

# Institutions and Regional Integration in Africa

Institutional development has become increasingly recognized as an integral part of successful developmental strategies. The fundamental role of institutions in providing the right framework for regional integration has also been widely acknowledged. While a consensus exists on the importance of a clear vision and well defined institutional building blocks to achieve regional integration, the reality in Africa raises questions on whether institutions have played their expected role. Integration in general, and the contribution of regional economic communities as part of the institutional framework in particular, have been hampered. Four concerns have come to the fore:

- The legal frameworks for Africa's integration are ambiguous and imprecise.
- Continental blueprints do not match the reality on the ground.
- Regional economic communities have independently pursued their integration agendas, and their treaties appear to take precedence over continental blueprints.
- No hard and fast rules bind the regional economic communities' integration agendas to the continentwide frameworks.

This chapter reviews the empirical literature on institutions and examines the experience of the European Union to show that institutions are important in development and regional integration. The chapter also highlights challenges that EU integration has had to confront and that may be relevant in Africa. The failure of institutions, especially regional institutions, to have a major role in Africa's integration to date is implied in the discussion, building the case for looking afresh at institutional frameworks for future integration.

To balance the assessment of the role of institutions, the chapter explores what kind of institutions are required and how they can best provide the interlocking structure of incentives required for economic growth and poverty reduction. It is argued that while institutions matter, there is no common set of institutions that all African countries should aspire to have. The best Africa can do is to learn from the successes and avoid the mistakes of other integration initiatives. While institutional diversity is accepted and supported internationally, in practice the forms that institutions are allowed to take are very limited—mostly because of the prevailing sociopolitical and economic environments. This is particularly relevant to the institutions driving or implementing regional integration in Africa.

*After two decades of structural adjustment and policy reform in Africa, many institutions have been weakened or simply abolished*

Given the EU experience and historical evidence on the evolution of other institutions in other settings, African policymakers should take into account the World Bank's (2001, p. 2) observation that "one size does not fit all in considering institutional design." Flexibility is key for Africa's integration. Without it the potential to develop growth-oriented strategies is undermined, and the nascent processes of integration that already exist are handicapped. African countries should be ready to experiment with flexible institutional design, adopting elements that have worked elsewhere, especially when they fit into the sociopolitical and economic environment. The historical view—that institutions are often imperfect and evolve slowly—is another important factor.

This chapter also looks at the legal determinants of Africa's integration because they lay out the institutional framework that ultimately drives or stalls integration. To put in perspective the rationalization needed for African integration institutions, the recent history of Africa's institutional reconfiguration is explored. After two decades of structural adjustment and policy reform in Africa, many institutions have been weakened or simply abolished. An institutional vacuum exists in such key areas as agricultural, industrial, and competition policy. Providing institutional support where national institutions are weak or nonexistent is both a challenge and an opportunity for the regional economic communities. If the regional economic communities provide institutional support where national governments cannot, countries' commitment to their regional economic communities will be much stronger.

At the same time institutional agendas should avoid being excessively ambitious. Institutional development in the European Union shows that initially focusing on only one or two areas (coordination of coal and steel industries, and later, agriculture) led to the European Union's success. Coincidentally, one area that requires greater institutional support in Africa—and that has enormous scope for intraregional cooperation and trade—is agriculture.

## Institutional perspectives on development

Most studies of institutional development start by defining "institution" because the concept can be nebulous. Institutions are commonly thought to refer to both private and public sector actors, including firms, governments, civil society organizations, and the like. North (1990, p. 1) provides one of the clearest, most succinct, definitions:

"Institutions are the rules of the game of a society or, more formally, the limits designed by mankind to give shape to human relationships, be they political, social or economic."

Although theoretically institutions are different from policies, in practice the distinction is often blurred (Islam 2004). Thus the emphasis here is on the policy environment and governmental responsibilities in engendering a structure of incentives and economic climate conducive to broad economic growth and deeper regional integration.

The realization of the importance of institutions for economic development is normally associated with the seminal works of Douglas North, who founded the school of new institutional economics. The theory of institutions includes three levels of analysis:

- A theory of management and property rights that deals with problems related to incentives and information in the market economy.
- A theory of the state that is central in defining and upholding property rights.
- An ideological theory that justifies and explains the behaviour of the actors, moderates their individualistic actions, and makes them more sensitive to social equilibrium and stability (Ben Hammouda 1999) .

One of the general propositions of new institutional economics is that the origin of a particular institution and its actual mode of functioning should be studied from the perspective of the parties involved to determine whether it is useful and necessary or superfluous. Critics of the approach argue that searching for the utility of the institutions obscures the importance of the power structure (Martinussen 1997). In other words, the new institutional economics theory embraces a supremely functionalist approach to the development of institutions and tends to ignore the fact that some institutions persist simply because of unequal power relations.

### **Quality trumps everything**

Econometric analysis confirms that institutions have a prime role in promoting development. In contrast to authors who stress the importance of geography or trade integration, in a study of the determinants of growth Rodrik, Subraminian, and Trebbi (2002, p. i) conclude, “the quality of institutions ‘trumps’ everything else.” Their analysis uses an instrumental variables approach to show that once institutions are controlled for neither geography nor trade integration has a direct effect on incomes. But they do stress the problems in precisely measuring the economic impact of institutions: institutions are endogenous to growth, so their exact contribution cannot be easily measured.

In a similar vein, the International Monetary Fund (IMF 2003) concluded that while the association between institutional quality and economic performance appears strong and robust, the reasons behind the association, including the relevant direction of causality and the relationship with other theories of economic development, are unclear. For example, stronger economic performance may in itself induce institu-

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tional change: as countries grow and prosper, they may find that they need—and can afford—to strengthen the institutions underpinning real and financial market activity, such as their legal and regulatory frameworks.

