AFRICA'S REGIONAL INTEGRATION UNDER THE AFCFTA: THE ECONOMIC IMPACT

This month's Research Paper briefly focuses on the following Regional Economic Communities

i. Southern African Development Community (SADC)
ii. Common Market for Eastern and Southern Africa (COMESA)
iii. Economic Community for West African States (ECOWAS)

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Introduction

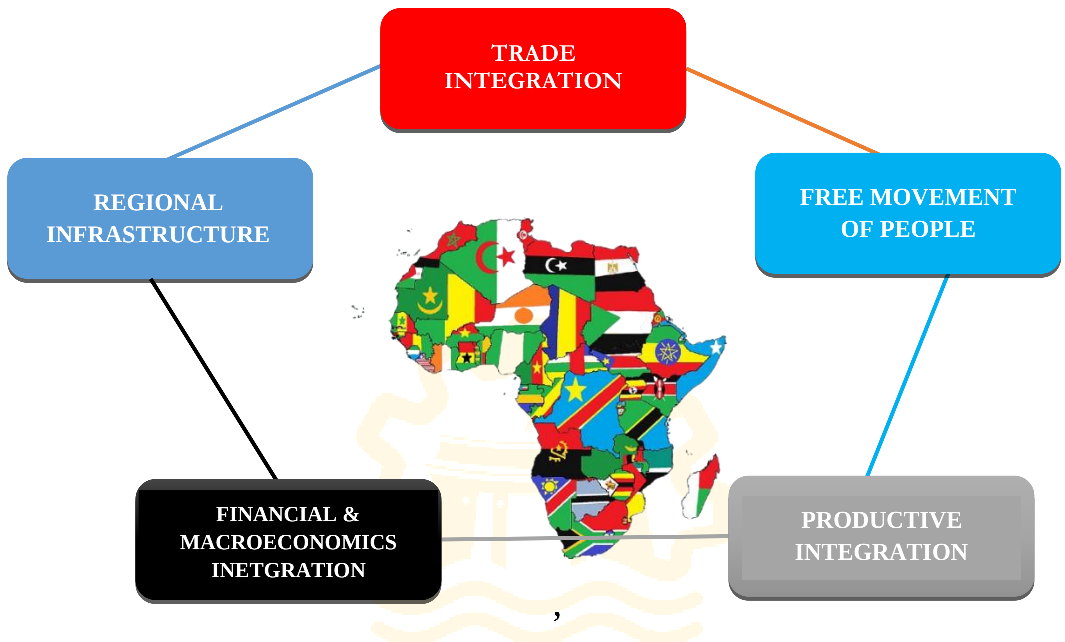
Since independence over five decades ago, African countries have aspired to free movement of goods, services, people, and capital between national markets. Indeed the gradual approach to regional integration is justified by the fact that integration should begin at the regional level, with the establishment and strengthening of existing Regional Economic Communities which will eventually be merged to form the African Economic Community. Several scholars have praised regional integration as a solution for accelerating regional economic growth, increasing intra-regional trade, expanding access to global markets, reducing poverty, and fostering national and regional prosperity but deep integration, which includes the removal of conventional barriers to trade (tariffs), the eradication of other barriers to the free movement of goods and services, and the harmonized economic policy and regulatory regimes, remains patchy, despite increased effort in recent years.

Regional integration has facilitated the spread of technological advancement over time, allowing countries to compete on the global market with more advanced economies. This provides an incentive for policymakers to pursue less distortive reform agenda and more structured economic and financial governance, allowing Africa to connect the continent and implement reforms to facilitate cross-border trade, investment opportunities, capital integration, and movement of people through aimed regional infrastructure. Significantly larger and profound integration will contribute to food security by fostering more intra-African trade in food products and strengthening the capacity of global supply chains and value added in Africa.

Despite these admirable initiatives, the primary objective of an economically advanced Africa remains elusive. Several more arguments for hastening the regional integration have so far been progressed by legislators, experts, entrepreneurs, and research institute and researchers. Sub-regional agreements in the continent are typically shallow, encompassing only a small number of non-tariff initiatives that impact cooperation and integration. AfCFTA has the potential to make significant progress in making Non Tariff Barriers (NTBs) more beneficial to continental bilateral trade.

Measuring Regional Integration in Africa

In Africa, regional integration indicators are critical indicators to Africa's growth and are drivers of economic performance to Regional Economic Communities (REC). Measuring Africa's position on regional integration provides a snapshot of what is going on across the continent and is an important tool for identifying gaps. Africa Regional Integration Index is a dynamic, forward-thinking method of tracking integration that provides everyone with verified, high-quality information with which to start a conversation and take the next steps toward Africa's integration.



Source: Africa Regional Integration Report, **2016**

Summary of Africa Regional Integration Index

Integration Index	Measurement
Trade Integration	1. The level of import customs duties 2. The proportion of intra-regional goods exports (percent GDP) 3. The proportion of intra-regional goods imports (percent GDP) 4. Proportion of total intra-regional goods trade (percent total intra-REC trade)
Free Movement Of People	1. Ratification (or non-ratification) of the Regional Economic Community protocol on movement of persons 2. The fraction of Regional Economic Community member states whose citizens do not need a visa to enter the country. 3. The percentage of (REC) Regional Economic Community member nations whose citizens are granted a visa on arrival.

