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ANALYTICAL AND EMPIRICAL EVIDENCE OF TRADE POLICY EFFECTS  
OF REGIONAL INTEGRATION: IMPLICATIONS FOR AFRICA

by

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## **Introduction**

Economists tend to believe that movements toward freer trade, on balance, provide positive benefits. Freer trade by definition involves greater interdependence among nations, and is currently linked to the phenomenon of globalization. There is also consensus that developing countries have a great deal to gain from free trade (Krueger, 1999; Srinivasan, 1999; Stiglitz, 2000; Tangemann and Josling, 1999; Huff, 2000). The economics literature supports the contention that development requires economic growth to alleviate poverty, and greater access to world markets is perceived as a necessary condition for more rapid growth. Therefore, it is believed that poor countries have more to gain from a freely functioning global market or that poor countries have the most to lose from a failure of the multilateral World Trade Organization (The Economist, 2000).

However, following the failed ministerial conference of the World Trade Organization (WTO) in November 1999, global multilateralism has faced an increasing number of vocal and active opposition from around the world. The Seattle conference failed because by expanding to 130 members, it became more difficult for the WTO to reach consensus on different issues. Secondly, developing countries both grew in membership and also became more active participants in voicing their concerns than they had done under the General Agreement of Tariffs and Trade (GATT). The cry is that freer trade and globalization are not in poor countries' interest and that it will cost already poor people dearly (McCalla, 2001). Therefore, as the push for freer trade at the multilateral level has become more and more contentious, governments have been focusing on negotiating regional pacts as means to enhancing policy credibility and accelerating trade and investment liberalization in the hopes of spurring production and export growth.

Africa is faced with just such a challenge in announcing creation of the African Union. The guidelines for the Union are provided by the Abuja Treaty of 1991, which is articulated around the concepts of solidarity and collective self-reliance; a self-sustained and endogenous development strategy; and a policy of self-sufficiency in basic needs. Its major goals include the integration of African productive capacities and infrastructure facilities; the eradication of poverty and ignorance; the building of genuine African-centered institutions; and the establishment of new relationships between Africa and the rest of the world (African Development Report, 2000). The Abuja model of integration provides a marked departure from previous models in that it is no longer a narrow trade agreement; it conceives of a long-term development strategy, aims to integrate economic and non-economic sectors, builds new institutions consistent with a self-reliant development process, upholds democratic principles, and fosters new social and cultural values.

The issue of market access for African countries attracted much attention during the Uruguay Round of multilateral negotiations. Currently, virtually all African countries have entered into contractual preference arrangements with the European Union (EU). Because of historical colonial ties, the EU accounts for greater than two-thirds of total African trade. African countries also enjoy preferential treatment for certain export products to major markets, such as the U.S. and Japan, under the General System of Preference (GSP).

The option of promoting trade and investment integration on a regional basis was

implemented in the 1990s by many WTO members in various regions of the world. Most regional trade agreements (RTAs) involve discriminatory trade liberalization by member countries against the rest of the world. Over 200 RTAs have been notified to the GATT or WTO over time; currently over 150 agreements are in force. Since 1995, over 100 agreements covering trade in goods or services, or both, have been notified to the WTO. Therefore, currently, almost all countries are members of at least one RTA and more than one third of world trade is supported by RTAs. Existing RTAs include the North American Free Trade Agreement (NAFTA), the EU, the Central American Common Market (CACM), Association of South East Asian Nations (ASEAN), Southern Cone Common Market of Latin America (MERCOSUR), etc. In Africa alone, there are at present about thirteen different sub-regional trade agreements. In Central Africa, they include the Central African Monetary and Economic Community (CEMAC - formerly known as the Central African Customs and Economic Union - UDEAC), the Economic Community of the Countries of the Great Lakes (CEPGL), and the Economic Community of Central African States (ECCAS). In North Africa is the Arab Maghreb Union (AMU). In Southern and Eastern Africa are the Southern African Customs Union (SACU), the Common Monetary Area (CMA), the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), and the East African Cooperation/Community (EAC). In West Africa are the Economic Community of West African States (ECOWAS), the West African Economic and Monetary Union (WAEMU), and the Mano River Union (MRU).

In this paper, we review some recent theoretical arguments and provide certain empirical evidence in support of lessons learnt from the implementation of RTAs around the world. First Africa's trade policy challenges are discussed. Second, research findings on key trade theory and policy considerations that are influenced by RTAs are comprehensively reviewed. Then implications from lessons learnt are derived for Africa's emerging challenge in seeking to create an RTA.

### **Africa's Trade Policy Challenges**

Recent experiences demonstrate that countries that have pursued open-economy, export-oriented growth and development strategies have almost always done well (a very good example is the "East Asian Miracle" prior to the global financial crisis of the late 1990s). Rapid growth in many Latin American countries in the late 1980s and 1990s also came about with domestic policy liberalization and open-economy models, which reduced trade barriers. On the other hand, the popularly held notion is that most African nations have persisted with inward-looking, protectionist models and have done poorly. The negative consequences of many African countries' highly interventionist and protectionist trade regimes have become unraveled through the Uruguay Round of the GATT and WTO deliberations to date.

At the end of the 1980s, researchers began focusing on the concept of conditional convergence. According to this concept, a country's long-run level of income and its growth rate are determined by factors such as macroeconomic and structural policies, as well as by how poor the country is relative to the rest of the world (Amponsah et al., 1999). The uneven economic performance across countries and uneven rewards within them are frequently linked to the

phenomenon of globalization (International Monetary Fund, 1997). The critical issue arising from recent lessons learned about economic growth is that policy regimes make a difference in whether a developing country converges toward high income levels.

In fact in the 1980s, many African countries unilaterally embarked on the painful process of rationalizing and liberalizing their trade regimes through structural adjustment programs with the assistance of the World Bank and International Monetary Fund (IMF). Although reforms have been uneven, there is clear evidence that protection of import substitutes with tariffs and non-tariff barriers in Sub-Saharan Africa has declined (Nash, 1993). Quantitative restrictions have generally been replaced with lower tariff levels that average between 15 and 20 percent (with the highest rates at 35-40 percent). These rates still remain quite high by comparison with other developing regions, such as Asia and Latin America. According to Nash, there has been little progress by individual countries in establishing efficient systems and institutions that would provide exporters with access to inputs at internationally competitive prices. Yet, mainly because of policy reversals and lack of sustainability, many African countries suffer from credibility problems at the multilateral level. Additionally, most developing countries that started trade liberalization experiments earlier, many African countries are highly dependent on trade taxes for fiscal revenue.