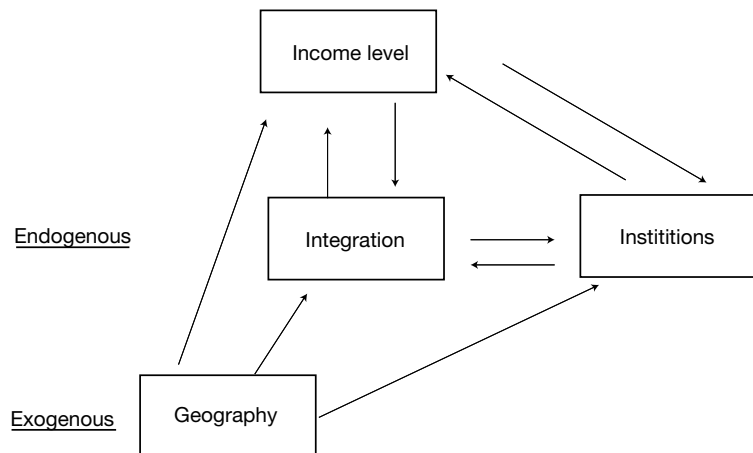
Based on cross-sectional regression analysis for a sample of 94 countries, 69 of them developing countries, the IMF found that an improvement in Sub-Saharan Africa’s level of institutional development from its current average to the mean of developing Asia would imply a 75% increase in Sub-Saharan Africa’s per capita income. If institutional quality in Cameroon was raised to the average level of institutions for all countries at the same level of development, income would increase almost fivefold.

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However, these conclusions assume a causal relationship between institutional quality and income, rather than proving it. The dynamics of institutional change were not accounted for. As IMF (2004, pp. 105–11) conceded:

“Even if institutions matter, as seems to be the case, there is too much potential for two-way causality between institutions and policies, and too much evidence that the impact on economic performance depends on interactions between policies and institutions, to rule out a key role of policies as well.... The ‘bottom line’ from these findings is not that policies are unimportant, but that our econometric framework (which is constrained, in particular, by the limited time series data on institutions) is not well suited to uncovering a relationship between policies and growth that may well be revealed through time.”

**Figure 2.1**  
**Framework on the role of institutions**



Source: Rodrik, Subraminian, and Trebbi 2002.

Bearing in mind this complexity, Rodrik, Subraminian, and Trebbi (2002) provide a useful schematic view of the possible directions of causality in the interrelationships between economic growth, geography, the level of integration in the global economy, and institutional development (figure 2.1).

## **How to conceptualize the relationship between institutions and growth**

Some researchers see institutions as the provider of services, in particular law and order, public goods, social security, and market regulation (see, for instance, World Bank 2001). This implies that countries need to improve the efficiency of their services by reducing rent-seeking and corruption and increasing democratic control over institutions (figure 2.2). Kahn (2002) notes that the concept of the state as a service provider is not entirely wrong because the state does indeed facilitate such services in developing countries. But according to Kahn and other critics (for example, Chang 2002b), this model falls short of providing a comprehensive picture of institutions; instead, it defines the state as a mere mechanism for supporting and facilitating market transactions. For developing countries in particular the state is just as important in instigating and managing social transformations. Dynamic states have heavily intervened in property rights and devised rent management systems to accelerate the capitalist transition of economies and acquire new technology.<sup>1</sup>

Wade (2003) identifies four justifications for why government institutions need to take an active stance in governing the market, rather than simply being a service provider: scale and learning economies, capital market imperfections, externalities, and market instabilities. He argues:

“The popular belief that governments cannot “make winners” rests on remarkably little empirical research into the record of different governments in selective industrial promotion...Research on this question has to balance the record of government failure against the record of failure by private business; and examine, too, what happens to economies where few transformation projects are attempted because the government declines to take an initiative and private business declines to take the risk” (p. 356).

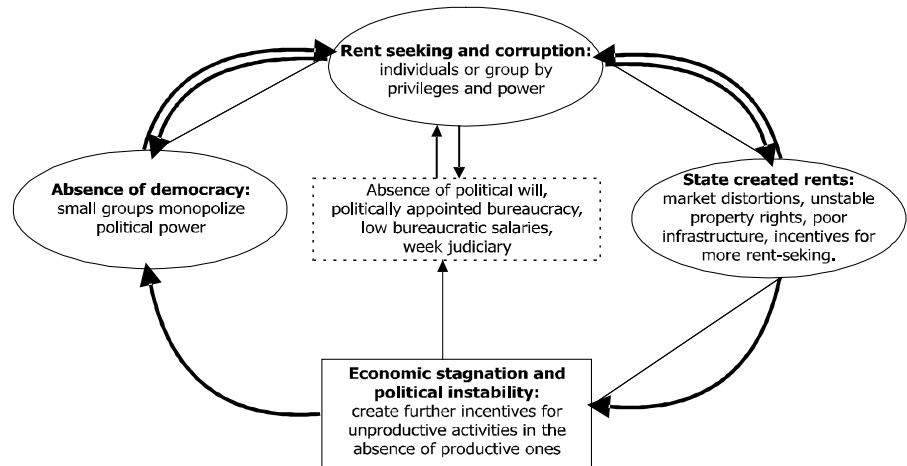
Markets are social institutions themselves and consequently need to be moulded and regulated. Too often in debates on institutions and development the empirically well documented argument that uncontrolled markets can create perverse outcomes, inequalities, and disincentives is overlooked or ignored. This has led to the widely held belief that institutions should merely be supportive of market-based processes. But even neoclassical institutional theory rejects this interpretation and views institutions as a substitute for the market when the cost of using markets outweighs their benefits (Coase 1937; Williamson 1975). The internalization theory of the multinational firm is relevant here: far from being creatures of

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**Figure 2.2**

*The liberal consensus view of state failure*

*Lack of appropriate regulatory laws and institutions resulted in some of the recent financial crises in developing countries*



Source: Kahn 2002.

the market, multinational firms actually expand the bounds of the planning and administrative fiat in the economy. They are the logical, rational reaction to market failure.

