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EUROMED UNIVERSITY OF FES
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EUROMED BUSINESS School

AEZO 6TH ANNUAL MEETING EXPERT OUTLOOK

RECS (SEZ) SUPPORTING REGIONAL INTEGRATION

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INTRODUCTION

REGIONAL ECONOMIC COMMUNITIES (RECS) AS CORNERSTONES OF CONTINENTAL TRADE INTEGRATION

CEN-SAD
- *Community of Sahel–Saharan States*

COMESA
- *Common Market for Eastern and Southern Africa*

EAC
- *East African Community*

AMU
- *Arab Maghreb Union*

ECCAS
- *Economic Community of Central African States*

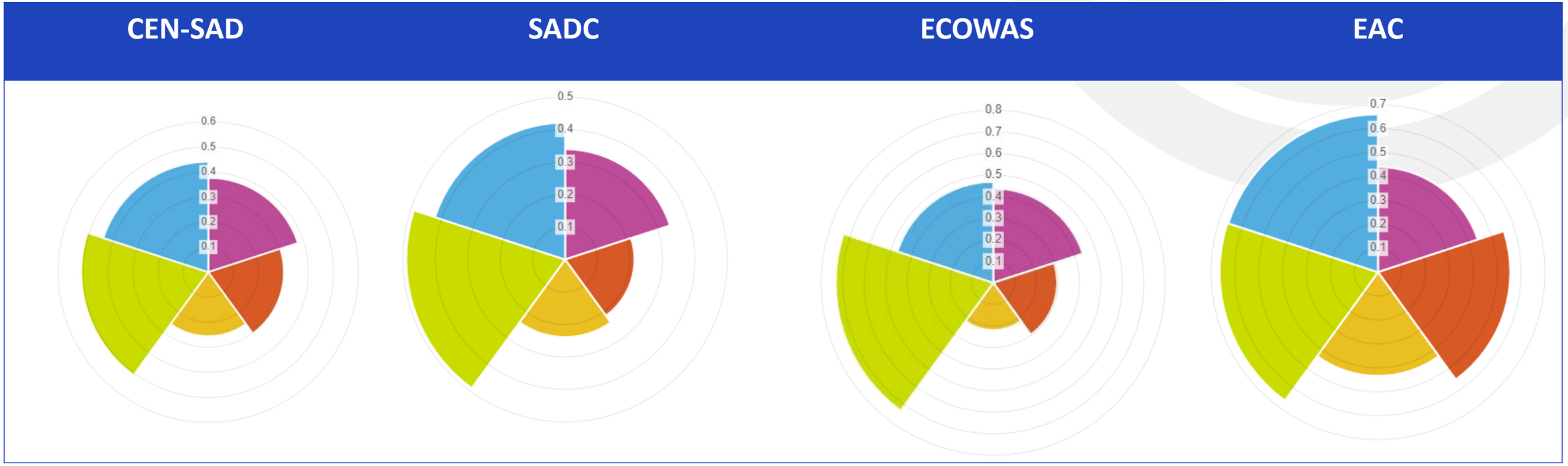
ECOWAS
- *Economic Community of West African States*

IGAD
- *Intergovernmental Authority on Development*

SADC
- *Southern African Development Community*

The role of RECs in the intensification of intra-african trade and the stimulation of African participation in Global Value Chains (GVCs) ?

THE LEVEL OF INTEGRATION WITHIN THE RECS REMAINS STRONGLY CONTRASTED BETWEEN THE DIFFERENT AFRICAN COMMUNITIES.



Source: https://www.integrate-africa.org/rankings/regional-economic-communities/

BASED ON THE FINDINGS OF A RESEARCH PAPER, WE WILL:

HIGHLIGHT

- Highlight the structure of intra-African trade within the RECs

ANALYZE

- Analyze the factors of trade concentration in some RECs, particularly the role of regional integration agreements, geographic proximity, historical and cultural connections, economic distance, and the complementarity of specialization structures.

COMPARE

- Compare trade intensity in RECs with contrasted level of integration and discuss the opportunities for less integrated ones and discuss the opportunities of project-based integration likely to stimulate intra-african trade and african participation in GVCs.

Explore

- Explore how SEZs could support a project-based integration

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ECONOMIC INTEGRATION IN AFRICA : THEORETICAL FRAMEWORK

Jan Tinbergen (1965)	-Institutionalist distinction between positive economic integration and negative integration.
R.lawrence (1996)	This opposition between two integration processes was also highlighted by R.lawrence (1996) who distinguishes between deep and shallow integration
C. Deblock (2005)	Distinction between two categories of institutional models; integration agreements and partnership agreements.
C. Deblock (2006)	Regionalism and Regionalization The combination of the two economic and regulatory dimensions constitutes "regional economic integration" (IER) (Deblock, 2006)

THE REGIONALIZATION OF AFRICAN TRADE THEORETICAL FRAMEWORK

Economic integration in Africa

Institutional arrangements and de jure regionalism are not sufficiently developed in the African continent (P.Hugon, 2017).

