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Regional Integration in Africa: An Introduction

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1. Introduction

Regional economic integration — allowing the free movement of goods, services, people and capital between national markets — has been a key aspiration of African countries since the achievement of independence some 50 years ago. Indeed a number of founding fathers had expressed willingness to delay the independence of their own countries if this would help forge more integrated regional economies with their neighbors on achieving independence. They feared, rightly, that if countries were allowed to go it alone the 'temptations of nationhood' would soon take over and the goals of economic and political integration would become elusive. Many arguments for speeding up the integration process have since been advanced from many quarters — politicians, technocrats, business owners, and researchers in universities and think tanks.

In spite of a broad concurrence on the benefits of Africa's economic integration, the process has been slow and episodic. Because of the underlying difficulty of promoting a big idea, and the inherent regional rivalries engendered by the process, regional integration has, at least outwardly, been based on the promotion of regional integration schemes, invariably based on dimensions of either monetary cooperation or economic union. But 'deep integration', which involves the removal of traditional trade barriers (e.g., tariffs), the elimination of other barriers to the free movement of goods, services, and factors and the harmonization of economic policies and regulatory regimes remains patchy, although recent years have seen increased effort towards achieving these laudable goals.

This has involved the strengthening of regional economic communities, streamlining their mandates, and in some regions even considering closer political union. Platforms for an eventual monetary union have been set up in East and West Africa. At the continental level, Africa's apex political body, the Organization of African Unity became the African Union in July 2002. Africa is now pursuing a continental integration agenda as part of a broader development and transformation strategy, leading to the eventual creation of a continental market (Ben Hammouda *et al.*, 2009). In spite of these laudable efforts, the goal of an economically integrated Africa is not anywhere within reach. Impediments to progress are considerable, and much will be demanded of Africa's leadership to achieve the goals that have been laid out in the past several decades (see UNECA, AfDB and AUC, 2010).

A number of the above issues and concerns were discussed at length at the African Economic Conference 2013, held in Johannesburg during 28–30 October 2013 and jointly organized by the African Development Bank, the Economic Commission for Africa and the United Nations Development Program. The objectives of this introduction are fourfold: first, to review briefly why regional integration is important for Africa; second, to examine the key constraints to effective regional integration on the continent; third, to discuss some policy recommendations on the way forward; and fourth, to provide an overview of the papers included in this special issue of the *African Development Review*.

2. Why Regional Integration in Africa?

Regional integration has considerable potential for driving more robust and equitable economic growth as well as promoting poverty and unemployment reduction in Africa (see, for example, Anyanwu, 2014; UNDP, 2011). Experience has shown, however, that these opportunities only result from the careful harnessing of the opportunities for deeper regional integration.

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Giving Africa's producers access to regional markets and linking them up into more sophisticated regional value chains will raise their competitiveness and enhance their capacity for graduation into more competitive global niches. Viewed this way, regional integration is key to boosting productivity and achieving lasting improvements in living standards.

Regional integration provides an opportunity for African countries to address a major constraint to export competitiveness imposed by the small size of their national economies and geography/transport costs, while acting as a potent vehicle to promote product and export diversification, hence increasing the prospects for growth and development in their countries. Regional integration can also unleash economies of scale. For example, recent analysis indicates that more than 20 countries in Africa have national power systems that are below the minimum efficiency scale of a single power plant, suggesting the potential for power pools (see Foster and Briceño-Garmendia, 2010).

Generally, regional integration increases competition in the local market, which in turn increases productive efficiency and price convergence across countries and regions. Regional integration also promotes the transmission of technological innovation and enables countries to compete with more advanced economies on the international market. In addition, it creates incentives for governments to adopt less distortionary domestic policies and more disciplined macroeconomic management. Moreover, it can help regions to achieve economies of scale and build their supply capacity and competitiveness. Through targeted regional infrastructure, Africa will be able to close vital missing links, inter-connect the continent and undertake reforms to facilitate cross-border trade, investments, financial flows and migration. Greater and deeper integration will enhance food security by facilitating greater intra-African trade in food products, and supporting the development of international production chains and greater value addition in Africa.

