IMPACT OF REGIONAL TRADING AGREEMENTS ON ECONOMIC PROSPERITY IN AFRICA

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ABSTRACT

The concept of trade as an engine of growth has become more popular with the advent of globalization and the consequent relaxation in trade barriers.Empirical evidence received for the positive correlation between trade liberalization and economic growth has led to the proliferation of intra and inter Regional Trade Agreements (RTA) across the world. Regional trading agreements are seen as a panacea to cure all ills in the economy and are seen as saviors which will bring economic prosperity and gains to the region. Africa, which is among the least developed continent in the world, also seems to think so. The objective of this paper is to determine whether the membership of such regional trade agreements has added to the prosperity of the member countries and has it helped them in increasing cross border trade.

Keywords: Africa; Economic Growth; Regional Trade Agreement, Trade as an Engine of Growth, Trade Facilitation

Introduction

Africa exists at the periphery of global economy. Most of the 54 countries in the African continent have low per capita incomes and small populations. This results in small markets and small economies. Many of these small economies are further burdened with the fact that they are landlocked which leads to higher trade transaction costs. Geopolitical configuration of Africa has been largely dependent on the European colonial powers.With the emergence of new nation states through independence, there is a growing realization that international trade can emerge as an engine of growth for most of them.

One of the key challenges facing Africa is the determination of its trade policies against competing demands on the regional and multilateral levels. The world trade has been greatly influenced in the last two decades by the formation of WTO (World Trade Organization). WTO is a collection of trade agreements between member countries. The main purpose of WTO is to facilitate international trade and to help in bringing down trade barriers. Regional Trade Agreements (RTA)are defined as reciprocal trade agreements between two or more partners(WTO). They include both free trade agreement and customs union.

In the last two decades, there has been an explosive growth in the number of RTAs that have been signed between various countries and have been enforced.Nearly all countries in the world are now part of at least one RTA and there are approximately 300 RTAs in the world both bilateral as well as plurilateral.RTA can be classified as either trade creating or diverting. A given RTA is considered to be trade creating when some domestic production in a member of the RTA is replaced by a lower cost imports from another member while on the other hand, an RTA is considered to be trade diverting when lower cost imports from outside the RTA are replaced by higher cost imports from a RTA member as a result of preferential trade agreement.

RTA as a concept is not new to the continent of Africa.In the past one and a half decade RTAs have mushroomed to a large extent covering the entire continent of Africa.The push in RTAs in Africa has occurred against the backdrop of increasing regionalism worldwide and the ongoing multilateral trade negotiations. There are more than 30 RTAs in Africa at present but all are not that effective. In this paper, we will be focusing on some of these major Regional Trade agreements in Africa and try to determine whether the formation of RTA has resulted in better economic prospects for the member countries. The economic prospects are seen in the form of Real GDP growth rate, Current Account Deficit, trade balance and FDI Investment in the country.

Regional Trade Agreements in Africa

The RTA covers in this paper are Southern AfricanCommunity (SADC), Sothern African Customs Union (SACU), the Common Market for Eastern and southern Africa (COMESA), the East African Community (EAC), the Economic Community of Central African States (ECCAS) and the Economic Community of West African States (ECOWAS).

Southern African Development Community (SADC)

The Southern African Development Co-ordination Conference (SADCC) was formed in the year 1980 with the objectives of reducing dependency on South Africa and for initiating a platform for channelizing donor aid to this geographical region. The Declaration and Treaty which established Southern African Development Community (SADC) was signed in 1992 and this replaced the Co-ordination Conference. Now there are 14 member countries in SADC and the countries are Angola, Botswana, Democratic Republic of Congo (DRC), Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.

SADC aims at promoting economic integration between member countries and thereby facilitating the formation a fully fledged common market. By ensuring peace and security, SADC also aims at promoting regional solidarity based on common socio-political and economic values.

SADC has a huge potential market with a population of 186 million people. The combined GNP of SADC members amounts to US$178 billion. The import potential of SADC members exclusive of South Africa is estimated as US$20 billion. There is wide spread disparities between the member countries in the region in terms of economic conditions. The scope and potential of SADC is widened with the joining of South Africa in the community in 1994.The huge size of South African economy relative to that of other members offers a major role to South Africa in the community.

Statistics pertaining to South Africa's contribution to the RTA'S GNP, Population and land area clearly reveals the economic dominance of South Africa over other countries in the community. In terms of land area South Africa accounts for 13% of the SADC's total land area. The market potential and economic dominance is shown through its 22% share in the total population and 73% share in total GNP of the region.

