

The Drivers of Regional Integration for Africa's Development

Regional integration in Africa follows the traditional concept based on geographical proximity and contiguity of countries and political cooperation through economic cooperation. But major internal and external forces are significantly changing economic relations within Africa and with the rest of the world. Important aspects of these changes are the New Partnership for Africa's Development (NEPAD), the new trade geography where rich countries seek greater integration with poor countries through bilateral trade agreements, and new institutions of international trade (such as the World Trade Organization). The European Union's economic partnership agreements are also likely to considerably change the architecture of regional integration in Africa.

Regional integration—still just an aspiration

In numerous forums African leaders have underscored the imperative of greater coordination and harmonization among the continent's many regional economic communities. The most important of these efforts are the Abuja Treaty establishing the African Economic Community and the more recent Constitutive Act of the African Union. Chapter XIX of the Abuja Treaty stresses the importance of establishing the African Economic Community "through the coordination, harmonization, and progressive integration of the activities of regional economic communities." It further enjoins member countries "to promote the coordination and harmonization of the integration activities of regional economic communities of which they are members with the activities of the Community." Article 3 of the Constitutive Act of the African Union also underscores the need "to coordinate and harmonize the policies between the existing and future Regional Economic Communities for the gradual attainment of the objectives of the Union."

Although rationalization is not specifically mentioned in these documents, African leaders and policymakers widely understand that the multiplicity of overlapping memberships in regional economic communities constrains the integration aspirations of the region. This has been a major recurring theme at recent meetings and conferences in the region.

More recently Africa has witnessed the creation of several new regional economic groupings. For example, East and Southern Africa is home to the Southern African Development Community (SADC), the Indian Ocean Commission (IOC), the East African Community (EAC), and the Inter-Governmental Authority on Development (IGAD)—all formed in the last 30 years.

The most relevant factor for this report is the shallowness of integration

Concerned about the slow pace of continental integration, the 1991 African Heads of State Summit in Abuja laid out a timetable for full economic integration of the continent. Under the Abuja Treaty the creation of the African Economic Community will be carried out over 34 years (1994–2027) in six stages, ending in an economic union with a common currency, full mobility of the factors of production, and free trade among the continent’s 53 countries.

African leaders also recognize that economic integration cannot be successful without physical integration. Thus a key component of NEPAD is to strengthen Africa’s weak infrastructure. NEPAD assigns a significant role to the regional economic communities, emphasizes regional and subregional approaches, and encourages African countries to pool resources to enhance growth prospects and to build and maintain international competitiveness. NEPAD also highlights the importance of providing regional public goods and rationalizing the institutional framework for regional integration in Africa.

The 2004 edition of *Assessing Regional Integration in Africa* (UNECA 2004a) discusses in depth the many reasons for this, but the most relevant factor for this report is the shallowness of integration. Deep integration can increase regional competitiveness in sectors where economies of scale are easy to achieve.

Changing global trading system

Changes in the world trading regime are a major driver of Africa’s regional integration agenda. The global trading system has evolved significantly in the last 20 years, with the general consensus that free trade is good for growth. The General Agreement on Tariffs and Trade, created more than 50 years ago, transformed into the World Trade Organization (WTO), which has significantly reduced tariff and nontariff barriers. Rich economies now pursue bilateral trade liberalization with poor ones. The changes have resulted in greater integration of world markets and increased world trade. Since the Uruguay Round of trade negotiations in 1995 world trade increased 25%, twice as fast as production. This rapid expansion has been facilitated by developments in information and communication technology, liberalization of financial markets, and factor movements across national and regional borders. Countries’ and regions’ responses to these new opportunities has to some degree determined their share of the benefits. Africa’s share has been relatively small: in the early 1960s Africa accounted

for as much as 10% of world exports; by 2000 its share had declined to about 2% (ADB 2003).

The decline in Africa's share of world agricultural trade illustrates this marginalization much more clearly. According to the Food and Agricultural Organization, every region of Africa has experienced significant declines in share of world agricultural trade since 1961, with Southern Africa falling the most—from 9% in 1961 to 3% in 1998. Meanwhile, in 1998 Central Africa's share was 0.2%, West Africa's 1%, and East Africa's 1.1% (Stevens 2003).

Several factors account for Africa's marginal role in world trade, including the changing nature and attributes of exports, restrictions in market access in the major economies, and supply-side constraints. Limited intra-African trade, a result of weak regional integration, is also a factor because it constrains opportunities for learning-by-doing for African countries. The small domestic markets do not provide enough opportunities for firms to learn or enough cushion for the export sector during shocks in the international market. They also lessen the scope for exploiting economies of scale and scope. As a result, many firms limit their exposure to the risky and more competitive export market. A larger African market would provide opportunities for firms to learn by doing—underscoring the need for deeper regional integration in Africa as a first step towards improved export competitiveness (AU 2001).