Productive Integration	1. The proportion of intra-regional intermediate goods exports (percentage of intra-regional exports) 2. Imports of intra-regional intermediate goods (percentage of intra-regional imports)
Macroeconomics & Financial Integration	1. Inflation rate differential (based on HPCI) 2. Regional convertibility of national currencies 3. Poverty Rate
Regional Infrastructure	1. Infrastructure Development Index: transport; electricity; ICT; water and sanitation 2. Proportion of intra-regional flights

SADC

Dealing with various indexes in Africa, SADC is the best performing regional bloc, with the most important powerful nations in Sub-Saharan Africa (South Africa, Mauritius, and Botswana). SADC countries, on average, have relatively high-quality institutions, efficient goods and labor sectors of the economy, and a well-developed financial system. Although, medical and educational factors are concerning, there is a general lack of technical capability. Ineffective bureaucratic system, deficient educated citizenry, and a lack of discipline in the national labor force are among the most prominent problems in doing business in the SADC zone. Inadequate infrastructure and an inadequate access to finance are also significant impediments.

COMESA

COMESA, includes two of Africa's five major leading countries (Mauritius and Rwanda), significantly outperformed other African regions as well. COMESA nations, in overall, have well-developed infrastructure and financial markets, and an efficient products and human labour markets. While, indexes in the public healthcare sector, as well as in technological capability are deficient, access to financial resources, corruption, high taxes and a lack of governance bureaucracy are just a few of the factors that hinder business in that country.

By both regional and international standards, the Eastern African Community (EAC) countries' labor markets are generally very efficient. Their capital markets are advanced, and their institutions are relatively sound, with the ability to innovate. The continent's infrastructure, economic stability, healthcare and education factors, and technology capability, on the other hand, are all below par. Access to financial resources, mismanagement, excessive taxation, and an inadequate provision of infrastructure have been some of the important components obstructing business in the COMESA zone.

ECOWAS

In general, ECOWAS member countries outperform other regional blocs on the indicators. They excel at institutions and innovation while falling short in health, education, and infrastructure development. Access to finance, corruption, burdensome tax regulations, and an insufficient supply of infrastructure are among the most challenging aspects of doing business in the bloc.

Africa Regional Integration under AfCFTA

Regional Trade Agreements (RTAs) are among the key theories driving regional integration in Africa, from early efforts enshrined in Africa Agenda 2063 to the most recent regional trade agreement, ie the African Continental Free Trade Area (AfCFTA). Regional integration has become more pervasive and complex than ever before in the modern interdependent world, due to the result of numerous transformations and diverse forces. The challenges facing the new regional agreement range from establishing effective institutional governance framework, to solving countless economic challenges facing the continent. It is important to note that, the AfCFTA is a build-up of earlier initiatives through the eight recognized Regional Economic Communities, (RECs). Africa has huge development and income disparities that present a serious challenge to integration initiatives. Debates on AfCFTA is centered on how the agreement will harmonize Africa's fragmented markets, reduce wide ranging disparities in economic development, deal with existing numerous bilateral agreements and overlapping memberships, develop infrastructure, reduce high costs of doing business among other challenges.

The entry into effect of AfCFTA will enable African nations to resolve a significant limitation to export competitiveness imposed by the small size of their global economies, while also functioning as a strong vehicle to encourage product and export diversification, therefore enhancing their countries' chances for growth and development. The AfCFTA is mainly intended to improve intra-African commerce, but it also has the secondary goal of improving Africa's countries' competitiveness in the global market. Africa as a whole has persistently fallen short in global commerce. Given the existing lack of export and intra-African commerce, the considerable benefits of AfCFTA are predictable. In 2018, Africa accounted for 2.4% of world exports, with intra-African trade accounting for 15% of overall African exports compared to 58 per cent and 67 per cent within Asia and Europe, respectively. Most regional economic community treaties have had limited success in growing member-to-member commerce above originally modest levels. With the possibility of better trade exports, employment, infrastructural developments, and funding for accelerated and shared growth, the AfCFTA plays a critical role in advancing African economies and safeguarding them from potential harm or volatility in global commodity prices, which account for the majority of Africa's foreign trade.

The justification for African integration is self-evident: if African governments act alone, they would stay vulnerable, marginalized, and beggar countries. Africa is arguably the world's most backward continent today, more than five decades after independence, as indicated by frightening levels of economic underdevelopment, abject poverty, political instability, and continuous military conflicts within and between various governments. Despite widespread agreement on the advantages of African economic integration, the approach has been gradual and intermittent. At the regional scale, Africa's main political entity, the African Union, is presently pursuing a regional integration agenda as part of a bigger reform and developmental plan that would eventually result in the construction of a continental market.[1]

Economic Impact of AfCFTA on Regional Integration

Africa's regional economic integration record is underwhelming. The fact that a large number of regional trade agreements have done little to stimulate intra-regional commerce raises concerns about the suitability of these agreements for resolving the obstacles to regional trade. The substantial reliance on major export commodities constrains growth owing to fluctuations in product value, a factor that is external to these nations and outside the reach of their domestic policy.