Therefore, to date compared to other regions of the world, Africa is generally characterized by low economic growth (see Figure 1), although many more countries have achieved positive growth in the 1990s in particular. Moreover, Africa is still far from reaching its targeted goal of an annual growth rate above 7 percent a year so as to achieve economic convergence with other developing countries and to maintain similar quality of life. Sharer (2001) documents that Africa's non-oil exports in 2000 came to about \$69 billion, and that if Africa had retained its share of non-oil exports at 1980 levels, exports in 2000 would have been \$161 billion, or \$92 billion more than their actual level. In contrast, the total cost of the Heavily Indebted Poor Countries Initiative is about \$30 billion (to be delivered over more than 20 years). In addition, the most recent replenishment of the World Bank's concessional lending arm, the International Development Association, totaled \$22 billion for a three-year period.

Extensive research and analysis usually highlight the following causes for Africa's economic problems: adverse geographic and demographic conditions, low rates of domestic savings, endemic poverty, excessive dependence on a few agricultural commodities, lack of institutional transparency, lack of market openness and liberalization, terms of trade and other external shocks, macroeconomic policy weaknesses, structural policy failures, weaknesses in governance, political instability and conflicts. Sub-Saharan Africa's average GDP per head is anywhere around \$509 (\$297 if we exclude South Africa) and it has hardly changed over the past three decades. Additionally, the region has experienced declining shares in nearly all sub-sectors of world trade, and there is a tendency for its exports to be concentrated in primary products whose share of world trade has been declining. Although the slow pace of Africa's global integration shielded her from global financial crisis of the late 1990s, it has also meant that real prosperity eludes many countries in the region. Therefore, it is conjectured that Africa may not continue in its present course of economic development if it wishes to exploit the benefits of globalization, namely, increasing its available resources for productive investment, enhancing efficiency of their uses, and facilitating transfer of appropriate

technology to enhance its production processes and to reduce poverty.

Consequently, many economic development analysts have proposed that because of the forces of globalization, African countries (just as most developing countries) have little choice but to integrate into global markets, or risk being further marginalized. The suggested approach is to integrate regionally so as to facilitate wider integration into the global economy so as to gain access to greater flows of trade, finance, technology, and ideas for economic growth and human welfare. In other words, whereas it is alright for these countries to be a part of the global network of multilateral arrangements and need to submit to the rules and regulation of the WTO, Africa must first learn to deal laterally with its neighbors and other developing countries in the South as partners in trade and development. Conventional wisdom states that by developing such alliances, African countries will build the necessary blocks in negotiating more effectively at the WTO level. Ajayi (2001) suggests that integration must be achieved through trade, capital flows, human migration, and advances in telecommunications and transportation.

Lately, a consensus has also emerged that the sub-regional integration arrangements in Africa have failed to date to substantially increase trade (in terms of market access) and economic growth both within the region and in the world. Oyejide (1997) indicates that although virtually all of Africa's sub-regional integration arrangements contain specific trade liberalization commitments, most of them have not been implemented. Therefore, inter-African trade is lower (typically less than 10 percent) than that of any region in the world. Africa's share in global exports fell from 4.5 percent in 1977 to 2 percent in 1997, while developing countries as a whole increased their contribution to world trade. Additionally, Africa's share of total developing country exports dropped from 15.5 percent in 1981 to 9.2 percent in 1997. Africa's share of FDI flows to developing countries fell from 23 percent in 1970 to 4.7 percent in 1997 (African Development Bank, 2000). Lessons learned from African sub-regional arrangements are that they have major design and implementation flaws, exhibit narrow patterns of trade, depend on primary product exports, involve low levels of inter-country trade, and have low potential complementarities in goods and services.

Part of Africa's problems is the migration of human capital out of the continent in what is characterized as "brain drain." But recent mass immigration by Africans into western nations and the relative exposure to knowledge acquisition and skills development could be harnessed to Africa's advantage. Africa's diaspora could be courted to contribute to the continent's development by remitting funds back to the continent to assure steady flows of foreign exchange, and to develop networks of contacts in Africa to ensure the transfer of necessary experiences and skills. Lately, advances in telecommunications and computer technologies have reduced drastically the cost and efficiency with which information is transmitted. The Internet system alone has created a major revolution in the manner in which information is delivered globally. Yet, it is not clear if the appropriate institutions are in place for African countries to formulate comprehensive policies to deal with telecommunication and transportation infrastructure, and to create the enabling environment for global trade and financial integration. Africa's problems may have been exacerbated by her mounting debt and unfulfilled promises of official assistance by the richer countries, the lack of political will, weak institutional mechanisms, proliferation of sub-regional agreements with multiple memberships

(and therefore poor implementation), weak bargaining power at the diplomatic front, and poor leverage in pursuing peace and security.

### **Lessons from the Theory and Practice of Regional Trade Integration**

The case has been made that African countries must pursue an open-economy strategy as an incentive to gaining greater access to markets (especially the big ones in developed countries) where they can express their comparative advantage. Therefore, African countries must adopt a trading system that is open, transparent, rules based, and perceived as fair. According to Krueger (1999), even “large” developing countries are “small” in terms of global GDP. African countries need to be conversant with and participate in an international trade system that is made up of rules that can be enforced against larger, developed countries because they lack economic bargaining power in negotiating with the likes of the U.S. or the EU. A corollary argument is that these countries need to negotiate as a trading bloc that is regionally integrated.

#### ***Trade Creation and Diversion***

At least in theory, the economic benefits from regional integration and the drive towards regionalism have been justified in terms of the trade creation and trade diversion effects that arise when the barriers to trade are removed between members within an RTA (African Development Bank, 2000). Additionally, in modern trade theory (Helpman and Krugman, 1985) and the new growth theory (Grossman and Helpman, 1991), dynamic gains from trade provide the fundamental argument for free trade and a vital causal link between exports and economic growth.

The key question about a free trade arrangement is whether the benefits of trade creation exceeds the costs of trade diversion. Thus, a free trade arrangement is likely to be viewed as beneficial if, on balance, it gives rise to greater trade creation than trade diversion. RTAs tend to also shift distortions in sources of supply instead of eliminating them. Thus, trade creation occurs if partner countries’ production displace higher cost domestic production. However, if partner country production displaces lower cost imports from the rest of the world, then there is trade diversion.