The impetus is changing. Africa's integration aspirations have received a greater sense of urgency thanks to developments in the global trading and political environment. The drawn out nature of some WTO negotiations and their requirement that African countries negotiate as a group have promoted integration. And regional integration arrangements have been developed since the mid-1980s. The North American Free Trade Agreement (NAFTA) and the ongoing negotiations to create a Free Trade Area of the Americas have not gone unnoticed in Africa.

NAFTA, North America's free trade agreement among Canada, Mexico, and the United States, has significantly increased trade and investment in the region. The ultimate objective is to extend NAFTA to all the countries of North and South America. MERCOSUR, a customs union among Argentina, Brazil, and Uruguay, was created in 1991. The Association of Southeast Asian Nations Free Trade Area is a similar arrangement among Asian countries. Overall, according to the WTO, there has been a huge increase in the number of regional trading arrangements (figure 1.1). The groups behind these agreements are demanding more relationships with counterpart organizations in other regions, including in Africa.

Mixed outcomes from WTO-led globalization

Globalization is another factor driving Africa's regional integration agenda.¹ It is sometimes seen as a benign process, full of advantages for all with a few manageable risks for poor countries. To African policymakers and leaders, though, glo-

Since the Uruguay Round of trade negotiations in 1995, world trade increased 25%

balization is increasingly marginalizing the continent. Sub-Saharan Africa has watched its share of world trade and investment decline to insignificant levels despite having the most open economies. The region has seen exports grow less rapidly than GDP and is yet to be a destination of foreign direct or equity investment.

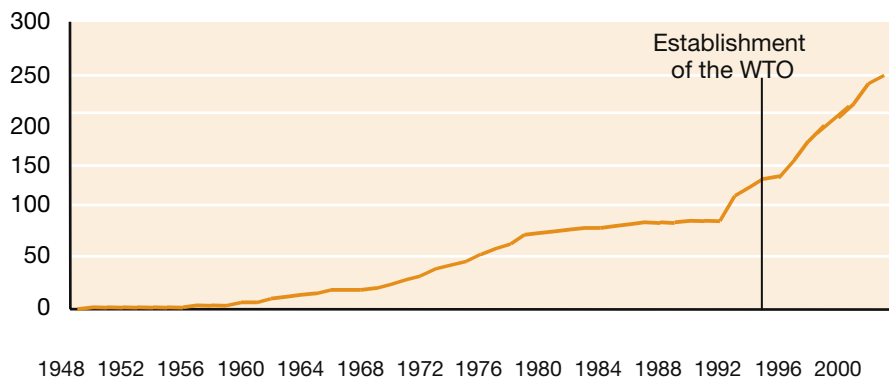
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Globalization is not a new phenomenon (Diamond 1997), but it is now characterized by an accelerated pace of interdependence and connectivity and aided by innovations in communication technology. Consider cross-border movements of goods, services, and finance. According to the United Nations Development Programme (UNDP 1999) estimates, over \$1.5 trillion worth of currency transactions occur every day, an amount equal to more than twice the “total foreign exchange reserves of all governments. These transactions, as the Mexican and Asian financial crises clearly showed, greatly reduce the ability of governments to intervene in foreign exchange markets to stabilize their currencies, manage their economies, and maintain fiscal autonomy.”

Binding trading rules and trade sanctions, primarily through the WTO, have added to obligations that can be forced on governments. They make it difficult for African countries to rely on internal mechanisms of economic management and to follow the same strategies that Europe, the United States, and the Asian newly industrialized economies used to grow. Except for occasional references to special and differential treatment, these rules prohibit poor African countries from engaging the rest of the world from behind tariff barriers, maintaining public ownership of large segments of key sectors of the economy, and placing restrictions on foreign capital flows.²

Figure 1.1

Regional trading agreements notified to the General Agreement on Tariffs and Trade and the World Trade Organization, 1948–2002



Source: Matthews 2003, citing WTO data.

Weak African economies have fared very poorly under this new regime. Few, if any, domestic protections were left after the structural adjustment programmes of the 1980s and 1990s, and the net effect has been suppressed domestic economic activity, depressed wages and tax revenues, a worsened balance of payments, and marginalization of the continent. The renewed emphasis on regional integration in the Lomé Treaty, the Abuja Treaty on the African Economic Community, and NEPAD reflects attempts by African leaders to stem this marginalization. Regional integration can provide space to grow and power to negotiate differential treatment with major trading partners.

European Union—fostering Africa’s regional integration

The regional group with the most influence on African regional integration is the European Union. The single European market and the euro have been important parts of this influence. The European Union has been so successful that its former competitor, the European Free Trade Association, is hardly noticed. With 25 member countries (after the recent admission of 10 new members), the European Union today accounts for over 41% of world trade and is Africa’s largest trading partner (ADB 2003).