Intra-regional trade statistics reinforce the economic dominance of South Africa. Since 1994, with the inclusion of South Africa in the Community, intra-SADC trade accounted for 14.5. % of regional exports. Before 1994, intra-SADC trade was accounted only for 2.6% of the regional exports. This substantial increase was mainly due to South African export to other member countries in SADC. In terms of intra-regional imports South Africa accounts for 86% of the total intra-regional imports.

Investment opportunities in SADC market are quite high. Most of the SADC countries are endowed with natural resources, mineral wealth and oil and natural gas deposits. Many of the member countries have initiated privatization process in strategic sectors to promote foreign direct investments.

Southern African Customs Union (SACU)

SACU is a customs union established in the year 1970 to promote free trade between member countries by maintaining duty free policy on exports between member countries. The union comprises of five member countries - Botswana, Lesotho, Namibia, Swaziland and South Africa These countries maintain a common external tariff structure. All customs and excise revenue collected in this union are kept with South Africa's National Revenue Fund. The member countries get their revenue share based on the revenue sharing formula in the agreement.

For many South African exporters, trade with SACU is more local in nature due to geographical proximity of the markets and simplified export procedures. Tariffs imposed on goods from outside SACU discourage the switching of imports from other suppliers. Though the prices of South African products are higher than for similar items sourced from countries outside the union, the import tariffs on external products compels BLNS states to depend on South Africa for majority of their imports.

Common Market for Eastern and Southern Africa (COMESA)

The first step towards the formation of a common market comprising of Eastern and Sothern African states was taken in 1982 with the formation of a Preferential Trade Agreement. This PTA has led to gradual reduction and elimination of non tariff barriers and Customs duties. This PTA has progressed to a common market with the establishment of COMESA in 1995.

There are 21 member countries in COMESA which are Angola, Burundi, Comores, Democratic Republic of the Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe.

COMESA shares lot of similarities with SADC in terms of its aims and objectives.

One of the main objectives was to improve the production and marketing structures in member countries and thereby achieving balanced development of their economies. The common market also aimed at the promotion of domestic, foreign and cross border investments. The broder objective of the common market was to contribute in the development and growth of the African Economic Community.

In order to realize these objectives a customs union was established by the member countries in COMESA. This customs union ensured uniformity in terms of national legislations and procedures related to trade.Abolishion of all tariffs and non –tariff barriers was another outcome of forming the customs union.

Lack of uniformity among the member courtiers in terms of their economic potential and size was a major challenge to COMESA. Another issues was that it covered a huge geographic area

.A solution suggested to solve this issue was to split COMESA into two – a southern and an eastern trade bloc.

East African Community (EAC)

A treaty establishing the formation of East African Community(EAC) was signed by Kenya, Uganda, Burundi, Rwanda and Tanzania in June 2000.Creation of a free trade zone in East Africa facilitating the freedom of cross border movement of nationals was an outcome of the formation of EAC.This inter governmental organization was initially formed in 1967,but collapsed in 1977.The revival of this inter governmental organization happened again in 2000.In 2008,the free trade area got extended after having negotiations with SADC and COMESA.

Economic Community of Central African States (ECCAS)

The treaty of Brazzaville signed in 1964 has led to the establishment of The Customs and Economic Union of Central Africa which was also called as UDEAC from its name in French Union Douanière et Économique de l'Afrique Centrale. This was a customs union with a free trade agreement among the member countries and the union mainatained a common external tariff with other countries.The treaty came into force with the ratification by the five member countries -- Chad, the Republic of Congo, Cameroon, the Central African Republic and Gabon. . Equatorial Guinea became a member in this customs union in 1983.The member countries in UDEAC signed a treaty, which has led to the establishment of Economic and Monetary Community of Central Africa (CEMAC).CEMAC aimed at promoting the sub regional integration process by forming a monetary union with Central Africa Franc as the common currency.But CEMAC could not achieve this objective of forming a monetary union.

In its 1981 summit meeting,UDEAC leaders agreed to form a wider economic community comprising of Central African states. Economic Community of Central African States(ECCAS) started functioning in 1985.But the financial difficulties and conflicts in the Great Lake area kept it inactive for many years.The war in the DR Congo has led to a situation in which some of the member countries fighting in opposite sides. ECCAS has been proposed as a dominant player in the African Economic Community (AEC).But due to inactivity it could not live up to the expectations. But AEC reinforced the importance of ECCAS as a major player in the year 1999.