The theory of RTAs may be traced from the seminal work by Viner (1950) that differentiated the effects of trade creation versus trade diversion from RTAs. Viner argued that although RTAs tend to liberalize trade by reducing some barriers, they may not necessarily result in net gains from trade. Generally, it is expected that net gains from trade would occur should all barriers be reduced in a non-discriminatory manner. Yet, RTAs tend to discriminate against non-members. Therefore, in what constitutes a theory of “second-best welfare economics,” it is argued that to the extent that distortions remain in the regional economic system, even if we remove some of the distortions, as for example eliminating trade barriers on member countries but maintaining them on non-member countries, it is still not welfare improving.

However, some research studies do not support the possibility of trade diversion as a result of an RTA creation (Meade, 1955; Ohyama, 1972; Kemp and Wan, 1976). These studies tend to

argue, based on what is characterized as the Kemp-Wan Theorem, that trade diversion is averted in a customs union or free trade area since there would exist a set of common external tariffs that leave unchanged the emerging trading bloc's trade with non-member countries. Meade, in particular, argues that when pre-arranged tariffs for member nations of the RTA are high, the pressure for trade diversion may be great in the aftermath of RTA creation. On the other hand, the potential for trade diversion in the regional arrangement may be low since such external barriers offer less scope for the displacement of imports from third countries with regional production.

Another interesting scenario in the literature is the case in which the RTA brings together countries that were previously major trading partners. According to Lipsey (1957), opportunities for trade creation in such circumstances appear to be enhanced more whereas trade diversion is minimized. Again, the contention is that since least-cost sourcing exists prior to the RTA's introduction of preferences, the removal of trade barriers would reduce the likelihood that trade would be diverted from third countries' least-cost suppliers to higher cost suppliers within the RTA. Other researchers, such as Wonnacott and Lutz (1989) and Summers (1991), have developed the "natural trading bloc" argument that appeals to similar reasoning and incorporates transportation costs in the supply expenditure.

### ***Economies of Scale Argument***

An economic argument that tends to be prevalent in the trade literature is that RTAs, present firms in member countries with the opportunity to exploit economies of scale through enlarged and more diversified markets. Viner (1950) first suggested that significant gains might be associated with economies of scale in the formation of RTAs, whereas Corden (1972) formalized this theory in terms of the importance of scale economies to trade and welfare under customs unions. Of course, this presupposes that firms operating within the RTA would produce more goods following formation of the RTA. In what Corden proposes as the cost reduction effect, enhanced intra-regional trade, resulting from greater internal demand and reduced barriers to trade is expected to provide opportunities for firms to achieve greater economies of scale and lower output prices as these firms capture larger markets for their products both at home and abroad. This phenomenon is also supposed to give rise to economic gains in partner countries within the RTA.

Smith and Venables (1988) have also proposed that in addition to achieving cost reduction as a result of increasing returns to scale, RTAs may successfully erode the market power of dominant firms in the member countries by encouraging market entry by competing firms from other member countries and, thereby, contribute to lowering prices. Granted, Baldwin and Venables (1995) do not seem to confirm such pro-competitive effects in their study. The authors conjecture, however, that an RTA may only cause a shift in the production of goods among member countries, while having little or no impact in reducing market segmentation, and little or no increase in the number of firms in the trading bloc that produces similar products.

### ***Evidence of the impacts of Trade Liberalization on Economic Growth***

Agama (2001), uses a comprehensive database to examine the link between trade openness and growth for a group of 40 countries in Africa. She argues that during the 1980-1999 period, the more open countries in Africa experienced higher economic growth rates than those that remained closed. Agama documents that although trade liberalization and economic integration increases economic growth for African countries, increases in government consumption expenditure retards such growth. Figure 2 is a plot of per capita growth and trade openness. It shows a positive relationship between trade openness and growth for Africa over the 1980 through 1999 period.

Agamah's study follows the findings of a number of empirical cross-country studies by Dollar (1992), Ben-David (1993), Sachs and Warner (1995), Edwards (1998), and Frankel and Romer (1999) that indicate that trade openness is associated with more rapid economic growth. However, the debate about a positive empirical association between trade openness and economic growth remains far from settled. In spite of the recent movement towards trade reforms for most developing countries, there remain some major controversies regarding certain aspects of trade and development policies. One major issue is the fact that, until recently, theoretical models had been unable to link trade policy to faster equilibrium growth. Second, despite these theoretical advances, the quality of empirical results are influenced by data problems. Rodriguez and Rodrik (1999) also argue that the empirical literature does not consistently and reliably demonstrate a positive link between trade liberalization and economic growth. Their primary concern is that the empirical studies have not adequately controlled for instrumental variables representing other economic policies. In certain cases, plausible control variables may have been omitted. Levine and Renelt (1992) similarly critique that such policies may be correlated with growth. Third, there is an ongoing debate on the merits and nature of further trade liberalization toward development. On the one hand, international organizations, including the WTO, support rapid and sweeping liberalization. The appeal of opening up to global markets is based on the simple premise that economic integration will improve economic performance. As developing countries, in particular, open up to international trade, and build the necessary capacity to effectively negotiate within the established rules of the WTO, the expectation is that trade would be enhanced and economic growth will increase. This in turn will reduce poverty and improve the standard of living for the majority of residents of those countries.

There are a number of recent empirical studies that deal with the determinants of growth for developing countries. Rodrik (1998), for example, tests the link between trade policy and economic growth for a group of countries in Sub-Saharan Africa over the 1965-1990 period, and finds that the fundamentals for long-term growth in Sub-Saharan Africa are human resources, physical infrastructure, macroeconomic stability and the rule of law. The effects of trade policy on economic growth appear to be indirect and modest. Jonsson and Subramanian (2000) examine whether enhanced trade volume in recent years improved efficiency in the South Africa economy. They find a significant positive relationship between trade and total factor productivity growth over time and across sectors. Dollar and Kraay (2001) also test the link between trade policy changes and economic growth. The authors conclude that changes in growth are highly correlated with changes in trade volumes.

Furthermore, Rodrik (1999) argues that the benefit of openness lies on the import side. The



ability to import ideas, investment goods and intermediate inputs from advanced countries could significantly increase growth. But to realize these potential gains, developing countries need to create an environment that is conducive to private investment and improve their institutions so as to manage, for example, conflicts in order to maintain macroeconomic stability and adjust to rapid changes in the external environment. In the absence of these complements to a strategy of external liberalization, openness could cause instability, social conflict, and widen inequalities. On the other hand, a number of researchers in developing countries question the need for further rapid liberalization, partly because of its macroeconomic costs and partly because of doubts about the efficacy of simple free-market solutions to the problems of competitiveness and restructuring.