In addition to the above, a number of unique geographical characteristics make regional integration in Africa more urgent and imperative. These include the presence of as many as 15 landlocked countries on the continent (indeed nearly a third of Africa's population live in landlocked countries), as a result, on average African countries share borders with four other countries — in Latin America and in Asia the comparable number is around two. Population density in Africa is only about 80 people per square kilometer, compared to 120 in Latin America and close to 400 in Asia (Ndulu, 2006). A manifestation of these characteristics is reflected in high transportation costs for trade within the continent. Limão and Venables (2001) estimated that the median transportation costs in Africa were about US$7,600, compared with US$4,600 in Latin America and less than US$4,000 in Asia. Owing to being landlocked, many African countries are relatively remote from the major markets of Asia, Europe and North America and are also far from the major shipping routes.

3. Some Regional Integration Efforts and Key Constraints

African countries have taken several measures to promote regional integration, a major part of which is intra-regional trade. These include the establishment of the African Union and the creation of various Regional Economic Communities (RECs), which are pursuing integration through free trade, and developing customs unions and a common market. Currently, there are 17 regional trade blocs on the continent (with overlapping memberships), of which eight are officially recognized by the African Union. The latter are considered by the African Union as the building blocks of the future African Economic Community (AEC) as laid out in the Abuja Treaty that came into force in May 1994. One of the most recent measures to promote intra-African trade is the renewed political commitment by African leaders at the African Union summit in January 2012 to boost intra-African trade and to fast-track the establishment of a continental free-trade area.

However, progress has been hindered considerably by soft and hard infrastructure constraints (especially poor or non-existent road and rail networks); paucity of productive capacity; proliferation of non-tariff barriers, including rules of origin and regulatory policies, lengthy customs clearance procedures at border posts (Hasse, 2013); slow implementation of regional trade agreements and the prevalence of overlapping memberships in Regional Economic Communities; limited role of the private sector (UNCTAD, 2013); impediments to external market access and lack of an adequate trade policy framework. In particular, while African governments have repeatedly committed themselves to the pursuit of regional economic integration, national priorities regularly trump regional ones. As a result, progress on implementing some of these commitments has often been challenging, if not outright impossible.

Advancing regional integration also requires considering policies that may appear to have little bearing on regional integration. For example, part of the reason why transportation costs are high in many African countries relates to quasi-monopolistic trucking sectors, protected by regulation (UNDP, 2011). This is in the realm of regulatory reform and competition policies, and no amount of improved roads or better procedures at borders will fix this problem.

While the benefits of regional cooperation are quite evident in practice, many challenges exist. Some are related to the distribution of net benefits: if some countries gain more than others, this may be reflected in differences in the motivation and commitment across countries to regional cooperation. Other challenges relate to the distribution of costs of regional projects. Should costs be distributed according to how the expected benefits are likely to be shared? According to the ability to pay of different countries? One other set of challenges relates to historical and political factors that have left a legacy of regional imbalances, the rationale of which are not always clear cut.

Also, as Ernst & Young (2012) have observed, most African economies are still unable to produce the types of goods (essentially manufactured) that they demand (especially the middle class): in 2011, just 8 percent of Africa's demand for machinery, electrical and electronic equipment, vehicles and ships/boats was met from African suppliers. Also, Africa's weak industrial base limits demand for its abundant commodities: in 2011, almost 75 percent of Africa's total exports consisted of four categories of hard commodities, only 6 percent of which were absorbed regionally.

4. What Should Partners Do?

The time is now ripe to accelerate Africa's progress toward regional integration. Political commitment has never been higher. The adoption in early 2012 by the African Union Summit of an Action Plan for Boosting Intra-African Trade and the planned establishment of a Continental Free Trade Area by 2017 provide ideal platforms to press ahead with opening up national markets and creating new opportunities for shared prosperity.

The slow pace in implementing regional mechanisms and policies in African RECs in the past has undermined previous regional integration efforts. RECs can offset this through:

- compensating mechanisms;
- regional industrial policies;
- differential tariff liberalization;
- negotiation of more favorable terms for member nations in trade and investment negotiations at the bilateral and multilateral level;
- promoting regional peace and security; and
- prioritizing the welfare of the poorest through policies and financial commitments.