A more recent development likely to have a significant impact on regional integration in Africa is the European Union’s proposal to negotiate economic partnership agreements with regional integration communities. Under the economic and trade cooperation pillar of the Cotonou Partnership Agreement³ African, Caribbean, and Pacific countries, except South Africa, will benefit from the application of Lomé IV nonreciprocal trade preferences over 2001–07. At the end of 2007 these unilateral preferences will be replaced by WTO-compatible reciprocal economic partnership agreements between the European Union and individual African, Caribbean, and Pacific countries or groups of countries. The economic partnership agreements will progressively eliminate tariffs and nontariff barriers on goods and services and address technical barriers to trade and other related matters. Proponents of economic partnership agreements argue that they will promote sustainable development and better integrate poor regions into the global economy by building on and reinforcing African regional integration processes and taking into account the level of development of each regional economic community.

Under pressure from economic partnership agreements, the regional integration architecture is on the verge of a substantial redesign. A new regional bloc has been created to negotiate an economic partnership agreement for countries in East and Southern Africa. The economic partnership agreements proposed by the European Union that envisage comprehensive reciprocal trading arrangements between Europe and Africa’s regional integration groups⁴ are likely to have direct and indirect impacts on Africa’s regional integration agenda for three reasons:

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US-Africa trade grew 59% more in the first quarter of 2003 than in the same period in 2002

- The European Union is Africa's largest trading partner and trading agreements between the two are likely to have far reaching results for each party and for world trade in general.
- Economic partnership agreements require that negotiations be conducted and agreements be entered into with Africa's regional economic communities.
- Economic partnership agreements will be based on reciprocity, which will create new challenges for African countries and the regional economic communities they belong to (or elect to belong to, for purposes of negotiating the economic partnership agreement). For many African countries successfully exploiting the gains from the European Union's proposed economic partnership agreements thus depends on the regional economic community they choose to belong to. This could strengthen some regional economic communities while weakening others.

Unilateral initiatives—recent and important

Unilateral initiatives by the major economies are another recent development driving regional integration. The best known initiative is the U.S. African Growth and Opportunity Act, whose objective is to provide African exports improved access to the U.S. market on a nonreciprocal basis. Although there are strict qualification criteria, the act has already recorded some success. For example, U.S.-Africa trade grew 59% more in the first quarter of 2003 than in the same period in 2002, Lesotho has increased its exports to the United States by \$300 million, and Kenya has 21,000 more people employed in sectors that export to the United States—all attributable to the African Growth and Opportunity Act (Mwencha 2003). Several other new initiatives between Africa and its major trading partners will also drive the continent's integration agenda in the short to medium term: the plan to establish a Euro-Mediterranean free trade area, negotiations for a free trade agreement between the United States and the Southern African Customs Union, negotiations between the European Union and the Southern African Development Community (SADC), the free trade agreement negotiated between South Africa and the European Union, the Tokyo Initiative for Cooperation for Africa's Development, and the Chinese-Africa Forum.

Some countries' self-interest is also driving regional integration. As mentioned, South Africa has successfully negotiated a free trade agreement with the European Union and is negotiating similar arrangements with China, India, and MERCOSUR. In addition to ongoing negotiations with the European Union, North African countries are expanding trade with fellow Arab countries in the Middle East. Egypt, Morocco, Tunisia, and Jordan recently signed the Agadir Agreement, which commits all parties to removing tariffs on trade between them by 2006. And Morocco has a free trade agreement with Turkey and a more comprehensive one with the United States. This is all alongside efforts to establish the Arab Free Trade Zone, which will bring together 18 of the Arab League's 22 members in a free trade area by 2008.

Regional economic communities as drivers or impediments

Despite the major achievements of the regional economic communities (box 1.1), significant constraints to regional integration remain. Overcoming these barriers and challenges—institutional and sectoral—is key to promoting regional integration as an engine of economic growth and poverty reduction in Africa.

Limited capabilities and inadequate funding

According to the survey done for this report, the regional economic communities' success at deep regional integration is limited by inadequate capabilities, insufficient and unpredictable funding, poor remuneration for staff members, and weak capacity.

As member countries have expanded the mandate of the regional economic communities, they have not increased funding. And member countries are frequently late in paying their assessed contributions. The most visible consequence of these funding problems is the weak staffing situation in the secretariats and the consequent lack of programmatic visibility. The lack of supranational authority to enforce commonly agreed decisions reinforces these weaknesses, with sanctions seldom imposed on member countries in breach of agreements. This has opened a substantial gap between the aspirations of member countries expressed in the treaties and protocols creating the regional economic communities and the reality on the ground.

Multiple and overlapping memberships

For strategic and political reasons many African countries belong to more than one regional economic community, especially in East and Southern Africa (UNECA 2004a). The structure of each regional economic community varies, but they all share a common objective: reducing trade barriers among member countries by creating a common, larger economic space. However, the complex patchwork resulting from the multiplicity and overlapping membership in regional economic communities raises considerable problems for policy and programme coordination and harmonization.

The multiplicity of regional economic communities has several drawbacks:

- Fragmented economic spaces and approaches to regional integration.
- Increased cost of membership in regional economic communities.
- Unhealthy rivalry for donor funds.
- Contradictory obligations and loyalties for member countries.
- Inconsistent objectives and conflicting operational mandates.
- Duplicated efforts.
- Reduced ability for regional economic communities to pursue coherent and effective integration programmes.

