There are no translations available.

A new study from the World Bank analyses the trade creation and trade diversion effects in the eight Regional Economic Communities (RECs) that have been recognized by the African Union as the building blocks on which the continent will rely to implement the African Continental Free Trade Area (AfCFTA), trying to draw key lessons from these RECs.

According to Jacob Viner, an economist considered the father of the economic integration theory, two main effects are generated from the access to Free Trade Areas (FTAs): trade creation and trade diversion. Trade creation can be defined as the increase of commercial exchanges between the members of a FTA due to the abolishment of tariffs, which makes their reciprocal imports less costly, compared to imports from third countries not benefiting from the same level of preferential treatment. Trade diversion, by contrast, is the redirection of import flows from the external of the FTA to the interior, because of the tendency by the importers in FTAs to replace part of imports previously sourced from third-countries with imports from suppliers of countries that are members of the FTA, although less efficient. While trade creation leads to a shift in the locus of production from a high-cost producer to a low-cost (relatively more efficient) producer within the FTA, trade diversion leads therefore to a shift in the locus of production from more efficient production by countries external to the FTA to inefficient producers within the FTA (more on trade creation and trade diversion here ). According to Viner, while trade creation improves economic efficiency, trade diversion can be detrimental to the member States of the FTA, because of the replacement of their imports from more efficient suppliers to less efficient suppliers within the FTA. Thus, the question of economic efficiency impact of an FTA depends on which effect dominates.

The World Bank study reveals that with the exception of ECOWAS, the experience of the various regional blocks in Africa shows that the trade creation effect has so far prevailed over the trade diversion and therefore, the African RECs have generally had a positive impact on the growth of trade within such blocks. However, a limitation of such RECs is that almost all of them have focused on the liberalisation of trade in goods, while provisions for liberalizing services trade between member countries as well as the flow of investment have been generally lacking or not decisively enforced.

Two RECs in particular, the East African Community (EAC) and the Southern African Development Community (SADC) have achieved the best results in terms of boosting trade between their members. This is mainly due to higher investments in trade facilitation, higher level of alignment and convergence between the regional goals of these RECs and those of their national members, the density of their economic activity, and higher advancements in the quantity and quality of regional infrastructure (in this regard, the study also notes that transport costs in Africa are 136 percent higher compared with other developing regions and this is one of the main factors that reduces efficiency in trade).

ECOWAS, conversely, seems to be the only region in Africa characterised by an absence of any intra-REC trade effect, which the study justifies with the persistence of significant both tariff and non-tariff barriers to trade between its members.

SADC, in particular, is indicated in the study as an exemplary case where trade integration has led to increased exports of its members to the rest of the world, concluding that this is the ideal form of regional integration the other regional entities should aim for, i.e. a level of integration that promotes trade and linkage with global value chains and distance partners, particularly the key centers of high economic density such as North America, the EU and East Asia.

The World Bank study recommends that, based on the experience of the SADC and EAC (where the success of regional integration lies on the development of an adequate infrastructure), integration efforts at continental level should focus on selected high-density corridors of trade. The study however also warns that in order this integration process and the expected growth of intra-Africa trade can be achieved, some structural factors need to be addressed, including tariff and non-tariff barriers, high fragmentation and thick borders (i.e. excessive presence of government agencies and bureaucracy at borders), and “shallow” trade agreements (i.e. agreements that do not include effective mechanisms to promote services trade and investment flows at regional level, which are essential in facilitating the emergence of regional value chains).

The final recommendation is that African policy makers should focus on eliminating obstacles to trade (in particular tariff and non-tariff barriers) to reap the benefits from the implementation of the AfCFTA, recognising that as the AfCFTA is a continental scheme, fostering trade will be a more daunting task compared to what the existing RECs have pursued so far.