



Rethinking regional economic integration in Africa as if industrialization mattered



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ABSTRACT

This paper outlines an evolutionary and an historical theoretical framework to identify and propose taxonomic principles that can be used to analyze whether or not a given regional economic integration (REI) arrangement is transformative and developmental. Using this framework, it looks into the relationship between industrialization and regional economic integration in Sub-Saharan Africa (SSA). It also looks at how *asymmetric* economic integration with advanced economies has affected industrialization and *symmetric* economic integration in Africa. Based on historical evidence, the paper concludes that there is a positive, circular and cumulative relationship between industrialization and regional economic integration in SSA. It also concludes that the asymmetric economic integration of SSA economies with advanced ones has had negative, circular and cumulative impact on industrialization and (symmetric) economic integration in SSA. Therefore, it argues that, if industrialization and transformative REI is to take place in SSA, there is a need for making context-specific, dynamic and transformative industrial policies as center pieces of development strategies, for rethinking REI initiatives in such a way that they facilitate and amplify the effectiveness of these industrial policies and strategies, and for replacing the legacies of colonialism and neoliberal globalization with strategic integration of SSA economies vis. advanced economies.

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1. Introduction

By now, observers of the international discourse about the development prospects of Sub-Saharan Africa (SSA) must be used to recurrent themes of excessive pessimism and optimism – both of which have been invariably associated with growth performances associated with international commodity price booms and slumps. For instance, Africa as a whole achieved moderate economic growth during the period from mid-1960s until the end of the 1970s which created optimism about the continent following decolonization. In particular, there was a notable acceleration of growth in sub-Saharan Africa (SSA) during the 1970s, supported by a boom in commodity prices and foreign aid (UNCTAD (2001: 3). However, economic performance deteriorated rapidly in SSA in the late 1970s and early 1980s; and stagnation and decline continued in SSA during the first half of the 1990s (UNCTAD, 2001: 3). The generally dismal performance of SSA economies inevitably created a

widespread pessimism about the prospects of the economies but this was later somewhat dispelled by a fairly broad-based economic upturn which started in the mid-1990s (UNCTAD, 2001). In fact, over the period 2001–2008, Africa was among the fastest growing regions in the world economy, (UNCTAD, 2012: 2); and this also invariably generated substantial optimism about Africa's growth prospects and the dominant narrative changed from 'the dark continent' to 'Africa Rising'.¹

In between these two alternating narratives there has always been an intellectual undercurrent (particularly from within Africa)

¹ For instance, *The Economist* magazine, which had been known to be pessimistic about Africa's prospects (See for instance the article on the May 11, 2000 print edition of the magazine entitled "Hopeless Africa" (available at <http://www.economist.com/node/333429> or another article entitled "The Dark Continent" on the August 16, 2007 edition (available at <http://www.economist.com/node/9660077>)) [1], has concluded, [O]ver the ten years to 2010, six of the world's ten fastest-growing economies were in sub-Saharan Africa. ... Over the past decade the simple unweighted average of countries' growth rates was virtually identical in Africa and Asia. Over the next five years Africa is likely to take the lead. In other words, the average African economy will outpace its Asian counterpart. (The Economist Online, "Africa's Impressive Growth", Jan 6th 2011)

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and an urge for regional economic integration (REI) even if most of the regional integration initiatives have not met much success to date. And currently there is a strong emphasis on the importance of REI for Africa's development and a momentum to address the failings of past and current REI initiatives. Meanwhile, since the 1960s, there has been a recognition of the vulnerabilities of African economies due to their over-reliance on natural resources and primary commodities as the main sources of economic growth and export earnings (see e.g. [UNCTAD, 2011: 2–3](#)). Lack of economic diversification, industrialization and structural transformation have been major concerns to African policy makers and intellectuals over most of the post-colonial period (except during the era of the ascendancy of neoliberalism and Washington Consensus). For instance, a recent *Economic Report on Africa* of the UNECA and African Union laments that Africa's recent impressive economic performance has not been accompanied by structural transformation but by de-industrialization ([UNECA and AUC, 2014: X–XII](#)). The recognition of lack of structural transformation in SSA economies seems to be one of the key reasons for the revival of advocacy for industrial policies in the past few years (See e.g. [UNECA, 2016](#) and [Stiglitz et al., 2013](#)). However, the revival of interest in industrialization and structural transformation in academia and policy circles has, unfortunately, been too faithful of the neoclassical theoretical framework where the benign role of the market mechanism and dangers of 'government failure' are overly emphasized and given primacy, and sticking to static comparative advantage is recommended ([Storm, 2015: 670](#)). This is in spite of the overwhelming evidence that no country in history has ever industrialized by sticking to its static comparative advantage but through deliberate direction of the 'market mechanism' to create dynamic comparative advantage. (See [Chang \(2002\)](#) for details on this.)