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Effective integration requires more than reducing tariffs and quotas. The process of seeking agreement among so many regional economic communities could delay creation of the African Economic Community, as laid out in the Abuja Treaty.

Box 1.1

Successes in regional integration

Although progress in African integration has been mixed, some strides have been made in trade, transport, communication, energy, knowledge sharing, free movement of people, and peace and security.

In trade, the West African Economic and Monetary Union, the Central African Economic and Monetary Community, and the Southern African Customs Union are already customs unions, and other regional economic communities are establishing free trade areas. All are implementing transport programmes that remove nonphysical barriers to trade in order to strengthen transit facilitation, harmonize customs, and improve overall trade efficiency. The Common Market for Eastern and Southern Africa (COMESA) has harmonized axle load limits and road transit charges for its members and introduced a regional customs guarantee and third-party motor insurance schemes. The Economic Community of West African States (ECOWAS) and the Southern African Development Community (SADC) have also introduced comprehensive transport facilitation programmes.

To minimize energy costs, regional economic communities are using regional hydropower policy to share energy across countries. SADC has been a pioneer, with 12 members creating the Southern African Power Pool in August 1995. In ECOWAS the connections between Benin and Nigeria and among Benin, Côte d'Ivoire, Ghana, and Togo are the most important links of the West African Power Pool.

The global revolution in telecommunication technology and the growing commercialization and privatization of national services has boosted intercountry connectivity in communication. Some regional economic communities—the Arab Maghreb Union, COMESA, ECOWAS, and SADC—are more connected than others.

In knowledge sharing, successful cooperation occurs in early warning systems, agricultural research, and capacity building. SADC is served by the Southern African Centre for Cooperation in Agricultural Research and Training, and organizations such as the International Institute for Tropical Agriculture and the International Water Management Institute are helping regional economic communities exchange information on best practices.

On free movement of people, ECOWAS has introduced the ECOWAS Passport, a giant step towards eliminating barriers to the cross-border movement of citizens and indeed towards promoting a common identity among ECOWAS citizens. The East African Community has also introduced a common passport to facilitate cross-border movement of its members' nationals within the community.

Source: Economic Commission for Africa, from official sources.

Little complementarity across economies

The overall low level of effective demand in the region has also hindered regional integration. Although the number of conflicts has been significantly reduced and growth has resumed across much of the continent, poverty levels remain very high and purchasing power remains very low in all regions except North and Southern Africa. Unlike MERCOSUR and the Association of Southeast Asian Nations, there is also very little manufacturing industry in Africa, reducing the degree of complementarity among and across economies. And except in Egypt and South Africa, existing industries are largely unsophisticated, which may explain the limited degree of intrafirm trade in Africa. In addition, weak transport and communication infrastructure and lack of a skilled workforce further constrain integration.

Few strong regional focal points

Experience, especially in Europe, shows that regional integration is much more likely to be successful if one country serves as institutional leader and regional paymaster. European integration was successful largely because of France and Germany's willingness to serve this role. Germany was able to because of its strong economy, which by the mid-1990s was one of the largest in the world and exhibited higher productivity than the economies of other European countries. Its success was reflected in the strength of the Deutch mark and the Bundesbank, which became the model for the European Central Bank. The country is by far the largest net contributor to the EU budget, easing distributional concerns. In 1996, for example, Germany's financial contribution to the European Union amounted to about two-thirds of EU net income, double the relative size of the German GDP in the European Union (Katzenstein 1997; Shackleton 1989). But most regional economic communities in Africa lack leadership, and very few countries are willing to serve as paymaster. Countries are also seldom willing to compromise on important treaties or to persuade others to agree.

Limited domestic constituency

Another major challenge is the creation of a multistakeholder constituency for regional integration in member countries. African governments often remain the principal advocates of regional integration—in stark contrast with the European Union where organized corporate groups emerged to support European integration. Corporate advocacy was also crucial in creating the North American Free Trade Agreement and expanding it to include Mexico.

No mature business constituency for regional integration exists in Africa, and very few private citizens are aware of the anchor institutions of regional integration. African civil society organizations have yet to show sufficient interest in regional integration as an arena for policy activism. And there is very little domestic corporate pressure on African countries to provide an integrated regional or continental

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economic space—probably because African indigenous capital remains very weak and still cannot exploit regional economies of scale.⁵

Constituencies for regional integration in member countries' can be successfully created only through the advocacy and engagement of all stakeholders. African countries are beginning to address this constraint by setting up government departments and ministries specifically charged with promoting regional integration in Africa.⁶ Among their objectives is to stoke domestic interest in regional integration.

