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**Unpacking the Relationship
between Decentralization
and Regional Economic
Integration in Sub-Sahara
Africa**

**Towards an Analytical Framework
for Regional Economic Governance**

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Unpacking the Relationship between Decentralization and Regional Economic Integration in Sub-Sahara Africa

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Economic Governance*

Introduction

Following the wave of democratization that swept across many developing countries, state institutions and public administrations have undergone a process of decentralization. Since then, there is a worldwide trend toward promoting local government development and increasing transfer of power, resources and responsibilities to sub-national governments. In the course of this trend, decentralization has become a “catchword” in the development discourses today (Smoke, 2001).

Paradoxically, at the same time, regional integration has grown increasingly popular, especially in sub-Saharan countries. In a context of increasing economic globalization, regional economic integration is being viewed more and more as the best way to participate more efficiently in globalization and address poverty and underdevelopment (Giordano, et al., 2005). In this regard, many institutions and structures have been created in sub-Sahara Africa to guide sub-regional political, economic, and social policies. Over the last three decades, the international community has been particularly keen to promote this trend throughout sub-Sahara Africa as a sustainable tool toward greater interdependence, economic development and stability.

This paper is motivated by a curiosity about the relationship between regional integration and decentralization. It addresses the general question of whether decentralization and regional integration are complementary and mutually reinforcing processes or conflicting trends. How and to what extent do both processes affect each other? To what extent does regional integration foster or hinder decentralization? Discussing these questions implies that it is necessary to explore new theoretical approaches to better understand regional institution building processes. Therefore, this paper briefly surveys the classical theoretical literature addressing the relationship between decentralization and regional integration. By doing so, the paper seeks to show where we stand and to explore possible avenues for future research.

The paper is organized as follows. After the introduction, section two presents the conceptual framework for a better understanding of both concepts: “regional integration” and “decentralization”. Section three presents briefly the rationale for regional integration and decentralization in Africa. Section four provides a brief overview of different theories addressing the relationship between regional integration and decentralization. Based on this background, section five addresses the key question of whether decentralization and regional integration are complementary and mutually reinforcing processes or conflicting trends. In this regard, an analytical framework is elaborated for a better understanding of the interaction between the two trends. In the sixth section, the paper concludes and discusses possible avenues for future research.

Conceptual Framework

The concepts of “regional integration” and “decentralization” have been subject to various interpretations over the last decades. Their meaning has varied greatly over history and across cultural and political context. So far, there is neither a clear definition nor a consensus on their substantive content and form. Both terms are interpreted often in a confusing manner, because they have been used to describe a process (dynamic) as well as a terminal condition (static) or a combination of both (Chingono and Nakana, 2009). Thus, a conceptual clarification is necessary to avoid confusion regarding these two concepts.

Regional Integration

The concept of regional integration generally refers to a complex set of cooperation and agreements between countries within a given sub-regional area. It refers to the process of regional unity involving the establishment of common legal rules and legal systems (Bach, 2000) aiming at fusing together different economies, harmonizing policies in sectors such as trade, customs, investment, infrastructural development, as well as monetary and fiscal policies of member states (Thom-Otuya, 2014).

Generally, the concept of regional integration often takes on a predominantly economic slant in the literature, to the point of confusion with that of “economic” integration. It is worth noting that the scope of regional integration however goes beyond economic integration. Regional integration covers the full range of public sector activity, including regional security, human rights, education, health, research and technology and natural resource management. From this perspective, the process of regional integration may imply both diversity and conformism.

According to Leon Lindberg (1971, p.46), regional integration involves also a closer cooperation of states or the evolution of a collective decision-making system among states over time. In this regard, regional integration is defined as the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new center, whose institutions possess or demand jurisdiction over preexisting national states. The end result of such a process is a new political community, superimposed over the pre-existing ones (Haas, 1968, p.16).

While the concept of regional integration reviewed in this paper refers to domestic regional integration process involving territorial areas within countries, it is import to emphasize that the scope of analysis of this paper focuses more on sub-regional economic integration as a supranational structure involving states within a regional organization. Thus, the term regional integration will be used here more restrictively to refer to regional economic integration between neighboring countries as a result of the coordination of economic policies aiming at ensuring stability and sustainable economic growth and development in a sub-region. In this sense, regional economic integration does not only strive for the convergence of economic and law values among member states; it also seeks to increase recognition of the value of diversity within the community.