In developing countries, trade liberalization policies are hard to formulate and implement because the magnitudes of the distributional impacts tend to be very large. Since there are aggregate gains to the economy, at least in principle, it may be possible to compensate the losers and still leave some groups better off. But this course of action implicitly assumes that the requisite transfers can be made in a relatively efficient manner, in the limit, by employing lump-sum transfers. This is not always possible in Africa, for example, where tax instruments are usually lacking and administrative capacity tends to be very limited.

In endogenous growth models, the impact of trade liberalization on growth can be positive or negative, as argued by Mattoo *et al* (2001). If the resource allocation effects of trade policy changes promote the sectors that generate more long-run growth, then the impact is positive, otherwise the impact is negative. For example, if trade liberalization shifts resources into the manufacturing sector and away from the agriculture sector, then this will have a positive impact on long-run growth if the manufacturing sector generates greater positive externalities; that is, if it possesses the attributes necessary for endogenous growth. Mattoo *et al* also point out that increased trade per se can have a generalized positive impact on growth. For example, trade enables a country to employ a larger variety of intermediate goods and capital goods that could enhance the productivity of its resources.

Edwards (1993) provides a survey of trade and growth studies covering the 1970s and 1980s. The U.S. International Trade Commission, USITC (1997) also provides a summary review of the literature on the dynamic effects of trade liberalization. In the empirical literature, the relationship between trade and economic growth has two distinct strands. The pre-1990s studies focus on the relationship between exports and growth. With some qualifications, the regression analyses were consistent in their conclusions that growth of exports was significantly correlated with growth of output. The post-1990s studies, such as Dollar (1992), Ben-David (1993), and Sachs and Warner (1995) focus on the relationship between openness and growth. The literature focuses either on the direct impact of trade on output growth or total factor productivity growth (examples are Edwards, 1998; and Coe *et al*, 1997)

**The following additional studies link economic growth to RTAs. For example, by using EC time-series data, Italianer (1994) relates the rate of economic growth to intra-EC trade as a share of total EC trade. He finds that the RTA proxy is positively and significantly related to the growth rate, suggesting that the RTA had a positive impact on economic growth. By contrast, De Melo *et al* (1992) find that most RTAs**

**have little or no growth effects. Only the South African Customs Union (SACU) has a positive effect on economic growth for its members. Vamvakidis (1998) also finds that RTAs do not affect growth significantly.**

### *Argument for Economic Growth through Foreign Direct Investment*

It is expected that regional integration would boost investment and result in growth (Brada and Mendez, 1988; Baldwin, 1992). As trade is enhanced by the regional integration process, it tends to raise the returns to some factors of production. Assuming that the cost of capital remains constant, the economy could respond with increased rates of return and hence, increased capital stock. By and large, this increase in capital stock could lead to a temporary acceleration of growth rates as capital accumulation shifts the economy towards a higher growth path. And if the regional integration arrangement reduces transaction costs on tradable (more capital intensive) goods more than non-tradable goods, trade liberalization may stimulate the demand for capital relative to labor. Additionally, by reducing uncertainty and enhancing policy credibility, regional integration may stimulate investment. For Africa, because of the absence of own capital, foreign direct investment (FDI) is very necessary for inducing complementary local investment, and providing technological and managerial know-how.

The issue of how regional integration affects industry location or for that matter location of investment is of interest to policy makers in developing countries. For discussion of the pertinent issues involved, one has to appeal to both international trade theory and the economic geography literature. For example, Puga and Venables (1997) have suggested that agglomeration benefits accrue to firms that are located close to other firms. Because of the pecuniary externalities generated from such activities, it is reasonable to expect that as one firm relocates, it provides incentives for other firms to follow in lock step. However, trade policy may influence location decisions by firms through imposing tariffs on inputs from abroad; sales abroad; and the extent of competition in domestic markets. It is expected also that the size of the integrated countries and markets will influence the degree and speed of industrialization.

The economic geography literature seems to suggest that economies of scale and location specific costs (for example for land) can provide justification for regional integration (Baldwin, 1995). Hence, location decisions by a firm is influenced by internal economies of scale and transactions costs that increase with distance between the producer and the consumer, given a particular mode of transportation. The major concern in Africa, however, is in reducing transaction costs and linking the region through efficient infrastructure networks so as to deliver the full potentials of an integrated region. In addition, neighbors matter, and if neighboring countries grow rapidly then they will assist overall regional growth. Therefore, an RTA that is built around some larger and/or rapidly growing member countries that serve as growth-poles for the integrated region, could have growth-enhancing effects for the entire region (African Development Bank).

FDI may also be motivated primarily by the desire to hide behind trade barriers or by foreign investors seeking to exploit input or output markets located abroad in activities where operating a foreign affiliate seems the most efficient strategy. Some other investment projects may be undertaken to reap economies of scale or because of increased market competition. The response to an

integration agreement will depend on each individual case, and will reflect potentially offsetting influences. Theory does not offer definitive conclusions regarding the general impact of regional integration on investment. Thus, what happens in each situation is basically an empirical question.

### ***Other Policy Effects of Trade Integration***

There is the need to take into consideration whether regional integration enhances policy credibility; and whether the benefits of free trade will be equally distributed among members of the RTA. Regional integration arrangements may promote policy credibility (Whalley, 1996; Francois, 1997; Baldwin et al., 1997). The essence of this argument is that by “locking in” uniform trade and investment reforms among member countries, regional integration enhances policy credibility. The regionally integrated nations will definitely entail a much larger political community that might lessen the scope for adverse discretionary actions by individual governments, especially the actions of growth-retarding political interest groups. In other words, whereas individual member nations may do well in embarking on policy reforms, group action can influence all members to abide by a common reform agenda.

RTAs can also help prevent conflicts, since political support is necessary for the creation of such arrangements. Regional trade integration tends to be viewed as an instrument for fostering diplomacy and regional stability (Mansfield, 1993). It is generally expected, therefore, that regional trade arrangements can help reduce tensions and the possibility of war among potentially antagonistic nations. Political economy linkages may be realized from indirect impacts on economic performance of socioeconomic stability. Some regional trading arrangements may also help to stabilize neighboring countries, thereby lessening or even stemming the possibility that migrants or bloodshed would spill across borders. Schiff and Winters (1998), for example, provide the premise that trade among neighboring countries provides security directly by raising the level of interaction and trust among the people of those countries, by increasing the stake that each country has in the welfare of its neighbor, or by increasing the security of access to the neighbor’s strategic raw materials. Nevertheless, free trade does not guarantee peace. Therefore, to justify regional integration on political grounds requires confidence that trade preferences would contribute to political rapprochement, that such a rapprochement is valuable, and that it would not happen if the regional integration agreement is not formed (African Development Bank, 2000).