Intra-African trade relations are below 15% of the continent's total trade (Unctad, 2019). It is clear that trade integration is still weak (P.Hugon 2017).

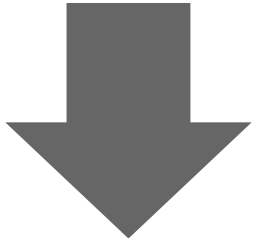
The key to achieving this economic integration is to rely on recognized regional economic communities RECs (C. Deblock 2017).

THE REGIONALIZATION OF AFRICAN TRADE THEORETICAL FRAMEWORK

REGIONAL INTEGRATION IN AFRICA *VIA* THE RECS

- The report on the state of economic integration in Africa (AU, 2017) highlights that African trade is concentrated within the RECs. African countries mainly trade with other members of their same regional grouping.

EAC member obtains 86% of its African imports from other EAC members. The rate is 90% for SDAC, 64% for ECOWAS and 78% for COMESA.



The other RECs do not achieve the same trade performance.

The implementation of AfCFTA could benefit to other African countries that are not members of dynamic RECs ?

THE CHALLENGES OF TRADE INTEGRATION UNDER THE AfCFTA

Economic integration

- structural factors
  - Proximity factors (geographic distance and transport costs), specialization structure
  - Similar political systems, living standards or even trade policies.
- Institutional factors
  - trade agreements

"Successful regional integration agreements are those which complement an already well-advanced integration thanks to this proximity, they can only rarely replace it" (M.Freudenber, et al, 1998).

METHODOLOGY
THE DETERMINANTS OF INTRA-AFRICAN TRADE

METHODOLOGY

1/ We will measure the trade affinities of two countries (Morocco and South Africa) within their home RECs and outside.

2/ Compare the intensity of trade within SADC and CEN-SAD

3/ Explain the bilateral relative intensities

METRICS

The coefficients of bilateral relative trade intensities allow to compare each observed bilateral flow with a theoretical flow which reflects the overall capacities of the partners to exchange (M.Freudenber, et al, 1998).

An econometric model. Four exogenous variables will explain this intensity; relative geographic distance; the gap in specialization structures and economic distance (distance from living standards).

METHODOLOGY: COMMERCIAL PROXIMITY IN AFRICA: MEASUREMENTS OF AFFINITIES
THE DETERMINANTS OF COMMERCIAL AFFINITIES

The determinants of commercial affinities	
Geographical proximity and trade	Several hypotheses can be explored to explain this correlation; Trade-friendly policies focused on the closest partners, the growing importance of information to establish trade links as well as cultural and linguistic rapprochement. Tade costs tend to fall between the closest countries
Transport costs	Transport costs have a strong impact on trade. Africa is sorely lacking in transport infrastructure, which leads to accentuating intra-regional economic disparities (AU-CA-ADB, 2017).
Cultural and institutional proximity	Cultural distance refers to the differences in beliefs or values between two organizations or two groups of individuals from two different countries (Luo and Shenkar, 2011). This cultural and institutional distance plays an important role in determining bilateral trade flows (Groot, ArjenSlangen and Sjoerd Beugelsdijk, 2005).
The gap in specialization structures (trade complementarities)	This indicator makes it possible to compare the effective trade balance of a country for a given product with a theoretical neutral balance of any advantage or disadvantage of the country (absence of specialization). We measure the advantage (strong point) or disadvantage (weak point) of a country by calculating the difference between the observed trade balance and the theoretical balance

METHODOLOGY: Commercial proximity in Africa: Measurements of affinities

- The trade intensity index is used to determine whether the value of trade between two countries is greater or smaller than what is expected given their importance in global trade. This index is calculated by relating the ratio of the volume of bilateral trade to world trade (Vij / V) (observed bilateral flow), to a theoretical flow, given by the ratio of the total volume of trade of countries i and j with in world trade squared (Vi.Vj / V^2).

- It is defined as the share of one country's exports going to a partner divided by the share of world exports going to the partner. It is calculated as:

- $I_{ij} = ((V_{ij} / V)) / ((V_i * V_j) / V^2)$

- **Are the trade flows between two countries as intense as their respective weights in international trade suggest?**

COMPARISON

MEASUREMENT OF MOROCCO'S COMMERCIAL AFFINITIES

In the following, we will present Morocco's trade affinities with some African partners. To this end, we will calculate the index of bilateral relative intensities with 21 African countries belonging to different regional economic communities

SOUTH AFRICA'S TRADE AFFINITIES CALCULATIONS

we will calculate South Africa's trade affinities with some African partners from SADC and outside.