Decentralization and Regional Economic Integration in Sub-Saharan Africa

Thus, regional integration may occur at different levels and can be seen as a dynamic process that is characterized by a combination of goals, which can either be economical, political, linguistic, cultural or technological.

Following this interpretation, Bobbio, Matteucci and Pasquino (1983) suggest that the degree of integration can be measured on the basis of the following three parameters: 1) *“the ability to enforce the law; 2) the control on the distribution of resources; 3) the ability to play as a source of identity for the single parts”*. Based on these criteria, regional economic integration should be seen as a process in which states engage themselves in economic cooperation with other states, which will bring them continuously closer together. Nevertheless, this requires that the jurisdictional levels are adequately supplied with adequate fees, taxes, and contributions which yield substantial revenue.

Decentralization

The term decentralization has been defined in numerous ways in the literature. However, a common definition widely accepted is that decentralization is a transfer of some form of authority from the central government to the local authorities (Litvack and Seddon, 1999). This may involve the transfer of roles and responsibilities from national to regional or local entities (Street, 1985).

At this stage, it is important to emphasize that decentralization is not static; it is rather a process and a set of state reforms aiming at facilitating and improving citizens' access to services, especially at the local level. Nonetheless, decentralization reforms may not necessarily equate with democratic regimes, as both concepts do not have the same meaning (Falleti, 2004, p.3). Indeed, a political system described as democratic may be highly centralized while authoritarian or non-democratic regimes can provide a framework for a fully decentralized administrative system.

The literature distinguishes between three major forms of decentralization: administrative, fiscal, market and political¹. On the other side, scholars

1 For a more detailed insight on different forms of decentralization, see: Decentralization & Subnational Regional Economics. The World Bank Group. Available at: <http://www1.worldbank.org/publicsector/decentralization/what.htm#1>.

identify three major forms of administrative decentralization: deconcentration, delegation, and devolution (Rondinelli, 1999, p.2; Parker, 1995, pp.19 ff).² While the concept of decentralization covers a broad range of concepts, it is worth remembering that each form or type has different policy implications for policy making. Devolution, which is the most advanced form of decentralization, is the most relevant dimension that will be addressed in this paper as it refers to the effective transfer of authority for decision-making. Hence, both, decentralization and devolution will be used here simultaneously as synonyms.

Costs and Benefits of Decentralization and Regional Economic Integration

Decentralization

During the past decades, decentralization has been a recurrent theme in African countries. More than twenty-five Sub-Saharan African (SSA) countries have initiated and implemented one or more decentralization reforms (Street, 1985). The concept has become popular in the sense that it has been pushed as a new pathway to improving governance and service delivery in developing countries. In the context of structural adjustment triggered by international financial institutions and major development agencies, popular claims for greater decentralization, political and economic liberalization have been revived. In nearly all African countries, central states have attempted to transfer power to local governments with mixed results over the last decades (Ndegwa, 2005).

In fact, the merits of decentralization depend on the perspective that it is viewed from. The potential advantages of decentralization can be summed

2 **Deconcentration** refers to the transfer of planning, decision-making or administrative authority from the central government to its field organizations and local units, local government or to non-governmental organizations; **delegation** refers to the transfer of some powers of decision-making and management authority for specific functions to units or organizations that are not under direct control of central government ministries; and **devolution** refers to the transfer of authority for decision-making, finance, and management to quasi-autonomous units of local government such as municipalities that elect their own mayors and councils, raise their own revenues, and have independent authority to make investment decisions (Rondinelli and Cheema, 1983; Rondinelli, 1999).

Decentralization and Regional Economic Integration in Sub-Sahara Africa

up as follows. First, it is assumed that as political representatives get closer to citizens such proximity will enable a better mobilization and more efficient allocation of resources at the local level due to the fact that the involved local institutions have better knowledge of the needs and interests within the regions. Second, decentralization may lead to more creative, innovative, and responsive programs by allowing local experimentation with democracy and governance. Third, it may provide better opportunities for local communities to participate in decision making (Litvack, et al., 1998, p.5).

While the motives for decentralization are numerous, disparate, and often, contradictory, most decentralization efforts that have been introduced over the past decade in sub-Sahara Africa have been motivated by political and fiscal considerations (Ford, 1999). According to McGinn and Welsh (1999), these motives have included among others: increasing efficiency and accountability, increasing democratization and community participation, limiting the power of some groups, mobilizing resources, becoming more responsive to local needs, and devolving financial responsibility.