Although trade guarantees static and dynamic gains, especially from surplus production, nothing in the trade literature guarantees equal distribution of benefits under free trade. Trade has served as the engine of growth for countries at varying levels of development, by contributing to efficient allocation of resources and transmitting growth from one part of the world to another. According to trade theory, the distribution of benefits from free trade depends on the international rate of exchange between goods, what happens to the terms of trade, and whether the full employment of resources is maintained as resources are reallocated when countries specialize. Additionally, the benefits from trade depend on the production and demand characteristics of the goods that a country produces and trades, the economic policies pursued, and the trading regime adopted. In Africa, over 80 percent of export earnings are derived from the sale of primary

commodities, and the price of primary commodities relative to manufactures has been deteriorating for at least a century at an average rate of approximately 0.5 percent per annum (Thirwall, 1995).

### **Empirical Evidence on Impacts of RTAs**

There are two approaches in the trade literature by which impacts of RTAs are assessed. One is the *ex post* approach that assesses the impacts of RTAs by using simple investigation of intra-regional trade patterns following the formation of the RTA. The other is the *ex ante* approach that is undertaken at an earlier date before the formation of the RTA. In the following, we provide a general review of some of the existing findings that draw heavily on studies by Pomfret (1988), the WTO (1995), DeRosa (1998), and a summary review of past studies by the Organization for Economic Cooperation and Development, OECD (2001a).

#### ***Evidence from Ex Post Studies***

The *ex post* analyses from the cited studies report substantial expansion of intra-European Community (EC) trade during the 1960s. Intra-EC trade as a share of total EC trade increased from 35 percent in 1960 to 49 percent in 1970. Furthermore, with the expansion of the EC to include Denmark, Ireland, and the United Kingdom, intra-EC trade as a share of its total trade grew more slowly, from 49 percent in 1975 to 52 percent in 1981. Additionally, other studies such as Balassa (1967, 1975), Truman (1969), Prewo (1974), and Aitken (1973) found that the EC was trade-creating on a net basis for both the new trading bloc and the rest of the world. Balassa (1975) reveals that the share of intra-industry trade in total EC trade steadily increased since the establishment of the EC, reflecting continued product differentiation and scale effects. In particular, he confirms that EC welfare was improved by \$0.7 billion per annum, or 0.15 percent of GDP per annum. He also estimates the cost of trade diversion under the EC's Common Agricultural Policy at \$0.3 billion per annum. Therefore, he imputes a net welfare gain of \$0.4 billion per annum, or less than one-tenth of one percent of EC GDP per annum.

In contrast, existing documentation of early studies of RTAs among non-OECD countries, such as Noques and Quintanilla (1993), and Naya and Plummer (1991), found the growth of intra-bloc trade to be lacking. For example, in the former, intra-regional trade in manufactures in the ANDEAN countries grew from 0.1 percent of GDP to 0.6 percent of GDP during 1965-90. In the latter case, early preferential arrangement among ASEAN countries failed to increase intra-bloc trade following its first decade. In an African example, Forountan and Pritchett (1993) reported that the share of intra-regional trade in the SADC represented only 2 percent of its total trade at the end of the 1970s, while remaining constant over the years.

The contemporary resurgence of RTAs globally, has also influenced the following recent *ex post* studies. For example, Frankel (1997) and Soloaga and Winters (1999), respectively, investigate RTAs over 1965-92 and 1980-96 in Western Europe and North America, as well as MERCOSUR, ASEAN and SADC. For Western Europe, despite the high level of intra-EC trade in the 1960s and 1970s that shows up in measures such as trade shares, Frankel finds that most of this trade can be

explained by other variables, such as GDP and proximity of markets. Only from 1985 does the change of intra-bloc trade attain a significant level. The results resemble those of Soloaga and Winters, who find that intra-bloc trade in Europe is generally below 'normal' and has a positive significant trend only since 1985. For EFTA, both studies find that the change in intra-bloc trade is not significant. Both studies also find evidence of trade diversion for the EU and EFTA. Bayoumi and Eichengreen (1995) also find that the formation of the EC had a significant impact on trade among its members. It reveals that trade between the EC and other industrialized countries fell at 1.7 percent per annum.

For North America, Clausing (1995) in his study of the Canada-U.S. Free Trade Agreement (CUSTA), suggests that the agreement did not have a significant effect on intra-bloc trade. Furthermore, by using disaggregated data and information on tariffs before and after the agreement, Clausing finds that the boost to trade was significantly greater in commodities that were subject to high tariffs than those subject to low tariffs.

Soloaga and Winters find that changes in intra-bloc trade for NAFTA have not been significant. In addition, extra-bloc trade with the rest of the world fell over the period, suggesting that some trade diversion occurred. These results are similar to those of Krueger (1999), whose estimates also find that the change in trade among NAFTA countries was not significant. She confirms, however, that NAFTA countries import less from non-NAFTA trading partners. Additionally, Krueger indicates that those commodity categories in which Mexican exports to the U.S. grew more rapidly were also those categories in which exports grew more rapidly with the rest of the world. This seems to indicate that the expansion of trade was trade-creating, and not trade-diverting.

For the MERCOSUR, Frankel finds trade between the RTA and non-member countries increasing over the period, presumably reflecting the unilateral trade liberalization by MERCOSUR members, which started during the late 1980s. Soloaga and Winters find that import and export propensities displayed opposite movements; suggesting that MERCOSUR members' trade performance was dominated by other factors rather than trade policy, such as currency overvaluation.

Yeats (1997) also investigates commodity patterns of exports by MERCOSUR countries, and finds that the fastest growing products in intra-bloc trade are capital-intensive goods in which MERCOSUR countries did not previously display strong export performance. Therefore, Yeats concludes that the new patterns of trade of members are at odds with what their historical comparative advantage would predict (the so called 'anti-monde' in the Yeats study).

Frankel's estimates for ASEAN reveal a significant apparent intra-regional bias, suggesting that the RTA boosted trade among its members by an estimated fivefold. These results are confirmed by earlier studies by Wang (1992), and Wang and Winters (1994). Their tests of hypotheses suggest that ASEAN is one of the most significant trading areas of the world. On the other hand, Soloaga and Winters show that the agreement did not have a positive effect on intra-bloc trade, especially between 1987 and 1995.