The classic text of Polanyi (2001) provides one of the best examples of how uncontrolled markets can present as much of a problem as the absence of markets. He documents how the elimination of laws designed to protect poor people led to a dramatic increase in the vulnerability of poor people in 19th century England. More recent examples are not hard to find, however, including the deregulation of the Californian electricity market in the United States, an action thought to have contributed to a failure of the state's power system, and the lack of financial regulation in the derivatives market, which is believed to have led to the collapse of Barings Bank in England (Kay 2004). It has also been argued that lack of appropriate regulatory laws and institutions resulted in some of the recent financial crises in developing countries. The world's worst ecological disaster caused by a private company in Bhopal India, similarly sprung from inadequate regulation of the Union Carbide chemical plant, causing an estimated 20,000 deaths and 200,000 injuries.

The absence of adequate regulation can thus be as damaging as too much regulation. For example, while the World Bank considers competition important, it does not always give enough attention to strengthening regulatory controls on monopolies and oligopolies in national and international markets. This is especially relevant to African countries because producers rely heavily on international markets and purchasing through multinational firms. But until the 1990s only 14 African countries

had any competition regulators (Singh 2002). Strong regulatory control of monopolies is totally coherent with a market-based philosophy.

The same is broadly true of labour markets. In Western countries working conditions improved thanks largely to state regulation. However, some observers (such as Standing 1999) warn that the relaxation of state regulation and the renewed growth of labour flexibility threaten to undermine those achievements. In most of Africa labour market institutions do not exist (Van der Geest and Van der Hoeven 1999), even though in many sectors, such as textiles and agriculture, there is a striking need for regulation. Some economists see any intervention at all in the labour market in a negative light, and contend that intervention interferes with the natural market-clearing mechanisms to avoid unemployment. But as Kay (2004, p. 338) notes, “The issue is not whether the labour ‘market’ should be subject to social and legal regulation, but the nature and extent of such regulation. That is a matter for moral judgement, social values and empirical evidence.”

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Striking the right balance between regulating and adequately supporting the private sector is thus a key institutional challenge for African countries and by extension the regional economic communities. In practice, this is no easy matter. Take, for instance, the regulatory role of competition policy (an area in which African institutions are generally inactive). Textbook economic theory posits a monotonic relationship between competition and economic development, suggesting that the greater the degree of competition, the stronger the economic performance. But Singh (2002) points out that modern economic analysis seriously qualifies that conclusion, suggesting that there is an optimum level of competition and that a suitable level of cooperation and competition is more likely to enhance societal welfare than competition alone.

### **Some positive trends**

The United Nations Economic Commission for Africa (UNECA 2005) shows that over the last decade Africa has made impressive strides in building capable states. It identified four positive governance trends in Africa:

- Steady consolidation of democracy.
- Greater political inclusiveness.
- Expanded voice and accountability.
- Improved economic management.

Many African countries have moved from authoritarian or military regimes to more democratic ones. A new social pact is emerging where state institutions and processes are gradually being reconstructed to promote good governance. Elections are now the only acceptable basis for choosing and alternating leadership; competition and pluralism are now the norm rather than the exception; more and more citizens are voting; and electoral processes are more transparent.

Better economic governance has also benefited African countries. More are running smaller deficits, meeting targets for revenue mobilization, managing tax systems more effectively, improving fiscal transparency, and creating institutions and arrangements to better audit public funds. Countries have clearly recognized the need to promote private sector development. They are also targeting the informal sector so that it can become part of the formal sector, and expanding and improving infrastructure.

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Against this backdrop, however, it is useful to recognize that the reforms of the 1980s and 1990s significantly weakened African institutions. Policies to reduce fiscal deficits, for example, substantially decreased government employment. By 1996 only 1% of the population in Sub-Saharan Africa were civil servants—considerably less than the 3% in other developing countries and the 7% in Organization for Economic Co-operation and Development economies (Sender 1999). The fall in public sector employment was accompanied by declines in real wages of civil servants, with predictable effects on morale and efficiency in state institutions.<sup>2</sup> Some bilateral and multilateral institutions that support reforms in Africa are realizing that the process might have gone too far in some countries and are trying to attract workers back to the public sector. However, public institutions have been weakened, and the structure of incentives between the public and the private sector has made attracting highly skilled workers to the public sector extremely difficult.

Despite being generally underfunded and understaffed, some institutional interventions in Africa have been successful. Acemoglu, Johnson, and Robinson (2003), for instance, attribute most of Botswana's success to an efficient and meritocratic bureaucracy, with hard budget constraints and large public investment in education, health, and infrastructure. Rodrik (2003) adds that policies were not uniformly "good" in the conventional, Washington Consensus sense: the government of Botswana intervened massively in the economy, and the public sector accounts for a much larger share of the economy than the average in Africa.

How should other African countries attempt to replicate successful stories of state intervention? Chang and Grabel (2004) challenge the idea that the East Asian economies enjoyed a superior institutional capacity before their transitions that cannot be emulated by developing countries today. Civil servants in the Republic of Korea and Taiwan Province of China were widely regarded as highly unqualified in the 1950s and 1960s. In fact, until the 1960s Korea sent its public servants to Pakistan and the Philippines for training:

"Hence, the early success with the East Asian model (at least in some countries) did not depend on the presence of an extraordinarily competent public sector. Later on these countries did, in fact, benefit from a high level of public-sector competency. But this competency (for example, in Korea and Taiwan) was created through the expenditure of substantial political energy and economic

resources. It was not a legacy of the country's history or culture" (Chang and Grabel 2004, p. 41).