However, it is worth noting that, in many developing countries, decentralization reform has turned out to be a political strategy of the central government to retain most of their power by relinquishing some of it (Prud'homme, 1994). For example in sub-Sahara Africa, scholars like Crook and Manor (1998) have come to the conclusion that some leaders have viewed decentralization as a substitute for democratization at the national level, and a safe way to acquire legitimacy, grassroots support and consolidate their power.

In conclusion, it is worth noting that decentralization is not a panacea. Very often, decentralization reforms in sub-Sahara Africa have been confronted by a number of challenges and problems including among others, weak capacity of local governments causing macro instability (Tanzi, 1995), diversion of funds in decentralized local government units (Reinikka and Svensson, 2004) and local elite capture (Bardhan and Mookherjee, 2000).

Regional Integration

The most prominent argument for regional integration is the integration of markets. From a global perspective, African states are not strong enough to survive in the world market on their own. Most of their markets are small, isolated by trade barriers and this limits their scope for development. Hence, in order to mitigate their marginalization in the global political and economic system, African states need to integrate their national political and economic systems (Hettne, et al., 1999).

Another argument is that, most African states have similar economic, sociopolitical and security problems which prove their mutual inter-dependence. The belief that there is strength in numbers and in unity and that this strength can speed up the pace of development as well as enhance security for a regional area is widely shared (Davies, 1996, p.2). Hence, integrating their economies and mutualizing their efforts in all fields is the adequate strategy for overcoming their weaknesses and development obstacles. Indeed, regional integration is assumed to create larger economic spaces and allows for economies of scale, which may increase efficiency, competitiveness and faster growth (Chingono and Nakana, 2009).

However, regional economic integration does not only have advantages. Contrary to the dominant discourses, efforts towards regional integration may have some costs at the local level. While the process promises much in terms of greater interdependence and stronger regional institutions, it may also create some costs such as: loss of sovereignty for member states; loss of tax revenues due to the removal of intra-regional trade fees, shifting of the workforce, increase of trade barriers against non-member countries, trade diversion³ as well as policy coordination issues among member states.

3 Trade diversion implies for example that a member state has to stop trading with a low cost manufacture in a non-member country and trade with a manufacturer in a member country although trade cost in this member state is higher. This means that trade is diverted from a non-member country to a member country despite the inefficiency in cost.

Theoretical Framework

The impacts of regional economic integration on the local government structure have not been sufficiently investigated by this literature (Stegarescu, 2009). So far, there are only little empirical works addressing the linkages between economic integration and decentralization in Africa (Wacziarg, et al., 2002; Etro, 2003; Alesina, et al., 2000). Thus, the purpose of this section is to provide a brief overview of different theories addressing the linkages between regional economic integration and decentralization. The aim here is not so much to contribute to the theoretical discussion, but to propose an analytical framework that will improve our understanding of issues related to spatial and institutional asymmetries in regional economic integration.

With regard to the question of how and to what extent regional economic integration and decentralization processes affect each other, the literature suggests in general that the more economic and political power is centralized at the central government level and the larger the flexibility and the decentralization of the institutional setting is, the more member states will be willing to join a regional economic organization. However, it is believed that too much flexibility and decentralization may generate coordination problems among member states and thus, may undermine the functioning of the sub-regional organization (Ruta, 2005).

Beyond this general assumption, the literature identifies two theories that provide an interesting analytical framework, which is useful to improve our understanding of the relationship between the processes of decentralization and regional economic integration: (1) the Krugman's New Economic Geography and (2) the „Sandwich” hypothesis.

Krugman's New Economic Geography

The New Economic Geography (NEG) initially stems from international trade theory where the core objective is “to explain the formation of a large variety of economic agglomeration (or concentration) in geographical space” (Fujita and Krugman, 2004, p.140). In contrast to the traditional trade theory, The New Economic Geography attempts to explain the dynamics of spatial clustering of economic activity when trade barriers are progressively removed in a context

of regional economic integration (Ascani, Crescenzi and Iammarino, 2012). This theory departs from the hypothesis that the integration process of two or more countries in a context of regional economic organization has economic implications on the distribution of income between countries as well as on the welfare levels of regions within these countries.

