SADRN

SOUTHERN AFRICAN DEVELOPMENT RESEARCH NETWORK

POLICY BRIEF 6

The trade effects of regional economic integration in the Southern African Development Community

INTRODUCTION

In their quest to achieve higher economic growth and development African governments have experimented with different growth and industrialisation models. Prominent among these is the import substitution industrialisation (ISI) model adopted after gaining independence in the 1960s and 1770s.

It is widely believed that the ISI model failed, and after this came the idea of supporting growth through regional economic integration, specifically through the institutions of regional economic communities.

The regional economic integration model has been given the thumbs up by the African Union, which recognises eight regional economic communities (see box on next page). Economic integration is defined as the co-ordination of economic activities within a nation to improve development.

At a regional level this involves trade liberalisation and economic and financial convergence of states. There are broadly two types of effects resulting from economic integration: static and dynamic. Static effects have to do with the response of prices emanating from resource allocation while dynamic effects relate to changes in efficiency.

Regionally, poverty and inequality are the leading challenges in the Southern African Development Community (SADC) region. Consider the following statistics: About 45% of the total population lives on US$1 a day; malnutrition is on average around 36.1% with a range of 44% to 72% across the region; life expectancy has been declining over the years from about 60 years to slightly below 40 years at present; and infant mortality rates remain for most countries in the SADC region above 50 per 1 000 births.

A number of policy interventions aimed at ameliorating this poverty, including regional economic integration policies, have been prioritised.

RESEARCH FINDINGS

Impact of regional economic integration on trade flows

Static approach: results from the static analysis show limited scope for increased intra-SADC trade as the countries have more or less similar comparative advantages, mainly in the production of primary goods. Three models based on different scenarios were used to reach this conclusion: revealed comparative advantages, trade complementarily indices, and a gravity model.

An interesting scenario that will capture the interest of policymakers is at a sectoral level, where the largest expansion in SADC economies takes place in the animal agriculture and processed food sectors, while manufacturing becomes comparatively less attractive following European Union-SADC liberalisation.

The information in this brief is extracted from a report prepared under the SADRN programme*:* *Trade effects of regional economic integration in Africa: The case of SADC*, by Mengesha Yayo Negasi.
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REGIONAL ECONOMIC COMMUNITIES

The African Union recognises eight regional economic communities on the continent:

Economic Community of West African States (ECOWAS) with 15 members and headquarters in Abuja, Nigeria

Common Market for Eastern and Southern Africa (COMESA) with 20 members and headquarters in Lusaka, Zambia

Economic Community of Central African States (ECCAS) with 11 members and headquarters in Libreville, Gabon

Southern African Development Community (SADC) with 14 members and headquarters in Gaborone, Botswana)

Arab Maghreb Union (AMU) with five members and headquarters in Rabat, Morocco

Intergovernmental Authority on Development (IGAD) with seven members and headquarters in Djibouti

Community of Sahel-Saharan States (CEN-SAD) with 18 members and headquarters in Tripoli, Libya)

East African Community (EAC) with three members and headquarters in Arusha, Tanzania

Dynamic approach: while this is not empirically tested, it is widely accepted that the dynamic gains resulting from regional economic integration are increased competition, brought about by freeing imports from partner countries.

Second, there is the investment effect, which appears when there are new foreign and domestic investments that did not happen in the absence of regional trade integration.

Third, the larger market provides greater possibilities for the exploitation of economies of scale.

Fourth, there is an effect on capital formation, possibly through various channels such as: reduction on barriers to diffusion, technological transfer, externalities from export growth, rising marginal production of capital.

Fifth, the union members acting as a group may be more able to influence the terms of trade they face. Lastly, there is the structural transformation effect, which is a shift from traditional primary-products export to new industrial-products export.

What is worth highlighting from the empirical analysis is that the export value in agricultural commodities and light manufacturing between any two countries would increase by 3244% [exp {(3.51)-1} = 32.44] and 603% exp{(1.95)-1} = 6.03], consecutively, if there is no a bilateral trade agreement between the countries compared to the country pairs with bilateral trade ties.

Estimates suggest that during the 2000-2007 periods, members of SADC traded with the rest of the world in agricultural and light manufacturing sectors by an exponential factor of 32.44 (or 3,244%) and 6.03 (or 603%) more than they traded within the region.

RECOMMENDATIONS

Based on the empirical findings of this study, it is suggested suggest that:

Food security is at the core of the poverty problems and hence gains from regional economic integration, specifically from gains from trade, can improve food security through increased agricultural and agro-industry cross-border investment.

The evidence suggests that while there have been trade liberalisation measures, which have resulted in increased trade, but there has been an increase in protection of the agricultural sector either in the form of tariffs or non-tariff-barriers (NTBs). For example, trade in agri-cultural commodities within the region has declined compared to trade with the rest of the world. Thus the removal of these barriers will go a long way to improving trade in the region and ensuring food security.

The Southern African Development Research Network (SADRN) was launched in 2007 as a broad-based policy and research network. It aims to increase the supply of policy-relevant research in the SADC region and strengthen evidence-based policy-making.
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SADRN focuses on three themes: industrial policy, services sector development at the regional level and trade policy and its linkages to pro-poor growth. The Botswana Institute for Development and Policy Analysis is the host of the trade and pro-poor growth theme working group, Trade and Industrial Policy Strategies hosts the industrial policy theme and the University of Mauritius hosts the services sector