Developing a competent and professional civil service is thus one of the key challenges to today's poor developing countries. A key element in this is planting the seeds of a philosophy of public service. As Kay (2004, p. 347) stresses:

"The integrity of an institution is not the product of its governance structure, but of the values of those who work within it. Many different value systems will be supported by adaptive, self-reinforcing behaviour. If institutions are designed on the assumption that individuals are self-interested, self-interested behaviour will be adaptive within them. If the premise is that people are not to be trusted, that expectation will be fulfilled."

This is not an easy task. It is often claimed that the East Asian countries emerged from Japanese colonialism in a far better position than countries colonized by Western countries. But the data do not support this theory. For example, the Republic of Korea's literacy rate at the end of Japanese colonialism in 1945 was 22%—not much better than that of many African countries at independence. According to Chang and Grabel (2004), at least a dozen African countries' post-colonial conditions were equal or even superior to Korea's. The basic argument thus becomes that despondency over the capabilities of African institutions is not necessarily merited—but more still needs to be done. And the regional economic communities have a fundamental role in providing the necessary institutional support.

## Lessons on institutional building from the European model

Since the 1957 Treaty of Rome the European Union has made enormous strides in institutional coherence and stability. European integration has not always been smooth, though: the journey has been beset with many problems, conflicts, and setbacks. But given the goals and objectives of the Abuja Treaty, for African policymakers there is still much to emulate in the European model, which is the most advanced case of regional integration. At the same time, however, they should not ignore the complex history of European integration, which also offers some very important lessons.

The motivations behind the European experience and African aspirations have several parallels. For instance, it is commonly asserted that many African countries do not have one of the basic conditions for regional integration to succeed: peace. Mistry (2000) states that endemic political instability exacerbated by debilitating conflict in every region of Africa has made it impossible to integrate.

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But the European Economic Community was founded in the aftermath of the bloodiest war in history, and its primary aim was not to promote trade among member states or institutional convergence, but to prevent future conflict (Zecchini 2000). Another motivation behind the original European Economic Community was to increase its members' bargaining power relative to the United States (Whalley 1996). Weeks (1996) has observed that African economies are also too small to negotiate effectively with industrialized countries, other developing countries, or multinational corporations. This explains their motivation to establish the regional economic communities and eventually the African Economic Community.

### **How the European project evolved**

The origins of the European Union actually predate the Treaty of Rome, with the establishment of the European Coal and Steel Community in 1952. Initially, barriers between Belgium, France, the Federal Republic of Germany, and Luxembourg separated steel plants and coal mines and impeded rational production. Removal of those barriers and shared governance of the resulting common market were economically successful (Pinder 2001). This encouraged the founders of the European project to view the European Coal and Steel Community as a first step in a process of political, as well as economic, unification.

The European Economic Community was subsequently founded to oversee the economic integration of Western Europe and strengthen institutions in order to fulfil the ultimate goal of preventing future conflict. The Treaty of Rome, signed on March 25, 1957, was actually two treaties—one establishing the European Economic Community and the other the European Atomic Energy Community. In 1967 the European Economic Community, the European Coal and Steel Community, and the European Atomic Energy Community merged to form the European Community.

The success of the European Economic Community's liberalized trade policies in the 1960s, 1970s, and 1980s encouraged its members to deepen regional integration across the continent. Subsequent efforts towards greater economic and political union of European Communities members yielded the way for the Treaty on European Union (Maastricht Treaty), concluded in December 1991. The treaty's enactment on November 1, 1993, created the European Union from the European Communities; in addition, the European Economic Community was renamed the European Community, and its Council of Ministers was renamed the Council of Ministers of the European Union.

The European experience of institutional reform was generally gradual, pragmatic, and, as in Africa, far from perfect. The institutions of the European Economic Community went through serious conflicts. One of the first was the French government's refusal to put its atomic sector under the auspices of the European Atomic

Energy Community. A dispute later arose over the European Parliament's control of the budget (Pinder 2001).

### **Implementation problems**

Another parallel in the process of regional integration in Africa and Europe is problems with implementation.<sup>3</sup> Over 1971–2000 the number of pieces of legislation and court decisions increased by 700%. But measures are often not implemented by member country parliaments. Ironically, Norway is among the countries with the best degree of implementation of EU laws and regulations—and it is not even an EU member. Implementation has been further hampered by the fact that the share of GDP allocated to the EU budget has remained very low compared with the share allocated to national budgets (Alesina and Spolaore 2003).

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The European Union has also often been criticized for wastefulness and corruption. For instance, a 1994 report to the U.K.'s House of Lords estimated that as much as 10% of the EU budget was wasted through fraud and improper use of funds (Grant 1997).<sup>4</sup> The problem has been focused in the agricultural sector, especially the Common Agricultural Policy budget. Claims for subsidy payments on products that do not exist and misrepresentation of a less valuable form of a commodity as a more valuable one have been identified as problems.<sup>5</sup> Export subsidies have also been a major target of fraud.

From an institutional perspective the importance of regional stabilizers to compensate for regional inequalities has been supported, but implementing institutions have often been criticized for engendering corruption. Moreover, the structural funds commonly used in European integration have also been criticized as wasteful and have been characterized as the major funders trying to allay the fears of peripheral countries by throwing money at them.