Meanwhile, there is hardly any literature that looks at the linkages in Africa between industrialization and structural transformation on the one hand and REI on the other hand. More specifically, there is no significant literature that closely looks at the relationship between REI and the level of industrialization (or lack of it) in the integrating economies, i.e. how the proportion of manufactures in the composition of a country's exports is linked with the level of its trade with another economy with which it is engaged in some form of REI. Moreover, the available literature does not closely look at the external dimensions of the failure of SSA economies to structurally transform and the failure of REI initiatives in the continent, i.e. the how these failures are related to the kind of economic integration of the economies with more advanced counterparts located outside of Africa. Therefore, this paper aims to fill these gaps in the literature. Thus, firstly, it presents a historical analysis of how the external economic linkages that SSA economies have had with more advanced economies affected both the levels of industrialization and REI in SSA (particularly levels of intra-Africa trade). Secondly, it provides an historical overview of the relationship between the level of industrialization and the level and patterns of intra-African trade.

To this effect, the paper critically analyzes the foundations of the mainstream economics literature related to REI and attempts to show why it is inappropriate for the purpose of evaluating whether or not a given REI arrangement is transformative (i.e. facilitates long term development and industrialization of a late developing economy). Moreover, the paper outlines a long-ignored alternative theoretical framework to identify some taxonomic principles that can be used to evaluate different types of economic integration arrangements vis. their implications to structural transformation and industrialization in a less developed economy(ies). Though these principles have been around (though ignored) for very long time and stated by various authors in one way or another, this paper is probably the first attempt to streamline and apply them to look

into REI arrangements, particularly those in Africa. As a result, not only does the paper arrive at conclusions that are clearly at variance with those of the dominant literature on the subject, it also identifies theoretically robust, mutually re-enforcing linkages between REI and industrialization in Africa thereby underlining the importance of designing and implementing dynamic, context specific and transformative industrial policies as well as the importance of rethinking extra-African economic linkages for achieving these two mutually re-enforcing goals.

2. Regional economic integration in the mainstream economic literature

In this section we shall briefly but critically look at the mainstream literature on regional economic integration with respect to developing regions and countries like those in SSA. In particular, we shall outline the main features of the mainstream theory and assess its appropriateness for late-development contexts. The findings of this review shall inform the presentation of an alternative theoretical framework that addresses the major weaknesses of the mainstream thinking on the matter and one that better fits the SSA context.

In the mainstream view, "Economic integration is basically concerned with the promotion of efficiency in resource use on a regional basis." ([Robson, 1998: 2](#)). In this line of thinking, perhaps the most influential work is [Viner \(1950; Viner, 1950\[2014\]\)](#) which spawned a large set of literature, and which discusses trade integration gains while explaining the theoretical implications of preferential trade agreements. The study identified concrete criteria to distinguish between the possible advantages and disadvantages of economic integration, and divided possible effects of economic integration into the now well-known ideas of 'trade creation' and 'trade diversion' effects ([Viner, 1950](#)).

These are essentially the static effects that emanate from shifts (induced by the integration of economies) in the production of certain export products from one member-country to another member-country, or from a nonmember-country to one of the member-countries, and result due either to a shift in product origin from a high-cost member-country producer to a low-cost member-country producer (*trade creation*) or a shift in product origin from a low-cost non-member country producer to a high-cost member-country producer (*trade diversion*) ([Kyambalasa and Hounnikpo, 2016: 2](#)). It is argued that while *trade creation* can improve member-countries' welfare (since such a shift would represent a movement in the direction of the free-trade allocation of a country's resources), *trade diversion* can generally reduce member-countries' welfare because it represents a movement away from the free-trade allocation of resources ([Viner, 1950; Viner, 1950\[2014\]: 55](#)). One can clearly see how these propositions take for granted that free trade is an ideal means of efficient and benign resource allocation (to be discussed in more detail below). In any case, Viner's study and subsequent developments of his ideas do not reach optimistic conclusions about the welfare enhancing effects of regional integration initiatives; in fact, they are said to be important and are likely to yield more economic benefit than harm only under specific and rare circumstances ([Viner, 1950: 135; Hosny, 2013: 238](#)).

Thus, the traditional static approach to REI failed to provide valid economic reasons for formation of preferential trade arrangements; and so there was a move within the mainstream towards dynamic approaches ([Hosny, 2013: 138](#)). For instance, [Balassa \(1962\)](#) introduced the concept of dynamic effects of regional economic integration and listed the principal dynamic effects of integration as large-scale economies, technological change, as well as the impact of integration on market structure and competition, productivity growth, risk and uncertainty, and investment

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