Economic Community of West African States (ECOWAS)

This community of 15 West African States was formed in 1975.The objective of this community was to promote trade cooperation among member countries and to enhance self reliance in West Africa.Currently there are 16 members in ECOWAS namely Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone and Togo. The community proposed the facilitation of trade promotion by elimination of tariff and non tariff barriers among the member countries. ECOWAS was not very successful in realizing these objectives due to lack of proper administrative mechanism.

Review of Literature

There have been lot of literature available on tracing the linkage between existence of Regional Trading Agreements and economic progress in a region. Different authors have multiple perceptions about the impact of RTAs on economic prosperity in different regions across the world.. Hratzen, 2011 paper traces the history of regional integration in Africa. The paper also examines different initiatives undertaken by governments in various African countries to form RTAs and also the motivations behind such initiatives. This study provides a very detailed description regarding the process of regional integration and also analyses the challenges faced by these RTAs.According to the author small size of national markets and the landlocked nature of countries are the two major factors which have led to the formation of most of the regional trading agreements in Africa.

Chiumya, in his 2009 paper talk about the causes for the proliferation of RTAs in African continent.He classifies RTAs into two - Trade Creating and Trade Diverting RTAs.According to him the challenges faced by the countries in a RTA depends on the nature of RTA i.e whether it is a trade creating or trade diverting one. This study shows that trade creating RTAs are more challenging to Customs Administration when compared to the trade diverting ones. The paper identifies the challenges with respect to trade creating and trade diverting RTAs and also proposes possible future policies and strategies to address these challenges.

Brentan et al, 2008 paper portrays trade as an engine of growth in African countries. Their analysis is based on the development experience of countries in East Africa which shows continuous and sustained increase in growth rates. According to them economic partnerships with the rest of the would lead to increase in competitiveness of a country only if this integration is done by taking into account the national development strategies. This paper mainly focuses on the economic partnership of African countries with European Union.This paper suggests that African countries should reduce external tariff peak barriers on an MFN basis to incorporate the trade requirements of European Union Countries. They also propose the strategy of reciprocal tariff reduction and removal to enhance trade between member countries.

Njinkeu et al (2008) in their paper emphasizes the concept of trade facilitation with respect to Intra African Trade practices. According to them trade facilitation practices has led to improvements in regulatory environments, service infrastructure, port efficiency etc.They also tried tracing the impact of regional trading agreements on intra African trade volumes. Their analysis was based on trade data pertaining to years 2003 and 2004.The paper concludes that most of the RTAs have a positive impact on trade flows between member countries.

Yang and Gupta (2005) in their paper argues that RTAs are unsuccessful in attracting FDI.They identified high external trade barriers and low resource complementarily as the causes for the ineffectiveness of RTAs.According to them the factors which limit the success of RTAs are small size of the markets of member countries, high transportation and trading costs. They recommend improvements in infrastructure, streamlining of trade procedures as measures to enhance the trade potential of RTAs in Africa.