Finally, as the pace of European integration proceeded, tensions grew among the three pillars of the institutional structure: the Commission, the Parliament, and the Council of Ministers. Although the system is generally considered to have worked well in the initial stages of integration, successive enlargements of the European Union have led to questions on their respective roles. According to one member of the European parliament,

“The Community's political system is not the most efficient. It is not capable of taking rapid, simple, and appropriate decisions, but gets bogged down in increasingly complex procedures, giving rise to selfish nationalistic positions. The system is no longer transparent. The debates held in the Commission, a hybrid, poorly known institution, are discreet, to say the least. The debates within the Council are held in secret, which favours the adoption of hardline positions less open to compromise, escaping as they do the control of public opinion. The European Parliament is a bewildering insti-

tution, which.....at times is excessively technocratic. To sum up, the system as a whole does not enjoy full legitimacy. (Moscovici 2004, p. 110, authors' translation).

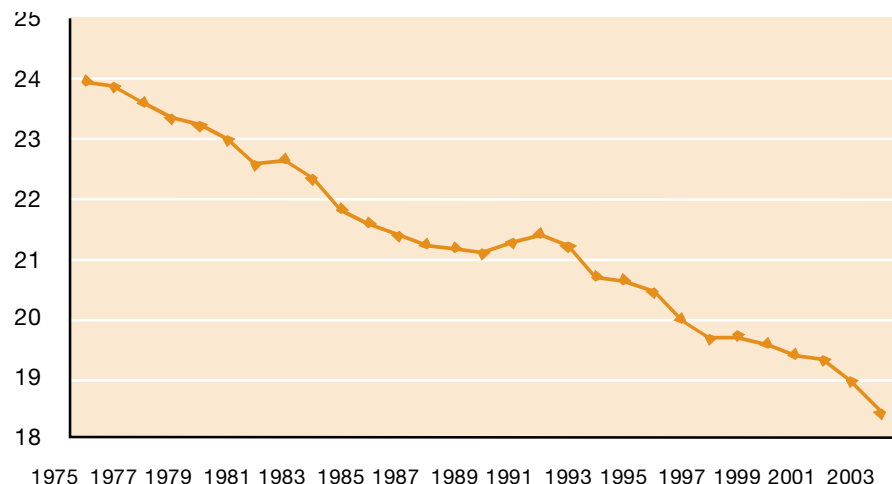
### The European Union as a success

*The European Union is still probably the best example of an agreement that has achieved the same ideals that African integration aspires to*

In view of these negative dimensions to European integration, it may seem strange that the European Union is still held up as an example of successful regional integration—especially given that there is no a priori evidence of an accelerated growth rate. Moreover, some European observers talk of “Euro sclerosis,” reflected in the secular decline in the share of world income of EU members (figure 2.3).<sup>6</sup> But the European Union is still probably the best example of an agreement that has achieved the same ideals that African integration aspires to. Thus the African perspective supports such authors as Todd (2002) and Hutton (2003) who challenge the idea that the European model has had its day as a blueprint for economic reform and institutional change. Despite having difficulties with institutional development, the European Union achieved very real and tangible achievements of regional development that Africa also aims for.

To sum up, several lessons come from the European model. First, institutions are important in regional integration—with the caveat that it is important to adopt a strategic approach to regional integration by prioritizing areas of action. The European Union began by focusing on particular sectoral issues, including rationalization of the coal and steel industries. Despite the costly problems of implementation, it decided early on to develop a regional market in agricultural products. African countries should consider this more seriously. Africa is far more dependent

**Figure 2.3**  
*EU share of world income, 1975–2003 (%)*



Source: Based on data from World Bank (2005).

on agriculture than the European Union was in the 1950s, and there is enormous scope for rationalizing agricultural production and increasing intra-African trade in agricultural products (Weeks 1996; UNECA 2003). Some regional economic communities should receive credit for integration progress in some areas, as shown in later chapters. Nevertheless, it is still true that the prioritization of integration programmes has not been a hallmark of Africa's integration.

Another fundamental lesson from EU integration is the importance of resolving the question of subsidiarity, the doctrine that a supranational entity should decide only matters that cannot be dealt with effectively at the national or regional levels. Some EU members support this principle more than others. According to Alesina and Spolaore (2003), in theory subsidiarity should have guided the development of Europe-wide institutions: supranational institutions should operate only where economies of scale and externalities make it inefficient for national governments to operate independently—such as defence against foreign aggression, free trade, the environment, and antitrust enforcement. In other areas, such as education, research, culture, and citizen and social protection, heterogeneity of preferences is much higher, and economies of scale are thus more limited.

However, on a practical basis, Alesina and Spoloare (2003) agree that measuring the extent of economies of scale, externalities, and heterogeneity of preferences is not easy. Moreover, they note a growing reluctance towards embracing subsidiarity: as Europe has moved towards greater integration, “the process has been stalled by British reluctance, repeated Danish rejections of European treaties, a recent Irish rejection of the Treaty of Nice, and a general feeling that European citizens are less enthusiastic than their leaders about further coordination and uniformities of policy” (p. 206).

A final lesson from the European experience is that regional integration processes need to be able to take on board a large degree of institutional diversity. This message comes across strongly in recent research on the importance of institutional development. For instance, Rodrik, Subramanian, and Trebbi (2004, p. 9) claim:

“The important point is that effective institutional outcomes do not map into unique institutional designs. And since there is no unique mapping from function to form, it is futile to look for uncontingent empirical regularities that link specific legal rules to economic outcomes. What works will depend on local constraints and opportunities.”

African countries must take a cue from the European Union on how institutions shape integration outcomes. But because of the special socio-political and economic circumstances prevailing in the different African subregions, the EU blueprint of institutional design cannot be followed to the letter. If the Abuja Treaty remains the

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*Genuine trade creation provides the customs union the competitive edge to become a net exporter*

guiding light for African integration with the regional economic communities as building blocks, some regions may need to be permitted to experiment with institutional design. As the role of institutions in Africa's integration process deepens, some institutions will probably fail, just as they did in the European case. But others will prosper. The European experience should inform some of the innovation and experimentation in areas where greater institutional backing and support are required by African countries.

