

# Chapter 1

## Introduction

The positive relationship between innovation and improved national competitiveness is widely understood, but not much is known about the channels and mechanisms through which they drive (or are driven by) regional integration. Regional integration does not seem to have direct impacts on innovation capacities, which are crucial for transforming what the continent both produces and trades.

But competitiveness is more usually related to efforts to integrate economies, and its drivers include assets such as physical infrastructure, scale economies, factor efficiencies, the business environment, geographical connectivity and cultural ties. Increased productivity and better integration of supply chains engendered by freer investment and trade regimes, both within an economic bloc and between blocs and external partners, are among the expected outcomes from measures to enhance competitiveness within a regional integration context.

Indeed, the explicitly stated objectives for regional integration are typically to boost trade by integrating markets for goods and services (hence the prevalence of trade-driven regional integration schemes), to facilitate movement of capital (investment markets) and to facilitate the movement of labour (labour markets). Equally important objectives include easing the movement of people and inter-connecting hard and soft infrastructure.

Deeper reflections, however, reveal several ways in which regional integration, innovation and competitiveness interact. Due to the creation of networks between people and institutions—the main constituents that set innovation in motion—even a loose connection between two or more nations is bound to facilitate innovation to some extent. The cross-pollination of ideas and experiences greatly benefits innovators, who can use their enhanced knowledge to adapt and apply innovation, as well as push beyond the current frontiers, contributing to competitiveness within the bloc.

Moreover, membership in a regional integration arrangement shapes national regulatory and incentive frameworks along several dimensions including taxes, factor costs, knowledge sharing and intellectual property rights. In the hope of incentivizing innovation, modern free trade agreements aim at strengthening laws and regulations protecting intellectual property rights. At the same time, anti-competitive and efficiency-reducing regulations and practices are targeted for reform, given the inherent tension between intellectual property rights and access. It is no surprise that the scope of Africa's Continental Free Trade Area negotiations includes intellectual property and competition policy with a view to establishing common rules and approaches among African countries.

The larger market provided by the regional economy means more demand and ultimately greater returns on any investment in innovation. Beyond facilitating access to new markets and tying them together, regional integration can have profound effects on consumer preferences and behaviour. Larger consumer groups especially benefit niche innovators. Deep regional integration between states also enables innovators to cluster in more effective ways, as seen from the spread and exponential growth of the electronics industry in the countries in the Association of Southeast Asian Nations. Such clusters are augmented by joint production networks and supply chains, which allow innovators to benefit from scale economies.

Regional integration further benefits innovation by facilitating access to finance: freer movement of capital, fewer restrictions on ownership, and fiscal and other incentives for joint ventures are some of the biggest benefits.

The deeper the integration and the larger the community created, the greater the potential benefits for innovation. For countries in the institutional-building and catch-up stage, integration with more developed partners can help to facilitate convergence through enhanced technology diffusion.

Africa needs to realize these benefits to boost its economic growth, for although it registered quite impressive growth of more than 4 per cent from 2000 to 2014, over the long term (1975 to 2014) its growth was far below the average of Asian developing countries. Furthermore, the contribution of the industrial sector to the continent's exports is minimal, and the growth of Africa's merchandise exports continues to be driven by commodities—not the technological progress and factor efficiencies that are responsible for perhaps half the economic growth in successful economies.

*Assessing Regional Integration in Africa VII* (ARIA VII) examines how regional integration, innovation and competitiveness are interlinked in the African context and how countries can harness their links in a model that fosters structural change.

Besides providing the traditional overview of regional integration trends in Africa, the report examines the dynamic complementarities between innovation, competitiveness and regional integration. It delineates the role of regional integration in supporting favourable conditions for innovation, and how the deployment of innovative capacities can in turn enhance competitiveness and structural change. It demonstrates that, in a virtuous circle, innovation is both a driver and a beneficiary of competitiveness—processes closely related to endogenous growth, development and transformation.

After this introduction, the report has the following chapters:

- **Chapter 2**—*Status of Regional Integration in Africa*—is a recurrent part of each report. It outlines trends in the progress of integration at three levels. It introduces the Africa Regional Integration Index as a tool to track and benchmark the progress of the continent's integration agenda.
- **Chapter 3**—*Regional Integration, Innovation and Competitiveness: A Theoretical Framework and Empirical Highlights*—examines the dynamic linkages between these concepts, and presents some empirical evidence.
- **Chapter 4**—*Innovation and the Global Intellectual Property Regulatory Regime*—assesses the impact of the global intellectual property (IP) protection regimes, particularly focusing on the challenges facing African countries as “late developers.”
- **Chapter 5**—*Africa's Science, Technology and Innovation Policies—National, Regional and Continental*—reviews and assesses the innovation ecosystem in Africa at three levels.
- **Chapter 6**—*Lessons from India and the Association of Southeast Asian Nations*—examines the experiences of India and the Association of Southeast Asian Nations in leveraging regional and public policies to promote innovation.