The major problem with establishing free trade areas and customs unions is that most African countries depend on foreign trade taxes as revenue to finance public expenditures

Little focus across a broad range of areas

In addition to the institutional and organizational constraints already discussed, regional integration in Africa faces challenges in several areas, including trade, macroeconomic policy convergence, free movement of factors of production, infrastructure, transport and communication, and peace and security. Some regional economic communities have made progress in some of these areas, but overall achievement falls significantly below expectations.

Trade and market integration

The major problem with establishing free trade areas and custom unions is that most African countries depend on foreign trade taxes as revenue to finance public expenditure. They have been reluctant to remove barriers to intracommunity trade because they fear a significant revenue loss. But tariff and nontariff barriers must be removed for intraregional trade to increase. The endurance of tariffs and quotas, the lack of physical connectivity (box 1.2), and the heterogeneity of policies and trade limit trade and market integration and must be addressed.

But the persistence of high tariffs and other policy constraints is not the only impediment to trade and market integration. Structural deficiencies, limited product diversification, similarity of products and production structures, lack of market information on member countries, and production and supply-side constraints are also impediments to trade and market integration.

The multiplicity of regional economic communities has contributed to significant overlap in trade programmes. Efforts are needed to streamline the various trade agendas, harmonize trade policies (such as common documents for cross-border clearance of cargo, vehicles, and business people) and investment codes, and remove unnecessary programme duplication in order to unify regional markets. However, to be successful, these efforts require investment in infrastructure to link the various economic spaces much more closely to reduce the transaction cost of economic and social interaction.

Box 1.2

Trans-African Highway and physical connectivity in Africa

The Trans-African Highway network comprises nine highway sections: Cairo–Dakar, Algiers–Lagos, Tripoli–Windhoek, Cairo–Gaborone, Dakar–N'Djamena, N'Djamena–Djibouti, Lagos–Dakar, Lagos–Mombasa, and Beira–Lobito. An analysis of 103 cross-border links (Trans-African Highway sections leading to border posts) shows that 33% are unpaved roads, 16% are paved roads in poor condition, and 38% are paved roads in good or fair condition. This is a clear example of the poor state of physical integration between African countries.

Using the share of missing links (sections that are not paved all-weather roads) in a region as a measure of physical integration shows how each region is at a different stage of physical integration. For instance, in 2000 the East African Community had the most integrated road system, with only 14% of its sections being missing links, followed by the Common Market for Eastern and Southern Africa, with 17%. The Economic Community of Central African States was the least integrated region, with 47%.

Source: Economic Commission for Africa, from official sources.

The multiplicity of regional economic communities has contributed to significant overlap in trade programmes

Macroeconomic policy convergence and monetary integration

African countries continue to pursue divergent macroeconomic policies that limit deepening integration and create opportunities for arbitrage and smuggling, especially along the borders. Progress in controlling inflation, harmonizing fiscal policy stance, and reducing the ratio of tax revenue to GDP remains generally below expectations. And there has been no demonstrable progress in creating monetary unions, except for UEMOA, CEMAC,⁷ and to some extent the Common Monetary Area, where the South African rand is used alongside domestic currencies.

Vitally important for deepening regional integration, monetary unification has been slowed by two factors. First is too many competing local currencies, most of which are nonconvertible within and across regional economic communities. Second is the multiplicity of exchange rate regimes (pegged, managed float, independent float, and so on).⁸ But some important steps have been taken. Although the long awaited West African Monetary Zone, comprising The Gambia, Ghana, Guinea, and Nigeria, is not yet operational (largely because of its members' inability to meet the convergence criteria), progress can be discerned. And it is encouraging that the institutions required for a monetary union are gradually being put in place. Examples include the West African Monetary Agency and the recently established West African Monetary Institute. And a definite date has been set for introducing a single currency, the eco, for ECOWAS.

Member countries must be willing to give up some of their sovereignty for progress in integration

A framework for monitoring countries' progress towards macroeconomic policy convergence and monetary integration must be established, and monitoring and commitment institutions must be vested with the authority to sanction countries that are not in compliance with convergence criteria or protocols. Such "commitment institutions" include an autonomous central bank, a court of justice, parliament, and the like. Many regional economic communities are beginning to create these institutions, but more is needed to strengthen them (for example, funding).

The reach of regional institutions depends on the willingness and ability of national institutions to serve as complements to regional bodies and to enforce their decisions. Credible national institutions would lend legitimacy to regional institutions. And member countries must be willing to give up some of their sovereignty for progress in integration. For example, autonomy for all central banks would lend credibility to macroeconomic policy and facilitate policy convergence, but it also requires reforms to facilitate sound macroeconomic policy management across a regional economic community.

Transport and communication

Transport costs in Africa are among the highest in the world. Gains from integration will be limited or eroded by fragmented transport networks (box 1.3). There has been little convergence of transport programmes and efforts across regional economic communities despite the fact that they share common objectives: improving infrastructure links between countries; harmonizing policies and practices; simplifying standards, regulations, and procedures to facilitate cross-border transport; and mobilizing investment for infrastructure construction, rehabilitation, and improvement. The problems that remain in transport across regional economic communities and across Africa raise the cost of doing business and impede factor mobility, investment, and competitiveness. For landlocked countries transport costs can be as much as 77% of the value of exports. It costs about \$1,500 (including insurance) to move a car from Japan to Abidjan—and more than three times that to ship the same car from Addis Ababa to Abidjan.