## Legal determinants of Africa's integration: the foundation of Africa's integration institutions

Having examined the EU case study and distilled lessons from its experience that might be useful for Africa, it is useful to focus on the legal determinants of Africa's integration, which lay out its integration architecture. Africa's integration depends largely on the institutions that these legal determinants have created. The brief presentation of Africa's legal determinants frames the argument for rationalizing the regional economic communities discussed in the rest of this report.

### **The African Economic Community's integration model**

The African Economic Community adopted a trade-led mainstream economic integration model with steps that lead to a complete economic union. The first step is the establishment of a free trade area, which eliminates customs and other charges and nontariff barriers on goods produced in member countries. Each member retains its own tariffs and nontariff barriers on goods from nonmember countries. Tariff preferences provide producers in the free trade area with cost advantages over producers of similar goods from nonmember countries—enabling producers in the free trade area to offer more competitive prices. This in turn intensifies competition in the free trade area, leads to rationalization of production, and promotes efficiency through economies of scale.

The second step is a customs union, where a common tariff on goods from nonmember countries further integrates the market under a single customs regime. This deepens the benefits of the free trade area thanks to competition within the union, which results in the production and supply of goods at lower prices. Genuine trade creation provides the customs union the competitive edge to become a net exporter to external markets as well.

The third step is the transformation of the customs union into a common market, or a single economic space where factors of production such as labour, capital, and entrepreneurship move freely across national borders. Market forces dictate production based on comparative advantage, which increases the marginal welfare of people in the common market.

A successful common market becomes an economic and monetary union, the fourth step, with central authorities guiding the economic policies of the member countries and issuing a single currency. The treaty establishing the African Economic Community enshrines this model into a legal framework adopted by all member countries.

## Organization of African Unity—limited to political issues

The Organization of African Unity was established in 1963 as a political organization to speed political liberation. Its organs, including the General Secretariat, were designed to evolve and undertake political activities, including advocacy. Although the Organization of African Unity charter recognizes the need for economic cooperation and commits its members to economic integration, it was designed more to handle political issues.

## The African Economic Community—expanding to economic concerns

The Treaty of Abuja, which established the African Economic Community, was adopted by the Heads of State and Government of the Organization of African Unity on June 3, 1991, and became operational in 1994. Its objective was to establish a continental economic community through coordination, harmonization, and progressive integration of the regional economic communities—broadening the scope of the Organization of African Unity. Article 6 provides a timetable with six steps to be completed over 34 years, or at most 40 years. The basic strategy is to encourage member countries to take consistent measures that align the activities of their respective regional economic communities with those of the African Economic Community, smoothing the transition to a continentwide economic community. The treaty also provides for 19 protocols that are the legal instruments to guide member countries' compliance.

The treaty's approach recognized that Africa has a large number of small countries with disarticulated economies, that economic cooperation and integration present the best prospects for them to expand production possibilities and market opportunities, and that economic cooperation and integration were the basis on which African countries could exploit and trade many of their abundant resources in an expanded market space.

Still, committing to free movement of goods and services among members, establishing and applying a common external tariff, and setting a universal formula for import duties were a monumental task—but only the beginning of a common market. Members still need to coordinate tax, monetary, agricultural, and other policies; social welfare programmes; and the free movement of capital and workers. By according the

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Organization of African Unity the primary role in African economic cooperation and integration, the Treaty of Abuja mandated that the Organization of African Unity's General Secretariat also serve as the African Economic Community's Secretariat.

*The rationale for integration include the benefits from trade creation, economic trade diversion, greater economies of scale*

The Treaty of Abuja appreciates that coordination and harmonization of policies and activities of regional economic communities are needed. But adequate resources and technical support were not provided to meet these needs. The Organization of African Unity's lack of success in economic integration stems mostly from historical inertia. The protocol on relations between the African Economic Community and the regional economic communities that came into force in June 1997 provides a management scheme for cooperation and coordination of activities that affirms the leadership of the African Economic Community and Organization of African Unity and the indispensable role of the regional economic communities as the substantive organs for realizing the Abuja Treaty's objectives.

### **Constitutive Act of the African Union**

The Organization of African Unity was transformed into the African Union when the Constitutive Act of the African Union was adopted on July 11, 2000. The act supersedes contrary provisions of the Treaty of Abuja and lays out integration objectives similar to those in the Abuja Treaty.

### **The reality of African regional economic communities**

Almost all 14 regional economic communities in Africa have full economic union as a target. Most were established as a response to the stagnation of economic development of individual countries that resulted from the small national markets and weak production structures and that was aggravated by political instability and widespread conflict. The rationale for integration include the benefits from trade creation, economic trade diversion, greater economies of scale based on profitable competition, increased investment, free movement of resources, comprehensive cooperation, peace and security, and improved bargaining power.

The mainstream model adopted in most cases was a preferential trade agreement that would become a free trade agreement, customs union, common market, and eventually an economic union. Countries seem to have barely analyzed the economic rationale of belonging to a particular group. Meier (1989) argues that profitable economic integration can be realized by countries with little foreign trade relative to domestic production and with more existing foreign trade among potential members of the intended community. There is insufficient evidence to show that these economic preconditions were met in establishing most African regional economic communities. By contrast, the main incentives for Africa's integration initiatives seem to be externally motivated.

The primary causes for regional integration in Africa can be traced to the late 1950s and early 1960s when developing countries faced declining terms of trade with developed countries. The creation of the United Nations Conference on Trade and Development in 1964 allowed developing countries to call for changes in global trade arrangements—specifically to require developed countries to import more value added products and industrial goods from developing countries, a major component of the call for a new international economic order. When this failed, the call for cooperation among developing countries took centre stage. Thus began the agenda for promoting cooperation among African countries. But the necessary background work was not done to assess whether the preconditions for effective integration, compatibility among the economies of potential members of specific integration programmes, capacity to provide the required resources, and expected benefits existed. Political will, still potent immediately after independence, dominated the environment for integration as a way of economically emancipating the continent.