TABLE 1: MEASUREMENT OF MOROCCO-S COMMERCIAL AFFINITIES RELATIVE BILATERAL INTENSITIES - MOROCCO

Relative bilateral intenstities (Morocco)		
Countries	2008	2018
CEN-SAD		
Burkina Faso	2.694	2.169
Côte d'ivoire	0.934	2.146
Egypte	1.498	1.402
Ghana	1.419	5.757
Kenya	0.066	0.091
Mali	1.649	2.666
Mauritanie	4.524	8.458
Niger	1.124	1.263
Nigeria	0.135	0.485
Sénégal	3.500	4.579
Soudan	0	0.721
Togo	4.053	0.858
Tunisie	3.924	2.384
SADC		
Afrique du Sud	0.520	0.175
Botswana	0.003	0.002
Congo RDC	0.690	0.997
Zambie	0	0.011
COMESA		
Ethiopie	0.677	0.329
Seychelles	0	0.164
Zimbabwe	0.0005	0.022
UMA		
Algérie	2.378	2.390

PRIMARY FINDINGS : MOROCCO'S COMMERCIAL AFFINITIES

We observe that the intensity of trade generally responds to a logic of geographical proximity.

Morocco's commercial affinities are more important with the member countries of CEN-SDAC.

For example, in 2018, Burkina Faso and Morocco commercial flows were 3 times bigger than the theorical flow given the weight of the two countries (Morocco and Burkina Faso) in global trade.

The bilateral relative intensity between these two countries has not really changed over these ten years. Outside of CEN-SADC, Morocco **has weak trade affinities** with other countries.

In 2018, the volume of trade between Morocco and South Africa is only 17.5% of their theoretical level.

TABLE 2: SOUTH AFRICA'S TRADE AFFINITIES CALCULATIONS

Bilateral relative intensities (South-Africa)		
Country	2008	2018
CEN-SAD		
Burkina Faso	0	0.569
Côte d'ivoire	0.675	0.877
Egypte	0.340	0.291
Mali	1.211	1.144
Maroc	0.251	0.178
Nigeria	2.587	4.790
Sénégal	0.829	1.266
Tunisie	1.823	0.097
SADC		
Angola	6.483	3.131
Botswana	1.797	36.787
Madagascar	4.418	4.671
Mozambique	30.132	36.331
Congo RDC	14.712	7.327
Maurice	6.605	9.701
Namibie	0.865	29.592
Zambie	22.162	15.066
COMESA		
Ethiopie	0.500	0.680
Seychelles	4.405	3.906
Zimbabwe	54.088	26.000
UMA		
Algérie	0.226	0.030

PRIMARY FINDINGS : SOUTH-AFRICA'S COMMERCIAL AFFINITIES

South Africa's trade relations are more intense with SADC countries.

This country exchanges 36 times more with Botswana and Mozambique (neighboring countries) compared to their theoretical flows (given their respective weight in global trade).

South Africa's trade is less important (less affinity) with the CEN-SAD countries.

COMPARISON

TRADE INTENSITY

By comparing the trade affinities within the two RECs, we notice that the intensity of trade corresponds to a logic of geographical proximity. The two countries have more affinities trade relations within their home RECs.

To better understand the factors influencing the cross-ratios of relative intensities between the African partners, we propose to use an **econometric approach.**

These cross ratios will be linked to a set of distance variables; geographic distance, economic distance and the gap in specialization structures.

EXPLANATORY FACTORS

ECONOMETRIC MODEL: THE DETERMINANTS OF TRADE INTENSITY

The equation we estimate is a multiple regression of the relative intensity for a flow between country i and country j at a date t on the following variables:

Geographical distance	A high geographical distance between countries i and j would have a negative impact on the relative intensity of trade.
Economic distance	A negative sign associated with this variable will reflect the impact of the economic distance between countries i and j on the relative intensity of trade.
Gap in specialization structures	A high gap in specialization structures would have a positive impact on the relative intensity of trade.
Regional integration agreements (RIA)	This variable is silent. It indicates whether it belongs to a regional agreement. On a given date, it takes 1 if both countries are members, and 0 otherwise. A positive sign associated with this variable indicates the importance of an agreement in intensifying trade relations among its members.