Elbadawi (1997) reveals results that are compatible with the pattern of intra-regional trade reported by earlier studies. His results indicate that SADC did not have a significant effect on trade among its members, although the performance of the bloc is slightly improved when controlling for exchange rate policy effects. These results are similar to those found by the OECD (2001b).

### ***Evidence from Ex Ante Studies***

Early *Ex ante* studies focused mainly on the EC that was comprised of six original members and on North America. For example, Verdoorn (1960) found that the EEC was trade-creating. His estimated static welfare gains were insignificant, at less than 0.05 percent of GNP per annum. Another early study by Balassa (1962) also indicated that the welfare effects of the customs union were insignificant. He cautioned that the results may have been affected by not accounting for otherwise important considerations such as scale, competition and general equilibrium aspects.

Wonnacott and Wonnacott (1967) estimated the gains to Canada from free trade with the U.S. at 10 percent of GNP per annum. Cox and Harris (1985) have also studied the welfare effects of CUSTA. They estimated the welfare effects to be positive for Canada (at 8.5 percent of GDP per annum), but negligible for the U.S. by virtue of its larger size. They suggested that the presence of scale economies increases the gains from trade. The study also indicated an expansion of bilateral trade and a decline in trade with third countries as a whole. The following summary of lessons learnt from the *ex ante* studies draw heavily on Baldwin and Venables (1995), DeRosa (1998), and borrow the format of presentation used by OECD (2001a).

Three studies by Gasiorek *et al* (1992), Haaland and Norman (1992), and Harrison *et al* (1994) focus on the EU Single Market Programme. These studies indicate that deepening of economic integration in the EU should be expected to achieve economic gains that are positive and generally significant (between less than 0.50 percent and more than 3 percent of GDP per annum), owing predominantly to pro-competitive effects of product standardization (with increasing returns to scale). The results also suggest the occurrence of appreciable trade diversion following integration, possibly limiting gains in welfare to the EU, with potential rationalization of production and closure of a large number of EU firms that faced declining terms of trade and profit margins. In addition, the results indicate losses in economic welfare in other parts of the world.

Brown *et al* (1992), Roland-Horst *et al* (1992), and Bachrach and Mizrahi (1992) are among the most prominent *ex ante* studies of NAFTA. All three studies found that NAFTA provides positive gains to members, and as might be expected, the largest proportionate gains tend to be found for Mexico. However, there seems to be a wide variation in simulated economic gains, with the highest gains found by the Roland-Horst *et al* study (gains range from 2 to more than 3 percent of GDP per annum for the U.S. and Mexico respectively, to 10.6 percent of GDP per annum for Canada) and the smallest gains found by the Barchrach and Mizrahi study (gains range from insignificant for Canada and the U.S. to 0.32 percent of GDP per annum for Mexico). Only the simulation results of the Brown *et al* study provide explicit indication of possible effects of NAFTA on third countries. It indicates that, although substantial diversion of trade with non-members might occur, the impact on welfare in the rest of the world is unlikely to be appreciable. However, the possibility of significant

negative impacts on individual non-members, especially Central American countries, should not be discounted, as pointed out by Leamer *et al* (1995).

For RTAs among non-OECD countries, two recent *ex ante* studies by Flores (1997), and Hinojosa-Ojeida *et al* (1997) provide a fairly encompassing view of expected effects on trade and welfare of MERCOSUR. Both models predict that MERCOSUR will be trade-creating, without even modest trade diversion. However, the Flores study finds substantially lower trade effects for MERCOSUR than the Hinojosa-Ojeida *et al* study. In addition, the Flores model finds welfare effects that are generally positive and significant (between 1 percent and more than 2 percent of GDP per annum), while the Hinojosa-Ojeida *et al* study finds welfare effects that are generally positive but insignificant (less than 0.25 percent of GDP per annum). The explanation for these differences seem to be related to the Flores study's specification of imperfect competition and increasing returns to scale. With regard to the effects on the rest of the world, Hinojosa-Ojeida *et al* find that other countries might enjoy substantially expanded trade with MERCOSUR, amounting to more than \$600 million.

Two recent *ex ante* studies by DeRosa (1995) and Lewis and Robinson (1996) find that ASEAN is trade-creating. Both studies found that ASEAN contributes comparatively little to higher economic welfare for members (the gains range between 0.25 and 0.50 percent of GDP per annum), except possibly for the two highest-income and particularly open economies (Malaysia at 1.30 percent of GDP per annum and Singapore at more than 3.50 percent of GDP per annum), which supply the largest proportion of the increased intra-regional demand previously supplied by countries outside the region. The two studies also found little negative effects on non-members.

Lewis *et al* (1999) have conducted a study on southern Africa. They consider the effects of SADC (parallel to the EU-South Africa FTA) and a trilateral agreement which includes the EU as well. The results indicate that in either type of RTA trade creation exceeds trade diversion, suggesting that the EU is more important than South Africa for trade and growth in the rest of southern Africa, as the latter gains far more from a trilateral RTA. Its real GDP increases by 4.1 percent per annum with a trilateral agreement, whereas its real GDP increases by only 0.33 percent per annum when it forms the RTA with South Africa alone. The study also finds insignificant negative effects on non-participating countries.

In the following, we provide further empirical evidence in regards to how RTAs affect FDI flows. The overarching evidence is that RTAs tend to alter the incentives facing firms that are located both within and outside the trading bloc. Therefore, they may also influence the direction of FDI flows, although the effects of RTAs on investment may in some cases anticipate the effects on trade.

Earlier empirical work on regional integration and FDI has focused primarily on the effects of European integration. Some notable exceptions are early studies by Behrman (1972) and Myltelka (1979) that focus on developing countries. The period following the formation of the EC coincided with a structural shift in direct investment inflows towards the bloc, and several studies from the 1960s and 1970s asked whether the integration process was the determining factor for such inflow

(see for example, Yannopoulos, 1990). Attempts to estimate the impact of economic integration on intra-regional investment include studies by Franko (1976) and Pelkmans (1984). These studies found that European integration coincided with a clear shift in the location of production of multinationals of EC parentage. In other words, these studies found signs of "investment diversion."

