Article

Integrating the African Economies: A Review of the Approach

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Introduction

A few weeks ago, the United States declared unilateral trade tariffs against some countries with the stated aim of protecting its local steel industry in particular and reducing its trade deficit in general. As surprising as such a move was, coming from the world's biggest economy and the champion of globalization, even more surprising was the fact that some of the United States' closest allies and longstanding trade partners in Europe showed up on the target list. The European Union member countries to be significantly affected were Germany and Spain, with Germany featuring among the world's top ten exporters of steel to the US. Nonetheless, what we saw was not a response from Germany or Spain, but a response from the European Union. To put things in perspective, neither Germany nor Spain is a feeble country incapable of defending itself. Germany is the largest economy in Europe, the fourth largest economy in the world that is about two times Africa's entire GDP or four times West Africa's economy. However, the unified rather than unilateral response from the European Union goes to show, once again, the importance for countries with common interests to present a united front to the world. The EU received temporary tariff exemptions hours before the tariffs were to take effect and are currently negotiating with the United States to secure permanent exemptions. African countries have of course been aware of the need to stand together. This is evident in the various efforts seen over decades to form a united bloc through the African Union as well as sub regional blocs such as the Economic Community of West African States (ECOWAS). The most recent move to integrate African States is the signoff of the African Continental Free Trade agreement by 44 African States at the just ended AU Extraordinary Summit, with a notable absence of Nigeria and South Africa. We will explore the various forms of unions and their importance, examples across the world, what West Africa has done so far, and the way forward.

Economic Integration

There are various forms and stages of economic integration among countries. These broadly range from Free Trade Agreements (FTA), such as the North American Free Trade Agreement (NAFTA), which remove tariffs and reduce non-tariff barriers between member countries, to a full Economic Union such as the European Union (EU) which has common economic institutions that oversee harmonized economic policies and systems such as a single currency and united monetary policy. In-between a Free Trade Agreement and an Economic Union are Customs Unions and Common Markets. A Customs Union builds upon a Free Trade Agreement by adopting common external tariffs while a Common Market, adopted to allow the free movement of capital and labour between member states is built on a Customs Union. In reality economic integration is much more complicated and comes with many exemptions, terms and conditions that do not always put them clearly in any particular one of the above categorizations or stages. In spite of the complications associated with integrating economies, countries go ahead to join, with primary reasons to boost trade and economic growth, and create jobs. Economic integration is also sometimes pursued as a form of defense against bullying by bigger players on the world economic stage.

Apart from the United States which is a full political union encompassing an economic union, the European Union is largely seen as the best model of an economic union that most countries attempting economic integration aspire to. The European Union comprises twenty eight member states with an estimated population of over 510 million people and a combined Gross Domestic Product of $17.1 trillion in nominal terms as of 2017. This represents about 7% of the world's population, 22% of the global economy and ranks as the second largest economy in the world. The European Union successfully established a free trade union as far back as 1968. The Schengen Agreement removed all forms of border controls among member states, which, together with the Single Market effectively guarantees the free movement of goods, capital, services and labour. Although tariff barriers between member states were removed, significant non-tariff barriers especially differences in customs requirements still existed until 1993. The European Union also applies a common tariff system on goods imported by member states from non-member states through its Customs Union. The Monetary Union which was established in 1999 and came into force in 2002 enables 19 EU member states to use the Euro Currency. It is important to note that the European Union's 'project' has its fair share of challenges and limitations. The process of European integration which has brought about the largest and most open common market in the world did not become large all at once, as member states were required to meet certain criteria to earn their EU membership. The six founding members of the EU (Belgium, France, Germany, Italy, Luxembourg and Germany) remained the only members of the union until 1973 when Denmark, Ireland and the United Kingdom made their entrance. The 28th member state, Croatia, made its entrance to the union as recently as 2013, having met the necessary criteria. More recently, the EU has been confronted with heavy migration and refugee crisis due to poor security of borders of countries located on the Schengen borders. This has led several Schengen countries to institute temporary border controls in response to the migratory pressures. The immigration crises, coupled with other factors such as fears of globalization and economic freedom, have contributed to the unprecedented decision of the UK, the second-largest economy and a key diplomatic and military power within the EU, to terminate its membership with the Union. A situation that has come to be known as *Brexit*. The 'divorce terms' of UK's exit are expected to be tough in order to discourage other member states from opting out. In spite of the several challenges, the EU has served to increase competition, improve specialization, promote the efficient allocation of resources and enhance larger economies of scale among member states.