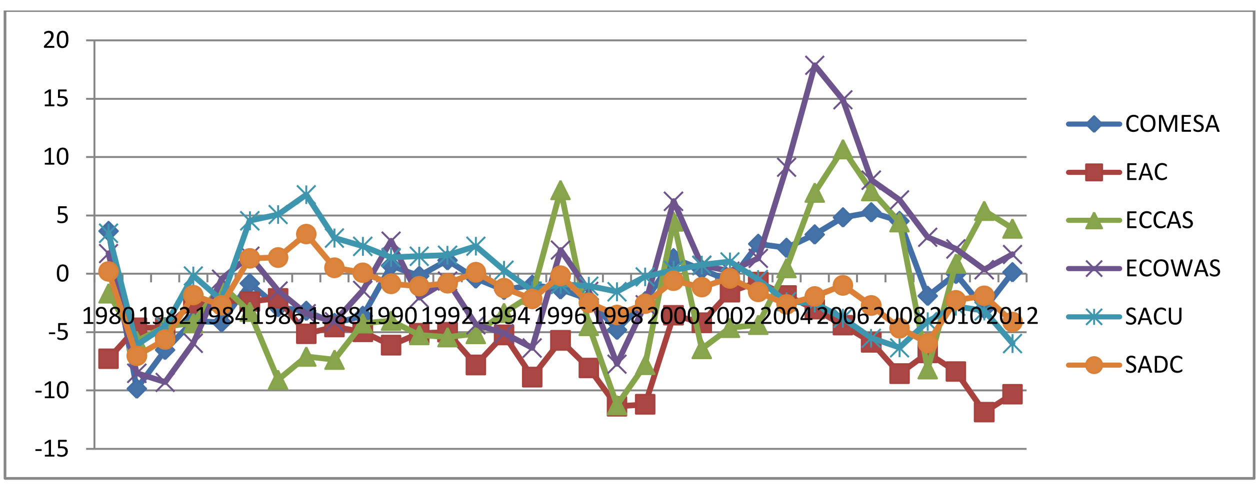
Discussion

In order to understand whether the formation of RTA has resulted in better economic prospects for the member countries and also to compare the performance of selected RTAs over period of time, we have used UNCTAD data of some major trade and economic indicators. Time series data pertaining to these indicators are given below.

Current Account Net

The Data on Current account net as percentage of GDP shows that the performance of different RTAs vary substantially over a period of time. Being a part of a RTA does not help countries to maintain stable current account deficit levels. It is mainly the natural resources available in the area and prices of these resources decide the current account position of a country. The RTAs which are doing comparatively better (COMESA, ECOWAS, SACU) include oil and mineral rich countries and the revenues from the exports of these commodities help these RTAs to maintain current account surpluses.

Figure 1: Current account net as Percentage of GDP, Annual, 1980-2012

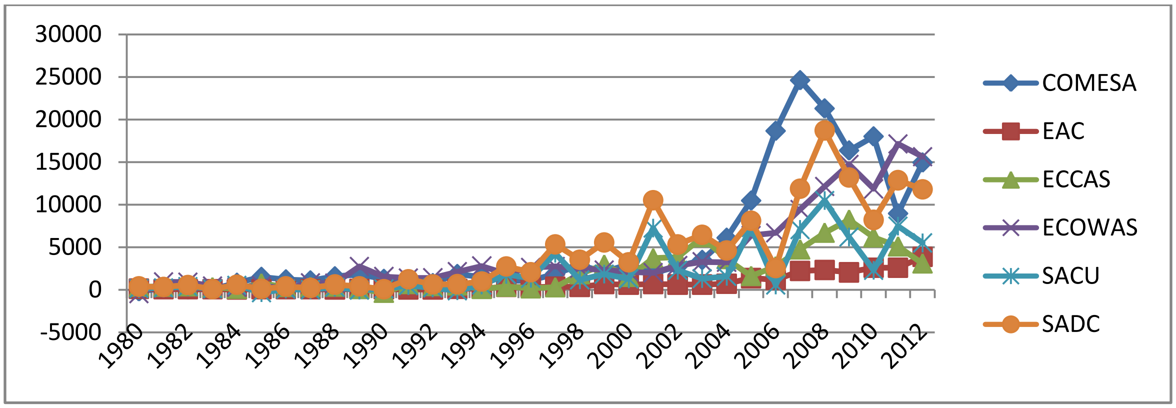


Source: UNCTAD Stats

FDI Inflow

In the case of FDI inflow also, there is no uniform trend which could be observed.FDI inflows get mainly affected by the Geo Political configuration in the region, political stability and conducive government policies rather than being a part of a Regional Trading Agreement.RTAs which are doing better in terms of trade performance are able to get more FDIs than the rest.

Figure 2: FDI Inflow Annual 1980-2012(In Million Dollars)