In addition to upgrading transport infrastructure and increasing connectivity within and between regional economic communities, transit facilitation and documentation and procedures along major transport corridors must be improved. And both of these objectives must be supported by efficient communication.

Regional integration efforts in communication focus on policy convergence, physical facilities, connectivity, and exchange programmes, particularly in broadcasting. The goals are to spur growth of trade and finance and to reduce production and service costs by enhancing the accessibility and affordability of information and by linking Africa regionally and with the rest of the world.

Box 1.3

Inadequate transport infrastructure and services hamper regional integration

Road density in Africa is estimated at less than 7 kilometres per 100 square kilometres, compared with 12 kilometres per 100 square kilometres in Latin America and 18 kilometres per 100 square kilometres in Asia. Moreover, only 29.7% of the region's more than 2 million kilometres of road is paved. Three railway gauges predominate in Africa—1,000 millimetre, 1,067 millimetre, and 1,453 millimetre—which severely limits physical integration of railway networks across regions. In addition, the quality of infrastructure is a major problem—with most roads dilapidated due to lack of proper maintenance. These problems are more pronounced in landlocked countries, where high transaction costs are the result of their own poor infrastructure and that of their transit neighbours. Transport costs for landlocked countries are \$2,000 higher on average than for nonlandlocked countries for the same distance.

A study on the status of implementation of the Trans-African Highway showed that the vast majority of missing links of the network are cross-border links. This is a major constraint to the free movement of goods and services and contradicts one of the objectives of the regional economic communities.

Because the governments of most African countries in general and of Sub-Saharan African countries in particular have failed to provide adequate transport infrastructure and services, private financing of infrastructure has seen a surge in demand in recent years. According to the World Bank, over 1990–99 \$61 billion of private investment was committed to 279 projects in 26 developing countries, comprising 34,369 kilometres of toll highways, bridges, and tunnels.

South Africa and Mozambique have successfully involved the private sector in transport infrastructure development. Examples of toll roads in South Africa include, the N3 and N4, Chapman's Peak Drive toll road, and the Western Cape toll road. The direct benefit from the N3 and N4 toll road concessions is a savings of \$50 million a year in capital and maintenance expenditure. The N4 toll road linking Maputo, Mozambique, to Witbank, South Africa, is another good example of private sector involvement in regional transport infrastructure development in Africa.

Source: Economic Commission for Africa, from official sources.

The communication networks of the regional economic communities are at different stages of regional integration. The ECOWAS network has developed significantly under the Pan-African Telecommunications Network programme of the African Union and ECOWAS Intelcom. By contrast, UEMOA hardly takes advantage of interstate connection possibilities, lacks adequate direct links between members, routes significant interstate traffic through operators outside the region, and has a wide range of tariffs for interstate communications. COMESA is pursuing a regional telecommunications network to facilitate trade among its members. In 1999 SADC approved a regional backbone, the SADC Regional Information Infrastructure, to link its members through high capacity digital land and submarine routes using microwaves and fibre optic cables.

Efforts to promote telecommunication development need to emphasize the convergence of national policies and actions to strengthen connectivity and improve the quality of services. The United Nations Transport and Communications Decade for Africa shows that financing infrastructure networks requires innovative approaches and appropriate policies for encouraging private participation. National budgets need to give priority to infrastructure, including appropriate allocations for maintenance and rehabilitation.

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Industry

Promoting industrial cooperation across Africa is a major challenge. Aggregate production, productivity, and manufacturing value added remain low because of poor intrasectoral and intersectoral links and the similarity and limited range of products across countries. Other problems relate to industry's lack of technological sophistication and antiquated capital stock. In addition, the lack of domestic corporate pressure for regional integration also explains the low level of cross-country industrial cooperation. All the regional economic communities have initiated "soft" measures to galvanize growth in industry—mainly support to intra-industry trade through trade liberalization schemes. But to overcome the problems of low trade in intermediate and manufactured goods within regional economic communities, industrial polarization, lack of diversification, and poor industrial competitiveness, the private sector needs to be included.

Regional economic communities need to adopt policies that encourage direct investment—both foreign and domestic—in order to encourage industrial cooperation. Investment policies and taxes should be harmonized and special incentives given to firms to promote trade within regional economic communities. Labour laws and patent and property rights laws also need to be reviewed and harmonized.

Food and agriculture

Most Africans depend on agriculture for their livelihood and survival, so the sector is understandably a major focus of all the regional economic communities. To promote agricultural development and improve food security, the regional economic communities have concentrated on harmonizing policies and strategies; rationalizing production and promoting interregional agricultural trade; implementing joint early warning systems for pests, diseases, and extreme climatic conditions; developing efficient regional markets for agricultural products; and building common research and capacity building institutions.