Integrating African Countries

Turning now to Africa, attempts at achieving a similar economic integration success has so far seen the creation of over fourteen (14) major economic groupings which are expected to eventually develop into the Africa Economic Community, an integrated community of all African countries. These major groupings are at varying stages of effective functionality and cohesion. The integration process within some of the groupings has been stifled by political unwillingness by governments to implement policies, economic mismanagement and conflicts between member states. The Economic Community of West African States for instance, has seen delays in the integration process due to low political will of governments to implement directives which has led to the partial or total non-adherence to policies. The Trade Liberalization Scheme for example, established as far back as 1979 to allow free trade between member states continues to face some bottlenecks that have hampered the implementation of the scheme to date. Some of the bottlenecks include; long delays in obtaining Certificates of Origin to access the waiver, refusal of custom agencies in some member states to honour valid certificates and the failure of intended users of the scheme to understand the requirements amongst others. The story has been no different for goods moving into the region from third party countries, as the implementation of the Common

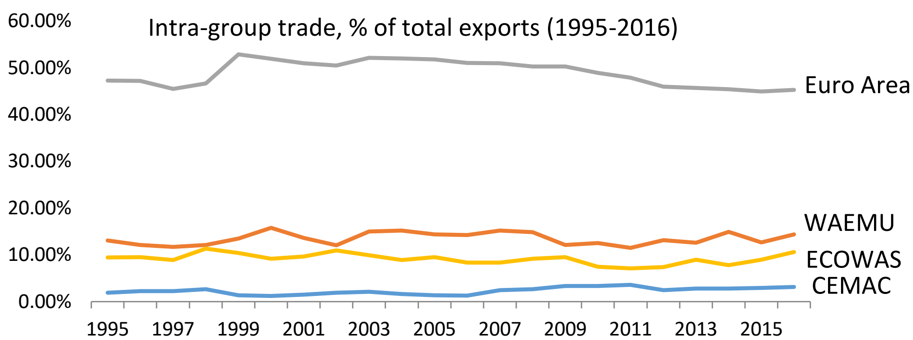
External Tariff (CET) has been delayed, hence the persistence of disparities in custom duties. The failure to effectively implement the free trade union and customs union will continue to hinder the creation of a common market among West African states.

In spite of the aforementioned challenges, the vision to achieve economic unity within the region still remains strong. A section of the region, West African Economic and Monetary Union (WAEMU) made up of eight francophone countries (Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo) is far advanced with the economic integration process having adopted a single currency, the CFA XOF. By 2020, it is expected that a monetary union for the West African Monetary Zone (WAMZ), made up of six countries; the Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leon will be created. The adoption of a monetary union by WAMZ is envisaged to be linked to the WAEMU in the future to create a single monetary union within West Africa. Key to the success of the implementation of the currency union for WAMZ is the meeting of a four macroeconomic convergence criteria: single-digit inflation rate at the end of each year, a fiscal deficit of no more than 4% of GDP, a central bank deficit-financing of no more than 10% of the previous year's tax revenues and gross external reserves that can give import cover for a minimum of three months. The convergence criteria seem rather ambitious due to the current state of WAMZ states. The inability of member states to generate sufficient revenue to fund budgets for instance, has resulted in growing debt stock. Additionally, 3 out of the 6 countries within the WAMZ region continue to record inflation rates above the single digit target which has been the case for several decades and raises concerns of a sustainable turnaround to allow the convergence. Again, the dependence of member states on revenue generated from the export of raw commodities whose prices are subject to volatility on the world market has led to fluctuations in import cover over the years. Due to the multifaceted nature of economic issues facing WAMZ States as well as the desire to set-up the monetary union without fail in 2020, a gradual approach has been proposed where countries that meet the criteria start the monetary union whilst countries that are unable to immediately satisfy the requirements come on board later. The main benefit to be derived from implementing a single currency is the creation of a trade bloc with an enormous market, instead of fragmented markets of individual countries. It is prudent to take a look at the extent to which the introduction of a single currency will help achieve the main objective: boosting trade, using the case of other monetary unions.