Blomström and Kokko (1997) focus on three kinds of regional integration: North-North integration (Canada joining CUSTA), North-South integration (Mexico's accession to NAFTA), and South-South integration (MERCOSUR). The study finds that the creation of CUSTA had relatively little influence on direct investment patterns in Canada, since much of the trade between Canada and the U.S. had been liberalized long before CUSTA was established. However, Mexican accession to NAFTA had a profound impact on FDI. Flows into Mexico more than doubled in the year after the launch of NAFTA, and Blomström and Kokko argue that this increase was mainly by non-NAFTA member firms taking advantage of preferential access to the bigger northern market. In MERCOSUR there is also evidence that strong investment expansion has coincided with the integration process. The inflow of FDI into the region more than tripled between 1989 and 1993. In addition, in 1995 alone, the U.S. stock of FDI in the region increased by more than 25 percent, a rate that is significantly higher than the rate of growth of U.S. investment in the rest of the world.

Although the underlying assumption is that increased FDI flows are beneficial to economic growth in the integrating region, it should be recognized that the welfare effects on the region might not be positive if the RTA worsens the allocation of resources or adds new distortions in the regional market. The welfare effects may also be negative if the RTA diverts investment from other countries to the region in question. On the positive side, Blomstrom and Kokko show that FDI can be an important factor in stimulating production in related industries, in increasing productivity in neighboring firms, and in transferring technology.

### **Ancillary Policy Issues Associated with RTAs**

Although the focus of empirical studies of the effects of RTAs has been primarily on the changes in trade flows induced by regional integration, other consequent effects deserve attention. The first is that changes in trade flows may lead to a change in world prices, potentially improving the terms of trade of participating countries, although this gain may arise at the expense of third countries. For example, Chang and Winters (1999) show that Brazil's membership in MERCOSUR has been accompanied by a substantial decline in the relative prices of imports from third countries.

Econometric estimates seem to suggest that these changes in relative prices are largely due to the reduction in tariffs on members' exports to the bloc as compared to those on world exports. The results also show that third countries' export prices in the Brazilian market declined in absolute as well as relative terms during the integration period, indicating that MERCOSUR's terms of trade have improved at the expense of the rest of the world.

The second effect is that changes in tariffs and trade volumes will generally lead to a loss of government tariff revenue. The cost to government depends on the social cost of raising funds in alternative ways, and can be severe especially for developing countries where trade taxes are an important source of government revenue. For example, Fukase and Martin (1999) indicate that Cambodia's entry into ASEAN provided a powerful stimulus for the introduction of a value added



tax to compensate for the loss of customs duties amounting to 56 percent of total tax revenue prior to its entry into the agreement. The World Bank (2000) shows that in the SADC, where some countries are strongly dependent on trade with South Africa, substantial revenues are also involved, amounting to 9.8 percent and 5.6 percent of government revenue for Zimbabwe and Zambia, respectively. On the positive side, it is important to stress that RTAs can potentially boost economic growth, thereby resulting in an overall increase in tax revenue.

### **Implications for Africa's Regional Integration**

From the comprehensive review of literature on the theory and practice of RTAs, the following stylized facts provide lessons for Africa's experiment with regional trade agreement:

- Greater trade policy liberalization may lead to stronger economic growth, notwithstanding the controversies pertaining to trade and development policies, and the mixed results of specific impacts from various studies. A major complement of RTAs is the ability to import knowledge, ideas, investment goods and intermediate inputs (such as technology, skilled management, etc.) from successful integrating regions;
- Economic integration stands to improve regional economic performance, to the extent that the necessary environment is enabled for human capacity building, learning by doing, and sustained policy and institutional reforms;
- The fundamentals for achieving sustained growth lie in human resource availability and human resource development, macroeconomic and fiscal stability, and effective institutions (including the rule of law);
- Pursuit of open economic strategies is the key incentive to gaining greater access to markets. Therefore, countries must adopt trading systems that are open, transparent, rules based, and fair. They must also learn to negotiate as a trading bloc;
- By "locking in" uniform trade and investment policies among member countries, an RTA may help promote policy credibility. Group action may influence all members to abide by a common reform agenda. Of course, RTAs do not guarantee equal distribution of benefits to each member. Therefore, unilateral actions by countries to embark on sustained economic and structural reforms are very important in reaping the full benefits from integration;
- RTAs are expected to boost both home grown and foreign investment to spur economic growth. The economic geography literature seems to suggest that industry location within RTAs may reduce transactions costs based on the availability and efficiency of infrastructure. For similar reasons, an RTA that is built around some larger and rapidly growing member country that serves as a "growth-pole" for the region, could have growth enhancing effects for the region. In both the EC and NAFTA cases, there are substantial diversion of FDI by non-members to take advantage of preferential access to the regional market. FDI also seemed to stimulate production in related industries, increase production in neighboring firms and in transferring technology mainly because of the forces of agglomeration;

- RTAs present firms in member countries with the opportunity to exploit economies of scale through access to enlarged and diversified markets. RTAs may also broaden the available market for a member country's producers and diversity of goods for its consumers;
- The economic benefits from an RTA has been justified in terms of greater trade creation than trade diversion by its members. Net trade creation offer dynamic gains from trade and provide the fundamental argument for free trade and economic growth;
- Intra-bloc trade is usually small at the inception of the RTA for most regions, but grows over time. In many cases, trade among RTA members and the rest of the world tends to be curtailed. In the developing country examples of the MERCOSUR and SADC, trade performance seemed to be explained in large part by currency issues and exchange rate policies rather than instituted trade policy instruments per se;
- The fastest growing products in intra-bloc trade are capital-intensive goods in which MERCOSUR countries did not previously display strong export performance. Therefore, the new patterns of trade of members of an RTA may be at odds with what their historical comparative advantage would predict (what is referred to as the "anti-monde"); and
- RTAs can help prevent conflicts since regional political support is necessary for regional agreements. Therefore, RTAs may promote greater rapprochement, diplomacy and stability.

The combined effects of identified factors resulting from an RTA are expected to provide opportunities to expand trade, pool resources for investment, enlarge local markets, and industrialize more efficiently by taking advantage of the scale of production that large markets afford. Since most national markets in Africa are simply too small and/or inadequate to sustain large-scale economic operations, economic integration must be viewed as important for utilizing Africa's human and physical potential, instituting credible policies, and for realizing its prime objectives of accelerating economic growth and reducing poverty.

Invariably, therefore, a regional trade agreement can be a good thing if it leads the member countries further and faster towards greater openness and integration. But trade system reforms, as well as the completion of regional integration agreements represent processes rather than discrete events. The implementation schedules for most reforms must be viewed as ongoing over time. Fortunately, Africa can build on lessons learned from existing sub-regional and bilateral arrangements in order to sustain its emerging regional economic integration. Creating a single regional market can eventually enhance Africa's economic efficiency. Regional trade agreements can help countries build on their comparative advantages, sharpen their industrial efficiency, and act as a springboard to integrate into the world economy. It can also help strengthen the political commitment to an open economy, improve technical, management and negotiation skills and competence, educate the public and more actively engage the business community. This will build credibility for Africa's best reformers in the eyes of the world and, hopefully, reward them with greater access to markets.

