

The problem of coordination

In my research I showed how the African free trade area could impede industrial policy through a lack of coordination between the policies of different countries.

This is how industrialisation works: a government decides to promote a particular sector (as Nigeria did in 2002 for cement) and grant players in the sector several incentives. These could be a domestic market (through protection), subsidies and tax breaks to reduce the risk of investment. Industrial policy does not always succeed. But when it does, the sector will eventually be able to start exporting. At this point, the government will help the sector with trade strategies finding and accessing a market - and create an appropriate trade infrastructure.

The free trade area could deprive states of the policy space to select and protect specific sectors. It could create numerous coordination problems when states use their sensitive products to pursue industrialisation.

For example, industrial policies could be duplicated by countries in the free trade area. This would undermine the advantage of having a large market. There could be contradictory policies, such as one country attempting to reduce intensive agriculture while another seeks to increase it. One country might make decisions

that create problems for the industrial policies of other countries. These contradictions have occurred at the regional level, but they are easier to solve when fewer countries are involved.

Industrialisation would flourish under the African free trade area if industrial policies were to be implemented at the continental level, as opposed to the state level, with no state sensitive products. But even the European Union has not attained such a high level of integration. And there are political interests that suggest it would be impossible in Africa.

There are other obvious problems with the agreement. One is implementation. Even regional integration in Africa faces hurdles, though it involves fewer countries and less commitment. Expecting more than 50 African countries to implement free trade efficiently is idealistic. Nigeria recently closed its borders, violating both the spirit of the Africa Union agreement and the letter of its commitment to the Economic Community of West African States. Sudan, Rwanda, Kenya and Eritrea did the same earlier this year.

It is more reasonable to concentrate on building regions and industrialising before attempting the African free trade area.