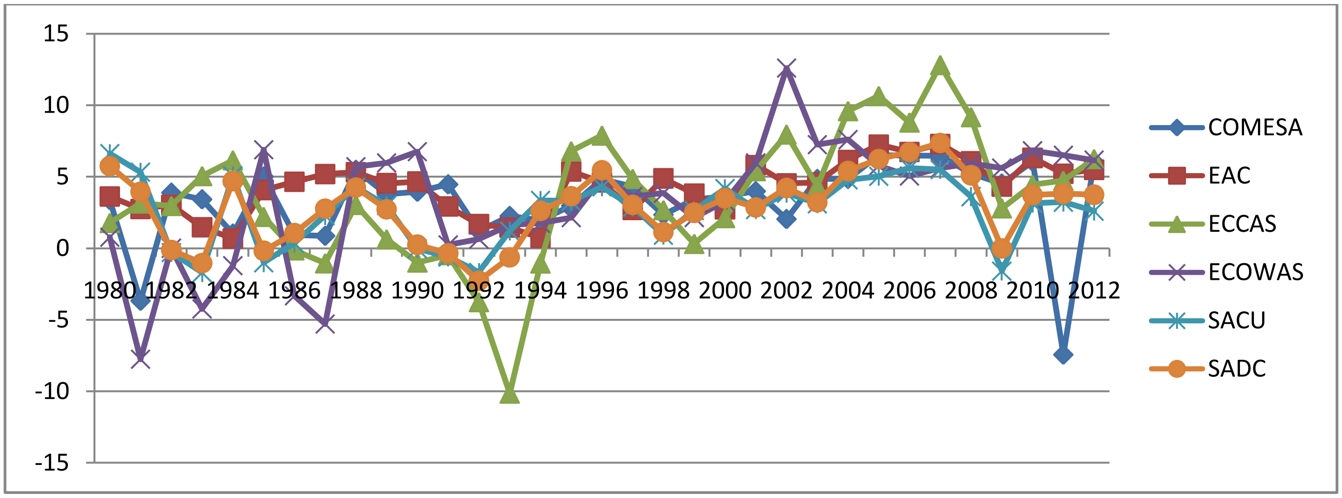


Source: UNCTAD Stats

GDP Growth Rate

The performance of an RTA can be evaluated by analyzing its impact on the GDP growth rate of the member countries. As in the case of previous two indicators, the GDP growth rate performance of different RTAs in Africa varies substantially. Most of the RTAs follow similar trends (upward or downward) during same time periods in terms of GDP growth rate.

Figure 3: GDP Growth Rate Annual 1980-2012(In Percentage)

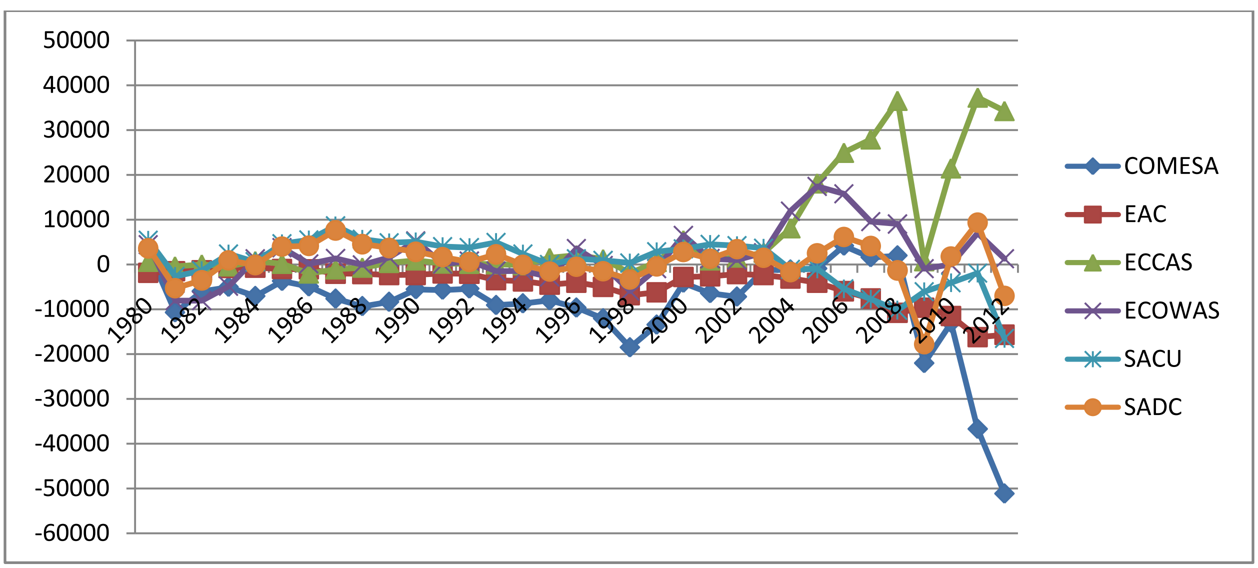


Source: UNCTAD Stats

Trade Balance

The graph below shows the trends in trade balance from 1982-2012.The performance of ECCAS and ECOWAS is better when compared to other RTAs.COMESA and EAC have been continuously showing negative trade balance.

Figure 4: Trade Balance 1980-2012(In Million Dollars)



Source: UNCTAD Stats

Conclusion

The above analysis clearly depicts the fact that RTAs have not helped the member countries to reap the benefits of regional integration. African RTAs vary substantially in terms of their performance in the selected economic and trade indicators. The resource composition of these economies and the socio political structure and culture of these countries decide their economic performance rather than their membership in a Regional Trading Agreement.

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