Sustainable regional integration entails a regional integration agenda which looks to reduce inequality between states and within states. This involves using institutions and policies which tie into regional aims and protocols to:

- actively advance the interests of marginal states and the poor within states. For example, the European Coal and Steal Community financed living expenses for coal workers and set up a fund to invest in poorer regions;
- use formal rules-based institutions to promote policies and actions which fulfil this agenda and penalize those which do not;
- promote regional policies which see larger more advanced states underwrite the integration process on an equitable basis. This requires a compensating mechanism for uncompetitive industries after integration, countries which rely on their tariff revenue, or who owing to less competitive industries will need assistance and differential conditions in their tariff reduction schedule;
- promote regional peace and stability. This can only be achieved if countries agree that regional institutions should be used as mechanisms to advance a rules-based governance agenda; and if they provide sufficient legitimacy to regional institutions through permitting it to use formal rules to sanction offenders of regional protocols and policies;
- promote regional labor and environmental standards which limit unfair competition based on destructive forms of fiscal, financial, and regulatory incentives to attract or retain industries or advance industrial competitiveness.

Competition based on technology and innovation, quality and design, productivity and management techniques is able to provide benefits for everyone. Policies based on a reduction in wages, working conditions, or environmental standards only lead to inequality in opportunities and benefits. Without rules-based institutions which member countries willingly buy into, regional institutions will lack the necessary authority to implement and advance regional protocols necessary to develop REC members' institutions, infrastructure, and industry. This will require that the larger economies on the continent lead the way in advancing a formal, rules-based platform to which member countries are agreed, with effective sanction for countries which fail to implement the necessary protocols.

With regard to regulating or guiding national policies, RECs could establish regional policies to promote inclusive development through rules that encourage democratic governance and transparent and accountable management of natural resources. They could also establish regulations for fair competition and uniform labor standards throughout the regions, recognizing that harmful competition occurs when states compete for business through lower wages, less rigorous working standards, lax environmental regulations, and increased tax competition.

There is no doubt that regional industrial development initiatives and value chains are mostly untapped opportunities. To support their development will involve focus on the trade in 'tasks' rather than just final goods. This will require, in particular, the lowering of tariff barriers, addressing non-tariff barriers, streamlining customs and transportation procedures, and developing supporting services and ICT. It will be necessary to broaden regional integration agenda, as is the case in the ambitious tripartite agreement between the EAC, COMESA and SADC, focusing on competition, investment, intellectual property, and supply-side issues rather than merely tariff barriers. RECs now realize that setting unrealistic timelines for deepening integration will not work unless some focus is put on building enabling institutional framework and other infrastructure necessary to realize the ambitious goals.

The role of the private sector in harnessing regional integration for inclusive development must be supported. Entrepreneurs must be encouraged to embark on regional businesses by improving conditions for entrepreneurship and rewarding success at the national and regional levels, as well as at the continental and international levels. It is only when domestic business sees opportunities in their own markets that foreign investors will follow in earnest. Therefore, an asymmetric approach to business incentives, with elements that favor foreign investors unduly are poor for regional business. In recent years, Africa demonstrated some success stories regarding domestic entrepreneurs who have overcome the barriers to regional business expansion. Tony Elumelu and Aliko Dangote from Nigeria are good examples of this. The continent will need business people like these in far greater quantities.

Regional financial institutions like the African Development Bank should scale up their efforts and be more innovative in promoting regional integration on the continent. The possibilities are almost limitless: through dedicated regional integration strategies and policies; lending, grants and technical support activities; direct brokerage of new partnerships and regional initiatives — such as the African Development Bank's Africa50 Fund; and through advocacy in regional and international fora.

5. African Economic Conference 2013

The African Economic Conference 2013 on 'Regional Integration in Africa' offered a unique avenue for researchers, policymakers and development practitioners from Africa and elsewhere to debate regional integration, its impact on growth and development, and the political economy that drives the adaptation process. It was organized around four pillars of integration: movement of goods and services; movement of capital; movement of people; and role and impact of regional institutions. The thematic areas covered included: the political economy of Africa's regional economic integration; institutional integration, policy coordination and convergence; infrastructure and Africa's economic integration; the role of the 'informal sector' in regional integration; financial integration and emerging financial hubs; the economics of agglomeration/production across borders; trade and currency union issues in Africa; Africa's economic geography and regional integration; social integration, gender issues and labor migration; and comparative examples from other areas of the world.