Clearly, building closer trading links among African countries will strengthen their capacity to fully participate in the global/multilateral trading system. It will help avoid the usual problems with small domestic markets, since producers and manufacturers will be offered greater economies of scale and regional market infrastructure. Additionally, an integrated African market should provide greater access to regional trade institutions to harness human resources and re-orient policy instruments. For example, common agreements can be reached to harmonize tariff reduction, legal and regulatory reforms, the rationalization of payment systems, reorganization of financial systems, and reforms of labor markets that should enable African countries to assert their economic interests from a stronger and more confident position in global markets. It is also expected that by engaging in learning by doing, this process would influence the countries to implement politically more difficult trade measures that they would otherwise not have the individual political will to undertake, such as lowering tariffs or embarking on extra-institutional reforms. To that end, therefore, there could exist a framework for greater surveillance and dialogue among partner countries to discourage/reduce potential risks of macroeconomic slippage and to create the enabling stable environment for business to flourish.

Just as with most systems, regionally integrated markets entail some costs. Regional integration could encourage trade diversion. There is always the tendency for member countries to divert some of their trade that would otherwise take place between the participants of the agreement with third countries. When countries integrate and reduce or eliminate trade taxes, they eventually lose potential revenues. The dynamic process of substituting lost revenues with alternative sources of revenue, such as the value-added tax or any such comparable instrument, poses potential risks to small country governments. As in the EU, regional trade integration may encourage member countries to become more inward-looking and protectionist. This phenomenon may create policy reversals and pose a major threat to the goal of an open multilateral regime that is based on non-discriminatory trade. Nevertheless, there is a prevailing view that RTAs enable participants to move more closely and quickly to trade liberalization than it is possible at the multilateral level. Also, if it is trade creating, then RTAs would complement the overall goal of achieving multilateral liberalization.

Lessons from the reviewed literature suggest that to be successful, reforms must be adapted to each member country's specific economic and social characteristics, its priorities and its relative level of development. Although the harmonization of trade policy instruments such as tariff reductions and the formation of regional institutions can be undertaken by the collective will of all members of the RTA, unilateral macroeconomic and structural reforms must be undertaken by each sovereign nation's government. These include removing trade barriers, adopting appropriate exchange rate policies, diversifying exports, tax reforms, policies to encourage innovation and economies of scale, infrastructure development, redefining the role of the state, reforming the civil service so as to improve the business climate, instituting mechanisms toward greater transparency in the legal and regulatory framework, liberalizing investment laws, offering fiscal incentives, easing restriction on entry and profit remittances, strengthening banking and financial systems, and enhancing social policies, especially in health and education.

Whereas it is generally agreed that African countries must be held accountable for accomplishing their reforms and development, international organizations and donor groups can complement their efforts. First, markets must be opened to provide free access to African products and services. Removal of trade barriers could contribute to gains in incomes that could make up for declining levels of potential external assistance that are destined for Africa. The present drive towards market openness, though successful to a great extent, has not led to full accessibility to markets. Significant impediments to free trade in goods and services still exist that prevent nations from reaping full benefits from international trade. Markets still do not constitute a level playing field. For example, although many regions such as the EU have drastically reduced tariffs, they still maintain relatively higher protection rates for agricultural commodities that it produces and low to zero tariffs on those it does not produce. Many developed countries also impose non-tariff barriers in the form of price supports, subsidies, and special marketing arrangements that tend to keep out agricultural products from developing countries. Other restrictive policies include product standards and health regulations. Now, although Africa may be accorded preferential treatment, these preferences have not increased African trade. Therefore, it may be in African countries' interests to support broad-based multilateral liberalization in agriculture during future rounds of global trade negotiations. To this end, a two-pronged strategy seems to be in order for members of the African Union. This will involve strengthening integration links within the group, on the one hand, and reinforcing the global multilateral system on the other. It will serve Africa's interest to see the WTO monitoring regional economic groupings, and to seek to moderate differences and resolve potential disputes.

Africa's international partners could also strengthen this regional initiative by promoting flows of capital and FDI to help create new jobs, provide information, raise technological development, and add value to "made-in-Africa" products that would raise their competitiveness and satisfy global demand. International partners could also commit anew to honoring their contemporary commitments toward debt reduction/eradication so as to assist Africa in reducing its level of poverty.

Additionally establishing institutions that can intermediate with global financial and extralegal institutions will be critical. For example, lessons from the recent global financial meltdown (in Southeast Asia and Latin America) seem to suggest that the potential risks from globalization may be very high. Although Africa avoided such risk by not being active players in global finance, in planning to become active players, framers of the African Union must take into consideration establishment of protocols that will enable Africa to achieve sustainable growth without exposure to major external shocks that would contribute to current poverty. African countries must work actively with multilateral institutions, such as the WTO, the World Bank and IMF, to promote convergence through macroeconomic discipline, trade liberalization, reforms of institutions to strengthen the enforcement of market rules and the rule of law that will lead to good governance.

Finally, a major concern about Africa is that there is a dearth of data to back up negotiations. Let us assume that African countries want to negotiate on the elimination of tariff and non-tariff measures. To reach effective agreement through negotiation would require adequate information to conduct the necessary background research that takes into consideration different assumptions to

compare third party tariffs, preferential tariffs and rules of origin for the region. Since adequate information may not be available on measures of support, it is doubtful if negotiations can proceed on a sound basis. Even if some information were available, it is not clear how many countries have the necessary expertise to conduct comprehensive analysis of the existing information without the benefit of expert technical assistance. Therefore, there is a major role to be played by institutions such as the United Nations Economic Commission for Africa (UNECA) and the African Development Bank by undertaking research that will fill such gaps in trade and investment flows and trade policy related information. Perhaps, a special trade unit could be established to pay special attention to the needs of the participating countries (a majority of them are resource poor), and to work towards a strategy that minimizes their adjustment costs, as well as identifies the implications of integrating economies of different sizes and levels of adjustment. Consequently, UNECA's Africa Knowledge Networks Forum (AKNF) and the African Development Forum is a major step in seeking consensus of ideas that should solve Africa's poverty enigma once and for all.

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