In this regard, Krugman and Venables (1996), Stegarescu (2009), Garrett and Rodden (2003) suggest a positive correlation between regional economic integration and decentralization. Especially, The Krugman's New Economic Geography (1980; 1987; 1991a; 1991b; 1996) argues that regional economic integration increases the market size and generates agglomeration and specialization effects at the regional level (Krugman, 1991). It departs from the assumption that, owing to the interregional differences in factor endowments and technologies, regional integration is expected to "induce agglomeration effects, thus increasing the scope for economies of scale and leading to interregional specialization" (Krugman and Venables, 1996).⁴ By doing so, it provides local governments with preferences, autonomy and large economic gains in terms of reducing the costs of providing important "national public goods" to pursue their own economic strategies (Alesina and Spolaore, 1997; Bolton and Roland, 1997).

While explaining the formation of a large variety of economic agglomeration (or concentration) in geographical space", The New Economic Geography (NEG) fails to give an adequate explanation on interaction effects of regional economic integration and decentralization. The "sandwich" hypothesis addresses this question.

"Sandwich" Hypothesis

Largely inspired by the European Union experience, the "Sandwich" hypothesis has been elaborated by Stegarescu (2009). Its main statement is that national governments run the risk of getting pushed back or squeezed between the supranational and the subnational levels of government in the course of the European Union. This assumption is based on two observable trends within the EU integration process where a transfer of fiscal powers from the national

4 Giannetti (2002) finds evidence of a causal relationship for European Union regions.

Decentralization and Regional Economic Integration in Sub-Saharan Africa

governments to supranational, regional and local authorities is more and more observable: while national governments are expected to transfer national competencies to supranational authorities (EU-Commission level), they are at the same time constrained to shift fiscal power to the local level in the context of fiscal devolution. This development is believed to contribute to the erosion to some extent of the size of central tax revenues⁵ as their ability to raise these tax revenues will be limited. As a result, this situation may in turn lead to a greater fiscal decentralization of the public sector” (Gastaldi, et al., 2011), and thus to a decline of the role of national government in favor of regional authorities (Zimmermann, 1990).

At this stage of the analysis, it is worth noting that the “sandwich” hypothesis identifies two distinguished trends that are observable in the course of the regional economic integration within the EU: (1) A centralizing trend owing to the transfer of national competencies to the supranational authority (EU-Commission) and (2) a decentralizing trend due to reform in favor of fiscal devolution towards local governments (Stegarescu, 2009). These two distinguished trends are also observable in the regional institutional building process in many sub-regional organizations in sub-Saharan Africa such as ECOWAS and SADC.

The key question is how these two trends affect each other in the course of the regional economic integration process in sub-Saharan. How does the design and development of regional institutions affect the functioning of national governments? Are decentralization and regional integration complementary and mutually reinforcing processes or conflicting trends? In other words, to what extent does regional integration foster or hinder decentralization? The question of how this interaction is handled at the supra-national level lies at the heart of what is labeled in this paper as “regional governance”.

5 This is the result of an empirical analysis conducted by Gastaldi, et al. (2011).

Regional Governance: Towards a Comprehensive Analytical Framework

The term “governance” has become a catchword across the social sciences over the last decades. Its popularity and resonance in political science have been reflected in the field of regional policy through a number of works.

While “governance” describes the multitude of actors and processes that lead to collectively binding decisions, the term „regional governance“ is used to analyze new forms of political coordination on the regional state-level adequately. Moreover, it denotes both the institutional structure and the policy process that guide and restrain collective activities of a regional economic community to regulate, reduce or control risk problems that may arise in the course of the regional integration process.

From a scientific point of view, “regional governance” can be viewed as an innovative concept addressing the question of how regional policy can be effectively and efficiently shaped. Thus, it is often understood both as a solution and an analytical tool for addressing challenges and problems associated with globalization and political coordination at sub-regional level development (Benz, et al., 2000; Benz and Fürst, 2002).

In a context of increasing globalization where cross-border interaction affects and limits national governments’ ability to control and influence national policies, regional institutional settings and arrangements have been gaining a central importance in regional governance. This is especially the case in regional organizations in sub-Saharan Africa that are generally not homogenous but rather marked by asymmetries and imbalances in terms of “economic size, factor endowments, per capita income or degree of industrialization, and policy factors that reflect different preferences, choices and institutional characteristics” (Bouzas, 2005, pp.85f).