ECONOMETRIC MODEL: THE DETERMINANTS OF TRADE INTENSITY

Geographical distance	Economic distance	The gap in specialization structures (trade complementarities)	The distance of specialization structures
$Dgéo = \frac{d_{ij}}{\sum_k V_k d_{ik} + \sum_k V_k d_{kj}}$	$\frac{z.\ln(z) + (2-z).\ln(2-z)}{2ln2}$.	$CSC_i^t = \frac{1000}{Y_i} = \left[\left(X_i^k - M_i^k \right) - \Sigma \left(X_i^k - M_i^k \right) \left[\frac{X_i^k + M_i^k}{\Sigma (X_i^k + M_i^k)} \right] \right]$	$Dspéij = \frac{1}{4} \sum \left(\left\| CSC_{ik}^{ajust} - CSCS_{jk}^{ajust} \right\| \right)$

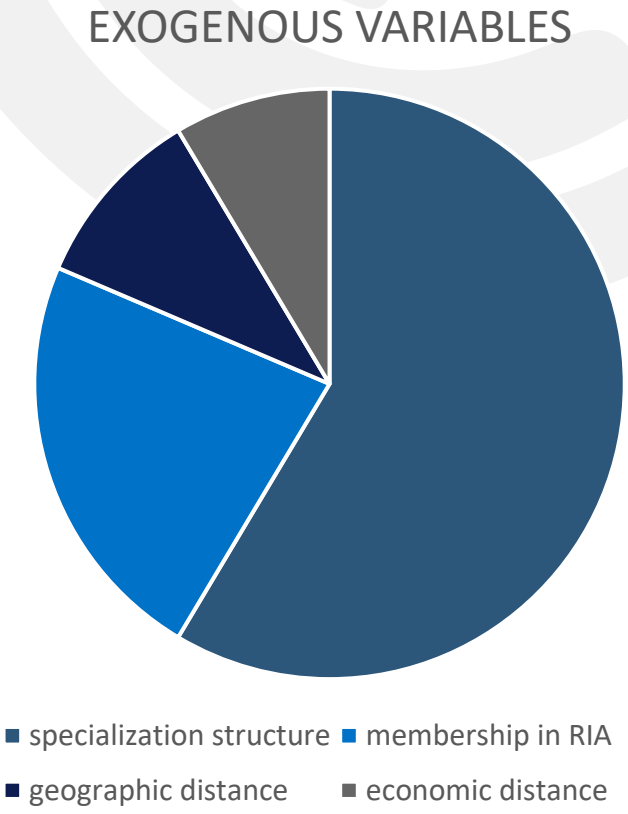
MAIN RESULTS

The impact of economic distance on the intensity of trade	Economic distance impacts positively and significantly the intensity of trade. An increase in economic distance of 1% leads to an increase in the relative intensity of trade of 1.77%. In other words, trade is more intense between economically distant countries.
The impact of geographic distance on the intensity of trade	Geographical distance has a negative and non-significant impact on the intensity of trade.
The impact of the structure of specializations on the intensity of trade	An increase in the specialization structure gap of 1% leads to an increase in the relative intensity of trade of 0.35%. The more the gap in specialization structures between two countries is important, the more their flows are intense. It is important to diversify the exportable offer and to open up to markets with significant differences in specialization. Also, the development **of industrial projects to the sub-regional scale** could help stimulating exchanges within the RECs.
The impact of membership to a regional integration agreement on trade intensity	The membership of two partner countries to the same regional integration agreement RIA leads to an increase of 0.88% in trade intensity.

A SHIFT PARADIGM TOWARDS A PROJECT-BASED INTEGRATION

- Trade affinities are more striking among RECs with high integration rates.
- Belonging to a regional economic community does not help stimulating trade at the same intensity.
- The move towards the AfCFTA building on the achievements of RECs may generate contrasting levels of trade intensity : the trade intensification promised by the AfCFTA could be unequal

The need for a projet-based regional integration combining natural (economic), institutional and industrial integration should be supported by SEZ



DISCUSSION : SEZ SUPPORTING REGIONAL INTEGRATION

LEVERAGING REGIONAL SYNERGIES VIA SEZ	HARMONZING SEZ REGULATION TO INVOLVE REGION S ATTRACTIVENNESS	COORDINATING ACTION AND INFORMATION TO TAKE ADVANTAGE OF COMPLEMENTARITIES BETWEEN MEMBER STATES
Regional integration via SEZs could entail greater openness to domestic and regional investment and sales to local and regional markets than its enclave-like counterpart (Farole, 2011). Attesting to the feasibility of such a paradigm shift, the SADC has already made the initial steps towards establishing SEZs part of an integrated industrial strategy that leverages regional synergies (SADC, 2015).	The integration of SEZs into a broader regional strategy may involve advertising the region's SEZs collectively as investment destinations (Koyama, 2011). The example of Asia since the early 1990s in the so-called **growth triangles**, where countries such as Indonesia, Malaysia and Thailand have sought to harmonize SEZ regulations on investment, immigration, labour and tax, with the intention of marketing them as a package to investors.	SEZs can provide a platform for production and distribution in regional markets, while letting firms take advantage of complementarities and competitive advantages of member states. Awareness of business opportunities, will be key to create linkages between economies and to exploit countries' competitive advantages.

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