During the implementation of the AfCFTA, there are various pathways via which allocative efficiency and accumulation benefits associated with regional integration may increase overall economic development and reshape African trade patterns. The African Continental Free Trade Agreement (AfCFTA) has the potential to change the region's productivity and competitiveness environment (IMF, 2019).Companies will boost investment and leverage economies of scale as part of the agreement to shift away from natural resources and toward more labor-intensive manufacturing industries.

There is emerging indication of a rebound in African industrial fortunes, laying the groundwork for the AfCFTA to succeed. Manufacturing's proportion of GDP has

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1 Ben Hammouda, H., S. Karingi, A. E. Njuguna and M. S. Jallab (2009), 'Why Doesn't Regional Integration Improve Income Convergence in Africa? African Development Review, Vol. 21, No. 2, September, pp. 291–330.

bottomed out after a sustained decrease during the period of structural adjustment and it now stands at roughly 12% of GDP in Sub-Saharan Africa, having fallen below 10% during the global financial crisis of 2008/2009. Far from stagnating, the sector's output has increased by 91 percent in real terms since 2000 (Kruse et al., 2021).

Despite starting at a lesser level, the progress has been amazing. The AfCFTA's liberalization of trade and investment will greatly strengthen these efforts for economic diversification. The impact of the agreement on intra-African trade is expected to be even greater if the elimination of tariffs on 97 percent of emerging intra-regional world trade is augmented by improved trade facilitation guidelines and standards attempting to address non-tariff inefficiencies to institutionalize informal cross-border trade. (Afreximbank, 2020).

The AfCFTA has the ability to strengthen and develop new, more robust regional linkages, as well as to expedite industrialization by facilitating the formation of more robust supply chains (WEF, 2021). While African states usually engage in worldwide integrations using forward instead of backward actions (de Melo and Twum, 2021), the AfCFTA's improved investment climate and fewer trade obstacles should hasten the emergence of regional integrations. This, in turn, may increase African nations' engagement beyond the production and manufacturing of raw materials or extra-regional value chains rather than towards end-market upgrading. Furthermore, the AfCFTA's harmonization and trend toward more uniform rules of origin could boost backward linking effects, accelerating the growth of regional integrations. (Signé and Madden, 2021).

Conclusion

Regional integration has the potential to drive more strong and fair economic growth, as well as reduce poverty and unemployment in Africa (Anyanwu, 2014). However, experience has shown that these benefits can only be realized via the cautious utilization of chances for deeper regional integration. Giving African manufacturers access to regional markets and connecting them to more complex regional value chains would boost their competitiveness and capability for advancement into more competitive global niches. When seen in this light, regional integration is critical to increasing productivity and creating long-term gains in living standards.

Regional integration offers African countries the opportunity to discuss a paramount limitation to export competitiveness placed by the small size of their economic systems and geography/transport costs, while also acting as a powerful tool for promoting product and export diversity, thereby increasing their countries' prospects for growth and development. Regional integration can also enable economies of scale to emerge. Regional integration also encourages the spread of technical innovation and allows nations to compete on the global market with more sophisticated economies. Furthermore, it generates incentives for governments to pursue less distortive domestic policies and more disciplined macroeconomic management. Furthermore, it can assist regions in achieving economies of scale, as well as increasing their supply capacity and competitiveness. Africa will be able to complete critical missing links, interconnect the continent, and implement reforms to allow cross-border commerce, investments, financial flows, and migration through targeted regional infrastructure. Increased and deeper integration will improve food security by permitting greater intra African commerce in food items, as well as encouraging the growth of international production chains and value addition in Africa.

GITFiC's Recommendations

1. The realization of the economic growth and development objectives of Africa should remain the core aspirations of each partner states. This is an objective

that will continue to bind the region and lead to the seeking of newer and more innovative ways to better integrate the region's economies in order to weather the 21st century global economic storms.

2. The approach to be adopted in this century cannot be mutually exclusive but member states must go beyond the traditional preoccupation with state sovereignty towards the adoption of more collective approaches for the attainment of economic growth and development assessing the integration's development thus far in relation to the goals and targets established at the start of the regional integration process.

3. Increased stakeholder participation is required in policy harmonization and coordination. The role of the private sector and civil society in particular must be expanded, and greater collaboration in the form of public-private partnerships must be explored. This will result in methods that are more effective to achieving the integration goals.

4. Finally, there is a need for more specialized studies on Africa, notably on how to create more diversification of African economies and closer economic integration. There are several options to extend the region's economic foundation. The outcomes of this research should guide the policy initiatives that must be implemented in order for the integration process to function properly.

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