Addressing these asymmetries lies at the heart of regional governance. But for regional governance to become both an efficient means and an analytical tool dealing with these problems, it seems necessary to elaborate first on the matrix of interaction and adequate analytical framework (see figure 1) that will allow unpacking and assessing the interaction between decentralization and regional integration. This is necessary to improve our understanding of regional

Decentralization and Regional Economic Integration in Sub-Saharan Africa

institutional building and help avoid institutional and spatial asymmetries within the regional organizations.

While the analytical framework presented in this section is intended to help assess the relationship between regional economic integration and decentralization in sub-Saharan Africa, the author however does not pretend to propose here an overarching theory accounting for the complex dynamics between these two trends. Rather, this section suggests that the appropriate approach for assessing and understanding the relationship between regional economic integration and decentralization is first to identify and structure their costs and benefits as well as their impacts as a result of their interactions.

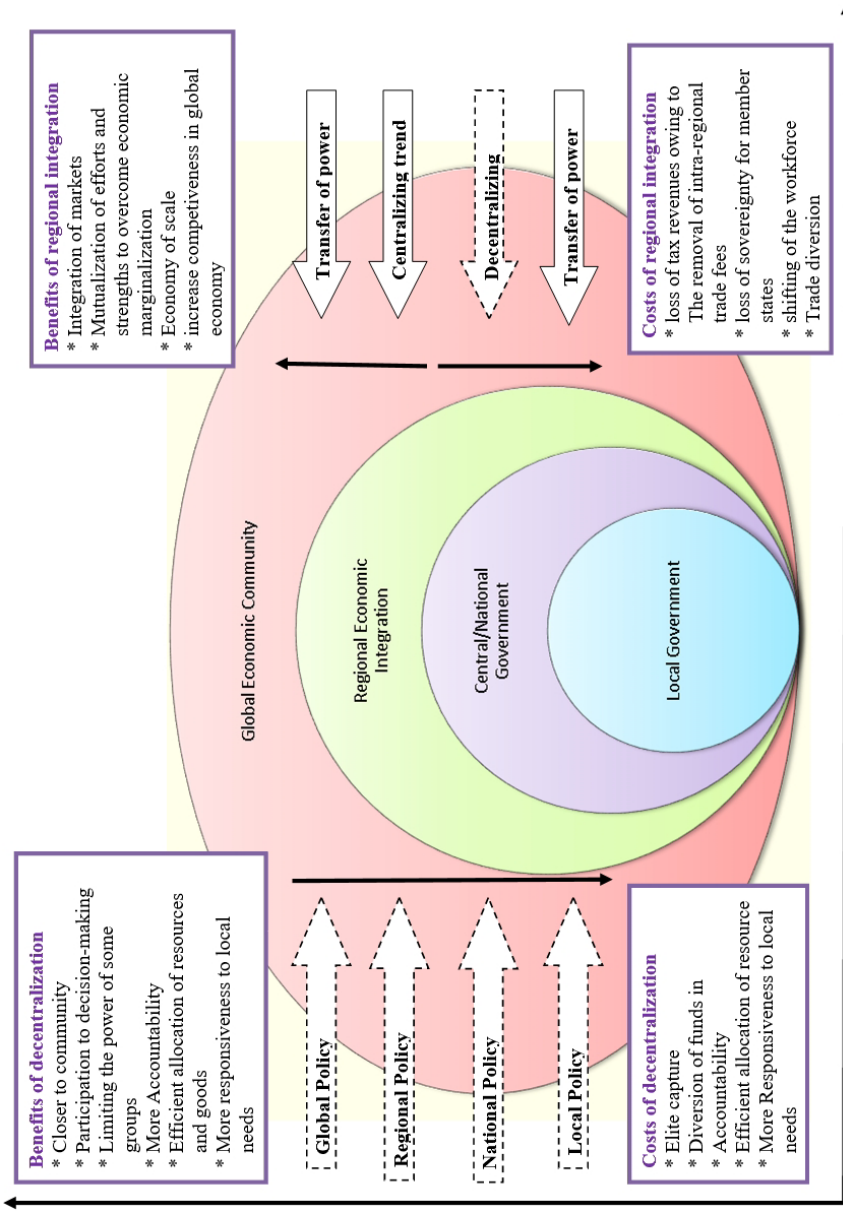
The interaction between regional economic integration and decentralization is analyzed from three perspectives: First, from the point of view of the demand, regional economic integration may reduce the cost of autonomy and hence increase the demand for decentralization. Second, from the point of view of supply, it is believed that with increasing regional economic integration, central governments may be reluctant to transfer more power to local governments since they lose a great part of power in favor of the supra-national regional organization. As a result, the rent from the region may increase and the demand for more autonomy may go up. A third perspective can be added to these two perspectives. Third, with regard to regional economic integration, Ruta (2005) suggests that the more economic and political power is centralized at the central government level and the larger the flexibility and the decentralization of the institutional setting, the more member states will be willing to join a regional economic organization. Furthermore, local governments are also more inclined to join regional policy initiatives since the policies are assumed to be reformulated and adjusted to local needs. Nevertheless, the main constraint here is that too much flexibility and decentralization may generate coordination problems among member states and thus, may undermine the functioning of the regional organization. The reason is that most sub-Saharan countries involved in regional integration processes are characterized by weak governance institutions, which undermine the ability to play out adequately this interaction. As a result, the whole regional integration process may be weakened and compromised.

