution. The perceived imbalance in economic gains was the major reason for the demise of the East African Community (EAC) in 1977 (McCarthy, 1994; Foroutan, 1993, Ravenhill, 1990; Robson, 1987; Hazelwood, 1979). The only example of successful compensation arrangements in SSA is SACU, where member countries have agreed to a split of tariff revenues collected by the South African Customs Administration. But even here the administration of the split is challenged regularly.

Finally, preferential trade agreements (as distinct from customs unions) suffer from the difficulty of establishing rules of origin. These rules, which are often fairly arbitrary in their design, add an additional administrative layer to RIAs, and are increasingly difficult to use in an era of globalization of design, production, and assembly (Bhagwati and Krueger, 1995).

V. REGIONAL COOPERATION

Developing country regional agreements aimed at cooperation have fared much better than those aimed at integration. Cooperation agreements can focus on any of a wide variety of issues, including infrastructure construction, research and development, environmental initiatives, food security, energy management, improved flows of information, and mutual defense and security. The strong consensus in the literature is that the countries of SSA would be far more likely to gain by enhancing regional coordination in these areas than by formal trade integration (Mytelka, 1994; McCarthy, 1994; Foroutan, 1993; de Melo and Pangariya, 1992; Ravenhill, 1990; Mulaisho, 1990; Langhammer and Hiemenz, 1990; Robson, 1987).

The best example of successful coordination in SSA is by SADC (formerly SADCC). For its beginnings in 1980, SADC emphasized specific projects and programs, and downplayed the explicit goal of integration of regional markets (Foroutan, 1993; Mulaisho, 1990; Ravenhill, 1990). It purposely did not establish a highly centralized and expensive bureaucracy, and instead established a small secretariat, leaving most responsibility for various sectors with individual member states. It placed its priorities on enhancing infrastructure and communications linkages among member countries, with some success. For example, between 1980 and 1990, the percentage of transit traffic from the six landlocked member states moving through SADC ports increased from 20 to 60 percent, despite extensive military activity in the region (de la Torre and Kelly, 1992). The most successful transport project was the development of the Beira corridor between Zimbabwe and Mozambique, which substantially reduced Zimbabwe's dependence of South African ports (Foroutan, 1993). Progress was also made in connecting national power grids, enhancing food security, and cooperative research on new crop strains.

A similar example from outside the region is the Association of Southeast Asian Nations (ASEAN), which also was not primarily aimed at trade integration. Rather, the main objective was to defuse conflict among member states and to forge a common voice on international matters of mutual concern. Trade integration took a back seat, both because some members (especially Indonesia and Thailand) initially had high tariffs, and because member states initially mistrusted each other's intentions. As both these factors changed over time, the early emphasis on dialogue and cooperation eventually evolved into more substantive discussions on trade.

One of the major advantages of cooperation initiatives is that they require much less long term commitment by member governments than formal integration arrangements. Their scope and size is flexible; they can be limited to one project or expanded to several initiatives; similarly, they can involve many countries (like SADC) or be limited to bilateral arrangements. As a result of this flexibility, cooperation initiatives are less threatening to the ruling elite than formal trade agreements in terms of encroaching on national sovereignty (Ravenhill, 1990). They also tend to be lower profile, and thus less risky for policymakers. Cooperation initiatives also usually have smaller secretariats and bureaucratic hierarchies, and therefore are less demanding on scarce administrative and financial resources than more formal trade agreements. Finally, and perhaps most importantly, cooperation can help pave the way for increased trade within the region (and beyond) by improving communication and transportation links and by establishing dialogue between member countries, both of which are prerequisites for successful integration.

VI. CONCLUSION

Formal regional trade agreements are unlikely to be beneficial to the countries of SSA at the present time. In general, African countries show few of the characteristics that are normally associated with successful RIAs. This conclusion does not imply that the potential gains from increased trade within SSA are limited; indeed, several studies show just the opposite. Rather, formal integration agreements are not the most appropriate first step to realize these gains. A trade-focused RIA is unlikely to succeed in the absence of enhanced economic and political stability, stronger infrastructure and communications linkages, a reduction in the administrative and bureaucratic constraints to trade, and, most importantly, a more fundamental shift to an outward-oriented trade policy.

In the absence of such a shift in policy, formal integration agreements are unlikely to move member countries towards greater integration with the global economy, and thus are unlikely to be beneficial to member countries. *Instead, they could actually be detrimental to the countries involved, either because they might encourage import substitution on a regional basis or simply because they absorb scarce administrative and financial resources.* de Melo and Pangariya (1992) concluded that "despite a greater acceptance of outward-oriented policies today, the temptation to use regionalism as a vehicle for import-substituting industrialization is high. African markets remain small, and the efforts at regional integration will only divert attention from efforts to integrate SSA into the world economy." Given the limited supply of skilled administrators and policymakers in may of the countries of SSA, such a diversion of effort has large opportunity costs. Moreover, to the extent that RIAs in SSA are unsuccessful, they could erode, rather than built the credibility of member governments. Ravenhill (1990) concludes his analysis by asking the following rhetorical question: "Why persist with schemes that are ignored, that increase frustration, and that, even in the unlikely event that they were to be implemented, offer little prospect of significant gains in the short run?"

A more promising approach is to couple individual country efforts to open their economies to greater trade with efforts to promote regional cooperation. Cooperation agreements are easier to administer and are less threatening to national sovereignty than formal trade agreements. In the case of joint infrastructure projects, they are also more likely to result in short-term, visible benefits. Most importantly, regional cooperation may help lay the groundwork for greater trade and factor market integration, both within SSA and between the region and the rest of the world.

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