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### **Integration institutional frameworks inconsistencies**

Each regional economic community has its own unique origin with criteria for membership. Most evolved from institutions established to address specific issues or as responses to adverse historical events. Depending on their origins, subregional experience has dictated membership. Take, for example, the Common Market for Eastern and Southern Africa (COMESA).

COMESA evolved from a preferential trade agreement for East and Southern Africa, which originated from the efforts of the United Nations Economic Commission for Africa (UNECA) and the Organization of African Unity. In 1978 the Lusaka Declaration of Intent and Commitment on the preferential trade agreement was signed, and an intergovernmental negotiating team was established. The adoption of the Lagos Plan of Action and the Final Act of Lagos in 1980 accelerated the process, enabling the preferential trade agreement to be launched on December 21, 1981 (Murinde 2001). UNECA nursed the organization, enabling it to be operational in 1984. In accordance with the preferential trade agreement treaty, COMESA was established in 1994 to take the integration process to a higher level. In October 2000 COMESA launched a free trade area (COMESA 2001). Overall, timetables agreed in the treaty rather than economic evidence seem to drive the decision to move to the next stage of integration.

But even to reach this stage of integration, numerous compromises were needed. A protocol on Botswana, Lesotho, Namibia, and Swaziland was needed to accommodate their membership in the Southern African Customs Union (SACU) and Common Monetary Area. While negotiations continued over 1965–77, progress slowed thanks to the growing intensity of the liberation struggle in Angola, Mozambique, Namibia, and Zimbabwe (with the support of Tanzania and Zambia). The collapse of the East African Community in 1977 did not help the general atmosphere and spirit of the

negotiations either. Countries such as Comoros and Djibouti received derogation so that they could join, because of their relatively low economic development and high dependency on customs revenue. The primary goal seems to have been for every country in the region to join the group with little assessment of the costs and benefits of their membership.

*Although most regional economic communities follow valid mainstream integration models, the economic rationale of groups does not necessarily reflect readiness and compatibility*

The emphasis in the case of COMESA was on creating the institutional framework and opening it to all interested countries—which seem to have played a passive role. This supply-driven response—not based on demand from economic readiness at national levels—also prevailed in the creation of other regional economic communities, such as the Southern African Development Community (SADC), the Inter-Governmental Authority on Development (IGAD), the Indian Ocean Commission, the East African Community (EAC), and others. So although most regional economic communities follow valid mainstream integration models and their legal frameworks are based on sound principles and practice, the economic rationale of groups does not necessarily reflect readiness and compatibility.

The Southern African Development Coordination Conference was established in response to the sustained economic and political destabilization of Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, and Zimbabwe caused by apartheid South Africa. Provisions were made to accommodate Botswana, Lesotho, and Swaziland, which were also members of SACU and the Common Monetary Area. Majority rule encouraged the Southern African Development Coordination Conference to modify its mandates and membership; it then became SADC. Membership was extended to Angola, Democratic Republic of Congo, Mauritius, Seychelles, and South Africa, and its focus shifted to economic integration. However, despite the resolution of SACU and the Southern African Development Coordination Conference’s mandates, rationalization of the two was not achieved because historical inertia has preserved their membership norms.

### **Why rationalize: a new institutional framework**

The discussion so far has focused on the legal determinants of the institutional frameworks that drive Africa’s integration agenda. The integration framework and norms have also been highlighted, but as argued here and in UNECA (2004) little progress has been made. Whether African regional economic communities have hindered integration remains as relevant today as it did 15 years ago when the Abuja Treaty was signed.

The regional economic communities were expected to be the nerve centres of the continent’s integration process, with specific responsibilities, including:

- Conceiving and monitoring the implementation of integration-related policies and programmes.

- Mobilizing the necessary resources to support such policies and programmes.
- Periodically reporting on progress.

Had these clear objectives been diligently pursued, an integration architecture that complements the continent's integration ideals might exist today. The overlapping integration arrangements are clear manifestations of a lack of coherence in the integration process. The institutional framework of Africa's integration architecture today does not offer much hope that continental integration can be realized. And the problem of overlapping membership exists not only in one regional space but across almost all African countries. Chapter 3 looks at the costs and wasteful nature of overlapping integration and finds that while theoretical reasons such as variable geometry may explain why Africa's integration has evolved to what it is today, the costs of overlapping integration far outweigh any gains.

*The overlapping integration arrangements are clear manifestations of a lack of coherence in the integration process*

All things being equal, variable geometry could provide some progress. But all things are not equal in Africa. An integration process faced with financing constraints begs the question of whether an overlapping scheme is the most effective one. The evidence points to the need for rationalization. The cost of duplicated efforts—in particular, given the financing constraints of most regional economic communities—clearly points to the need to rethink the current institutional framework for integration. Overlapping memberships also interfere with the efficiency and effectiveness of integration policies and programmes.

However, given the current state of the continent's integration, a new institutional framework is conceivable only if rationalization is embraced. The Abuja Treaty—whose ideals and goals were reaffirmed by the Constitutive Act of the African Union—also points to a more rationalized integration process. The overlapping architecture of today undermines collective efforts towards the common goal of the African Economic Community. Moreover, coordinating and harmonizing the regional economic communities' activities are imperative for successful regional integration. The regional economic communities have already started implementing some coordination and harmonization mechanisms, which will certainly help eliminate discrepancies, but bolder action is still needed.