Furthermore, the analytical framework examines the implications for the double movement of centralization and decentralization that member states involved in regional economic integration in sub-Saharan Africa have been experiencing.

While the ongoing regional integration process consists of a partial transfer of national decision-making to collective decision-making at the supra-regional level, decentralization reform rather involves the transfer of power, resources and responsibilities to the sub-national government. The key issue associated with these conflicting trends is that, regional integration implies interference of sub-regional or supranational authorities in internal affairs of national governments; and this may induce internal and external restrictions, which in turn compromise the rights and autonomy and horizontal governance structures.

While the outcome of the interaction of regional integration and decentralization may depend on the relative bargaining potential of the existing centripetal and centrifugal forces Ruta (2005), it will be shaped by the interactions of formal and informal institutions at various levels, including national, regional and local. The figure below has sought to provide a comprehensive overview of the analytical framework and to capture the interaction between regional integration and decentralization.

Figure 1: Matrix of Interaction and Analytical Framework for Regional Governance



Source: Author's own design

Concluding Remarks

The main contribution of this paper has been to depart from the theoretical assumption on the relationship between decentralization and regional economic integration and to propose an analytical framework that will improve our understanding of issues related to spatial and institutional asymmetries in regional economic integration. The principal results that characterize the literature review consist in the formal discussion of the effects of the regional economic integration process on horizontal local governance structures. In this regard, the literature review was particularly relevant, as it has provided an overview of the interaction of the sub-regional, national and local institutional settings in the context of regionalization.

Furthermore, in light of the literature review, it is now obvious that the theoretical literature presented here has dealt almost exclusively with regional integration processes in industrial countries and less with developing countries. This claim is confirmed also by Balassa (1965, p.16) who contends that theoretical literature on economic integration issues discusses customs unions only in industrialized countries and hardly addresses the situation in developing countries. In fact, the driving forces behind integration processes in the European Union (simple trade creation and trade diversion) are quite different from the factors that stand behind integration efforts in regional economic organizations in sub-Saharan Africa (e.g. ECOWAS, SADC). Unlike the EU regional institutional building process, which was more the outcome of historical compromises than of rational planning, regional institutional building within regional integration organizations in sub-Saharan Africa is not based so much on intraregional interdependence. It is rather a more outward oriented process aiming at improving the region's standing vis-à-vis predominant extra-regional actors. Thus, the theories presented in the literature cannot be applied to regional economic integration processes in sub-Saharan Africa as they provide limited explanation for a better understanding of the dynamic underlying the complex interaction between institutional designs and settings in the course of regionalization.

In terms of results, on the one side, it has been demonstrated that, although it is generally assumed that decentralization and regional economic integration are not opposite trends, the two processes may sometimes be conflicting. They are distinguished trends involving horizontal competition between the member states as well as conflicting dynamics at the regional, national, and local level.

Decentralization and Regional Economic Integration in Sub-Sahara Africa

On the other side, it has been shown that, obviously, a certain interaction occurs between the two trends, both appearing as a reaction to increasing economic globalization and to the weakness of existing national institutional settings.

Thus, a task for future research in this field will be to carry out more empirical studies on effects of regional economic integration processes on horizontal local governance structures. This will help test new policy instruments and policy framework aiming at reconsidering spatial asymmetries and thus, avoiding institutional asymmetries that may arise in the intertwined processes of decentralization and regional integration. From this perspective, it becomes clear that, the search for linkages between regional economic integration and decentralization is strictly linked to spatial aspects of the governance of regional economic integration in the context of globalization.

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