This special issue of the *African Development Review* represents one output of the conference. Other products will appear in book form. This issue covers eight papers drawn from the plenary and concurrent presentations. They bring together conceptual and policy issues, as well as comparative and empirical analyses on theme of regional economic integration. Below we provide an overview of the papers selected for this volume.

The paper by Naym Charaf-Eddine and Ilan Strauss looks at 'The Ten Commandments of Applied Regional Integration Analysis: The African Case'. It offers guidelines to researchers on regional integration on how to improve their analytical approach from data collection to the interrogation of the goals of Africa's regional integration and the preconditions for success.

The paper by Issofou Njifen is entitled 'L'informalité: un nouveau paradigme de développement et d'intégration « par le bas » en Afrique'. The paper argues that the informal sector has a role to play in the process of integration in Africa. The state must therefore reformulate integration in Africa and make the informal sector a genuine partner in the process.

The paper by Joseph Baricako and Gaston Xavier Dagba Ndongo on 'Intégration régionale et croissance: le cas de l'Afrique Centrale' argues that although RECs are seen as the motors of regional integration, they are extremely weak, especially the Economic Community of Central African States. It uses a VAR model analysis to examine the quantitative contribution of regional integration to economic growth in the countries in Central Africa. The results indicate that overall integration explains 16.96 percent of the long-term variation in Central Africa's economic growth.

The paper by Christopher Changwe Nshimbi and Lorenzo Fioramonti, is entitled 'The Will to Integrate: South Africa's Responses to Regional Migration from the SADC Region'. The authors survey the frameworks of labor migration in southern Africa and discuss South Africa's policy responses to inflows of migrants from seven neighboring countries. Two systems coexist in southern Africa that complicate migration governance: a South Africa-managed bilateral migration policy, and aspirations for a formal SADC-managed migration policy. The paper concludes that an official multilateral migration governance mechanism would serve SADC better than the current ad-hoc measures.

Uduak Akpan's paper on 'Impact of Regional Road Infrastructure Improvement on Intra-Regional Trade in ECOWAS', employs an augmented gravity model of trade to examine the impact of improving the quality of a regional road infrastructure in the ECOWAS sub-region, from its current level to the level of roads in South Africa, on intra-regional trade. The author's results indicate that such improvement will require US$356 million. He argues further that to enhance the benefits of the improvement in road quality, ECOWAS member governments need to put in place 'soft' infrastructures including monitoring and evaluation.

Ebaidalla M. Ebaidalla and Abdelrahim M. Yahia's paper looks at the 'Performance of Intra-COMESA Trade Integration: A Comparative Study with ASEAN's Trade Integration'. The results indicate that all countries in the selected sample are far from their potential trade level, implying that the performance of regional trade integration among COMESA members is inadequate. The results also indicate that the gap between potential and actual trade has decreased in the last decade, suggesting convergence toward the potential trade level.

The paper by Siope Vakataki 'Ofa and Stephen Karingi on 'Trade in Intermediate Inputs and Trade Facilitation in Africa's Regional Integration', opines that despite concerted efforts, Africa's regional integration process has encountered delays. To account for this, the authors examine the level of industrialization in Africa using Balassa's Revealed Comparative Advantage Indexes based on the BACI dataset. In addition, they employ an input-output analysis on Kenya's trade in intermediate inputs based on GTAP 8 dataset. The analysis finds that while the level of industrialization is heterogeneous among African economies, the overall level is low. Also, in the case of Kenya and five regions in Africa, imported intermediate inputs were found to be critical for production, lending support to the importance of trade facilitation measures in ensuring timely and cost-effective sourcing of inputs.

The paper by Peter D. Golit and Yusuf Adamu is entitled 'Regional Integration Models and Africa's Growth in the 21st Century: A Fitness Evaluation'. The paper explores Africa's regional integration models with a view to determining their suitability or otherwise for rapid economic growth. Using annual data spanning 1980–2012, the paper employs the Johansen (1998) and the Johansen and Juselius (1990) method of cointegration and Vector Error Correction Mechanism (VECM) to test for the presence of long-run equilibrium relationships among the variables and estimate their static and dynamic coefficients. The authors found a significant positive role for infrastructure financing and human and physical capital accumulation both of which significantly influence Africa's economic growth.

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