Intra-group trade

It has been shown that the use of a shared currency facilitates intra-group trade as it increases price transparency and certainty by eliminating exchange rate risk. The facilitation of trade also arises due to the reduction in transaction costs especially when trade unions are functional. Over the years, the facilitated trade between member states of existing monetary unions has occurred without much growth in intra-group trade. Intra-group trade for the Euro area for instance, made up of 19 of the 28 European Union member states that have adopted the Euro as their common currency, had a share of 50.2% in the year it adopted the Euro. In 2016, intra-group trade had fallen to 45.27%. For the West African Economic and Monetary Union (WAEMU) in 1995, the year after the establishment of the union, intra-group trade which had a 13% share of total trade with the rest of the world, increased by only one percentage point to 14% in 2016. Trade between the periods of 1995 and 2016 saw the share of intra-group trade for WAEMU peak at 16% in 2000 whereas the lowest recorded was 11% in 2011. Similarly, the Central African Economic and Monetary Community (CEMAC) made up of six States:

Gabon, Cameroon, the Central African Republic, Chad, the Republic of the Congo and Equatorial Guinea that use the CFA XAF, shows that intra-group has remained below 2% since the inception of the union. For ECOWAS that is yet to establish a joint monetary union, intra-group trade had a share of only 9% of total exports in both 1995 and 2016, which reached a peak of 11% in 1998. From 1995 to 2016 the lowest intra-group trade recorded by the community was 8% in 2005. It is estimated that actual trade between member states will be higher than the aforementioned due to the large size of the informal sector. With efforts underway to formalize the rather large informal sector across Africa, it is expected that more accurate figures on inter-group trade will be available in the future.



Source: United Nations Conference on Trade and Development (UNCTAD)

It is safe to state at this point that the adoption of a single currency by a group of countries in itself does not lead to a rise in intra-group trade, as evidenced from trade figures from the three monetary unions discussed. The reason for the low intra-group trade which has woefully remained below 15% within the two African monetary unions, (WAEMU and CEMAC), as well as ECOWAS, has been due to little product diversity. That is to say trade within the group involves extractive products and agricultural commodities. The dominance of the aforementioned products and commodities with little industrialised goods leaves member states with no other choice than to have their main trading partners as highly industrialised nations such as China, India, USA, EU countries and Brazil, which buy raw materials from the region and sell back finished products. Nigeria, Africa's top oil producer for instance, in its most recent quarterly trade data for the third quarter in 2017, reveals that the country spent N476.755 billion on refined petroleum import, representing 20.30 per cent of the country's total imports in the same period. To minimize the occurrence of buying back processed products after supplying the raw materials, leaders of the various economies should draw a roadmap to pursue an industralisation drive within the West African region. Although most governments in various West African countries continuously stress on the importance of industrialization, they are often restricted by limited capital. Hence to facilitate the process of industrialization within the region, such that one country is not burdened with trying to build several factories even for raw commodities it is not a major producer of, the major producer of that commodity, should be tasked with building a factory to process the commodity. By so doing, diverse factories will be established across the region, which will actually help increase intra-group trade when a single currency is introduced.

Conclusion

In conclusion, the adoption of a single currency by ECOWAS or the pending WAMZ, scheduled for 2020 will not in itself result in significant growth in intra-group trade as shown from the data. The EU was created as far back as 1950 but formed its monetary union only as recently as 2002 after it made substantive changes to tariff and non-tariff barriers as well as developed a common market between member states. Countries within ECOWAS should go through the process of ensuring that the existing tariff and non-tariff barriers are totally extinct. For leaders within the countries that have failed to promote policies geared towards integration, the game changer is a renewal of political will to carry out directives to facilitate the process of the formation of fully functional unions. The single currency should then be introduced when unions are fully functional and any two countries within the WAMZ are able to meet the 'ambitious' convergence criteria.

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