As with industry, few regional economic communities have boosted agricultural production or productivity. Low productivity and limited domestic markets translate into low incomes for peasants. Dominated by smallholders, Africa's largely rain-fed agricultural production remains highly vulnerable to nature. Drought and famine are frequent. Expanding agricultural production and ensuring food security

require intensified efforts in extension services such as research, education, and seed dissemination. In addition, existing national support mechanisms need to be harmonized within regional economic communities. Support mechanisms for agricultural marketing, inputs, and credits help eliminate distortions in production and marketing and allow countries to fully exploit their comparative advantages within a regional economic community.

Investment in irrigation is also critical to increasing production and achieving long-term food security. It requires a high level of cooperation and integration to address riparian concerns of member countries. Other measures include:

- Integrating domestic agricultural markets into a regional agricultural market by improving infrastructure, eliminating nontariff barriers to trade such as road blocks and checkpoints, creating new markets, and strengthening market links and information on food security.
- Providing better data for decisionmaking.
- Strengthening information networks on agriculture and food security, including through the use of geographic information systems.
- Improving the reliability of early warning systems for food security and expanding coverage to all regional economic communities.

Energy

Across Africa and within the regional economic communities energy generation is poor, and distribution remains highly uneven. Many countries experience frequent brownouts and blackouts. Even though the continent is blessed with ample energy resources, less than 30% of the population has access to electricity. In 2001 the continent's electricity generation accounted for only 3.1% of the world's total, and North and Southern Africa accounted for about 82% of that (UNECA 2004b). Energy is vital for international trade competitiveness and regional integration, and African economies are unlikely to expand production or improve their international competitiveness if they continue to lack adequate energy supplies.

Regional integration and cooperation can help address the continent's undersupply of electric energy. Countries recognize this and are increasingly exploring, though not systematically, a regional approach to addressing the energy problem. The Southern African Power Pool, in existence for several years, has improved energy generation and distribution in the region (UNECA forthcoming). In West Africa ECOWAS members are implementing the West Africa Power Pool, which is estimated to cost about \$15 billion and take 10 years to complete. These power pools will require investment and regulatory codes to be harmonized. Bilateral trade in energy among member countries is also growing. Côte d'Ivoire, for example, became a net exporter of energy to neighbouring countries in 1995. Of particular interest is the West African Gas Pipeline project in ECOWAS, which will supply cheap gas from Nigeria to

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Benin, Ghana, and Togo, substantially reducing the cost of generating energy in these countries and improving their energy security.

River basin authorities must collaborate in the design and implementation of water infrastructure programmes and projects.

A continental approach to energy development is also gradually emerging. At a summit in Lusaka in July 2000 African heads of state took an important step by adopting two major policy documents: the Convention of the African Energy Commission and NEPAD. While NEPAD aims to exploit and develop the hydropower potential of African river basins and integrate transmission grids and gas pipelines to facilitate cross-border energy flows, the Convention of the African Energy Commission aims to map out energy development policies, strategies, and plans based on subregional and regional development priorities. The lesson from Africa's nascent experience is that large regional supply systems can produce energy for member countries cheaply and reliably by exploiting economies of scale.

Shared water resources

Africa's huge transboundary water resources remain poorly developed. Existing river basin organizations are poorly financed and managed and lack appropriate capacity. And no integrated approach to water resources management exists because many river basin authorities operate independent of the regional economic communities. The sector is also characterized by the absence of binding water sector protocols, a lack of realistic regional strategic action plans, an absence of subregional and regional centres of excellence for developing human resources and conducting research and development activities, and a lack of active involvement by the private sector to overcome investment constraints on projects and reduce overdependency on donor agencies.

Several actions are imperative for the continent's water resources to be harnessed for regional integration. First, joint technical commissions or committees comprising member countries, regional economic communities, and river basin authorities are needed. Second, river basin authorities and regional economic communities must collaborate in the design and implementation of water infrastructure programmes and projects, including multicountry irrigation, hydropower generation and transmission, navigation, flood forecasting and control, and water quality laboratories. Third, joint protocols must be established on river and lake basins and water resource management in regions where membership in river basin authorities and regional economic communities overlaps.

Peace and security

Civil strife has presented both threats to and, paradoxically, opportunities for regional integration in Africa. Some regional economic communities, such as ECOWAS, have been strengthened as a result of recurring regional civil strife by underscoring to members how much their economies were interdependent and the importance of collective action. But civil strife can also threaten the existence of a regional economic community if it creates distrust and suspicion among member countries.

But the constraint that threats to peace and security present to regional integration are manifested in other ways. First, conflicts in any member of a regional economic community undermine economic integration and growth throughout the entire community. Countries in conflict cannot focus on integration. Second, conflicts create distrust. Third, conflicts divert resources that could be used to strengthen national economies and promote regional integration. Fourth, conflicts result in contraction of markets and erection of nontariff barriers to regional trade.