The successes and failures of Africa's integration have largely depended on actions at the national level—because the design of national institutions for economic integration directly affects implementation of the regional economic integration agreements. Apart from inability at the national level to mobilize sufficient resources to support membership in several regional economic communities, governments have failed to translate commitments under regional treaties into national plans and budgets and to cede authority to regional economic community secretariats. In a rationalized integration environment the negative influence of some of these failures could be mitigated. The fact that a country would not be required to find resources to implement duplicated programmes would hasten the expected positive outcomes of

integration. In a rationalized system with minimum overlapping membership and no duplication, national governments may find it easier to follow the provisions of the African Economic Community and to be involved in their regional economic community.

*In a rationalized system with minimum overlapping membership and no duplication, national governments may find it easier to be involved in their regional economic community*

As the European experience showed, integration policies and programmes must be fully financed. The Common Agricultural Policy has been heavily criticized within and outside the European Union for distorting domestic and international markets, but it shows how eliminating duplication can improve the financial situation of countries trying to integrate—which Africa has been unable to do. Rationalization will allow the regional economic communities and their member countries to explore self-financing mechanisms that are reliable and predictable.

The institutional framework of Africa's integration also involves the relationships between regional economic communities and continental organs. Weaknesses in the protocols adopted by regional economic communities have been acknowledged. Protocols lack complementarity across regional economic communities, take too long to negotiate, and are not universally signed, ratified, and implemented. The high number of regional economic communities has made it more difficult for the envisaged continental coordination mechanism to be effective. Thus coordination problems exist not just among regional economic communities but also between the regional economic communities and the continental bodies meant to spearhead a smooth and well paced integration process.

In sum, issues that have been enumerated in the past still hamper Africa's integration process. Institutional issues and challenges still impinge on regional integration. But effective institutional mechanisms and capacities are needed for a successful integration process. The costs associated with the variable speed of integration and the overlapping memberships in the African regional economic communities could be curtailing the efficiency and effectiveness of regional integration. Prima facie evidence shows a need for radical rationalization of regional economic communities and their member states to develop and sustain effective institutional mechanisms and capacities that lead to integration and ultimately the African Economic Community. Only under a rationalized integration framework will coordination and harmonization among regional economic communities and with the continental organs become feasible.

## Conclusion

The broad conclusions from this chapter are twofold. First, institutions are indeed important for development and economic growth. Experience also shows that they make it possible for regional integration to have a role in development, particularly

in Europe. Second, Africa needs to build and strengthen its institutions to sustain development. This includes the institutions related to regional integration.

The chapter also presents the legal determinants that define the architecture of Africa's integration. But the outcome of Africa's integration has not been optimal. Integration institutions have failed to satisfactorily advance Africa's integration process as called for by the Abuja Treaty. Based on the lessons from Europe and recognizing the limits that the European Union has faced in its integration process, Africa must look afresh at the institutions that drive its integration process. In particular, if integration is to help Africa's development, there may be a strong case for rationalizing the regional economic communities as they currently exist.

***Based on the lessons from Europe, Africa must look afresh at the institutions that drive its integration process***

Rationalization offers the continent opportunities to redesign its integration institutions to speed creation of the African Economic Community. The rationalization process proposed in chapter 3 addresses several institutional issues. First, the incoherence in Africa's legal frameworks will be eliminated, especially when it involves overlapping memberships and the relationship between regional economic communities in the same region. Second, rationalization will allow the incoherence between continental objectives and those of the regional economic communities to be examined. An unambiguous institutional framework will be intended with respect to the relationship between the regional economic communities' treaties and protocols and the Abuja Treaty. Third, institutional restructuring will allow the regional economic communities' agendas to be aligned with the continental blueprints on integration by ensuring that the continental blueprints take precedence. Fourth, the institutional reconfiguration will allow for hard and fast rules that bind regional economic communities' integration agendas to the continental frameworks. Disciplines and sanctions on regional economic communities that deviate from the continental objective will become feasible, just as the European Union has managed to use legally binding frameworks despite the popularity of the subsidiarity principle.

In light of the European Union's experience of applying strong institutions to drive integration, the African regional economic communities will also need to identify priority areas of focus and take them into account when reorganizing. Setting priorities can lead to results. The advantage of prioritization in Africa is that regional economic communities can still move towards the objectives of the Abuja Treaty because each region has its own comparative advantages, which allows a wide variety of programmes to be pursued at the continental level. Prioritization will allow the regional economic communities to build competencies in the relevant institutions to achieve their objectives. Put simply, Africa needs to adopt a more ambitious agenda than is currently defined in the Abuja Treaty, and the agenda at the level of the regional economic communities also needs to be selective. As history reveals, attempting too much too quickly is a recipe for further frustration and failure—and suboptimal results.

## Notes

1. See, for example, Landes (1998), especially chapter 18, where he describes the ways in which European countries encouraged an increase in domestic industrial capacity with legislation and prohibitions.
2. Sender (1999) also notes that the countries with the largest declines in average real wages in the civil service also saw a further decompression of upper grade scales, encouraging the exit of the most highly qualified personnel.
3. See World Bank (2004) and EU (2005), which show that the original six members of the European Union plus Greece are the worst offenders in terms of implementation. Italy, France, and Spain had the most infringement cases opened by the European Commission (all more than 100).
4. The European Commission has challenged these estimates, but it accepts that its detection rate (1.2% of the budget in 1994) underestimates the extent of the problem (Grant 1997).
5. One example was the lino scandal in Spain, where over 1996–2000 subsidies were apparently claimed for nonexistent crops. After investigation the European Commission claimed €134 million in compensation from the Spanish government (El Pais 2005).
6. The European Union has grown through enlargement, not through a notable increase in economic performance. With the scope for future enlargement dramatically reduced, this strategy is finally reaching its end.

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