Many regional economic communities are aware of the costs of conflict, and as a result they are establishing institutions and mechanisms to prevent conflicts, resolve them when they arise, and secure peace once it is achieved. But conflict resolution and peacekeeping operations are complex and expensive and often exceed the limited capacities and resources of regional economic communities. ECOWAS has been instrumental in restoring peace in much of the region's troubled Mano River area. SADC has also undertaken some conflict resolution and peace-building initiatives. In some cases regional economic communities have been able to coordinate small steps that contribute symbolically to peace and security. The African Union is also stepping up efforts in this area, having recently dispatched a peacekeeping contingent to Burundi and Darfur, Sudan, and planning similar action in Somalia.

In the final analysis, however, long-term peace and security can be secured only through economic growth that benefits all countries in a region, reduces poverty, and improves life chances for all. An integrated economic space coupled with improvements in governance can be an important factor in this regard.

Free movement of people

The limited mobility of factors of production, especially labour, across national boundaries is a major constraint to regional integration in Africa. The need to harmonize investment laws and procedures has already been discussed, but rules on the movement of people also need to be harmonized to encourage labour mobility across countries. While labour mobility is included in the protocol and objectives of several African regional economic communities, many practical obstacles still hamper its effective realization. To improve labour mobility, members of regional economic communities must first relax visa requirements for nationals of other member countries. Member countries should also adopt common travel documents and labour standards. Many regional economic communities have agreements on free movement of people, but several have yet to implement them. Thus labour markets remain fragmented, serving as a barrier to the free movement of labour among countries.

Conflicts in any member of a regional economic community undermine economic integration and growth throughout the entire community

African Union—a response to the challenges

The African Union, unlike the Organization of African Unity, is modelled on the European Union, and economics will be one of its major areas of focus

The challenges and constraints to consolidating the regional integration process in Africa and defining the environment where this consolidation effort is proceeding have shaped the response of African leaders. Recognizing that the fast moving changes in the world require greater collective action, African leaders have embraced deeper regional integration. The decision of the leaders in Syrte, Libya, and Lomé to transform the Organization of African Unity into the African Union clearly demonstrates this recognition. The African Union, unlike the Organization of African Unity, is modelled on the European Union, and economics will be one of its major areas of focus.

The African Union is based on the Organization of African Unity's 1991 Abuja Treaty on the African Economic Community. An ambitious model of integration, it goes beyond the classical trade agreements widely treated as regional integration. The treaty contains a long-term development strategy, aims to integrate economic and noneconomic sectors, upholds democratic principles, and fosters new social and cultural values. An explicit objective is to integrate productive capacities and infrastructure facilities in Africa, leading to a more sustainable and autonomous development path. The treaty envisages a continental common market by 2015.

The African Union concretizes these aspirations. It is intended to fast-track the integration process by establishing key institutions, including the African Parliament (inaugurated in March 2004), the African Court of Justice, the African Central Bank, and the African Investment Bank, in a timely manner. Thus, the African Union is expected to make a tremendous difference to the substance and pace of progress towards integration goals. It can also shorten the Abuja Treaty's 34-year timeframe for creating an African Economic Community.

The African Union is a direct response to the many constraints and challenges discussed here. By providing the necessary continental policy guidance and framework, it can serve as the primary institutional anchor of regional integration and streamline the regional process across all regions in the continent. This could result in substantial harmonization of policies and approaches to trade and market integration, free movement of people and better factor mobility in general, macroeconomic convergence parameters, regional policies conducive to saving and investment in productive sectors, transport and communication links, energy pooling, and peace and security mechanisms. A more harmonized and streamlined regional integration architecture in Africa will no doubt contribute to the African Union's success.

Notes

1. The discussion in this section focuses on Sub-Saharan Africa rather than Africa as a whole. South Africa and the economies of North Africa are better integrated into the world economy than the economies of Sub-Saharan Africa.
2. History shows that Europe and North America used these strategies with the important additional resources—often neglected by analysts and conventional economic narratives—of slavery, indentured servitude, and colonialism—so the opposition to their use in current literature and in trade negotiations is very difficult to understand.
3. The Cotonou Partnership Agreement, the successor agreement to the Lomé Agreement between the European Union and 78 African, Caribbean, and Pacific countries, governs the existing preferential trade regime between the European Union and Africa.
4. The transition from Cotonou Partnership Agreements to economic partnership agreements entails dividing Africa into subgroups.
5. This is beginning to change, especially in South Africa and to some extent Egypt, where businesses are beginning to pressure the government to help open African markets.
6. The Democratic Republic of Congo, Ghana, Nigeria, and a few other countries have also set up ministries devoted solely to regional integration.
7. Both the Central African Economic and Monetary Community and the West Africa Economic and Monetary Union started as monetary unions based on the CFA, and their mandates have gradually expanded.
8. One exception is the East African Community, where the Kenyan, Tanzanian, and Ugandan shillings are mutually convertible.

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