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Regional Integration in Africa: A Review of the Outstanding Issues and Mechanisms to Monitor Future Progress

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Abstract

This paper has two main objectives. The first is to outline the main outstanding issues related to economic integration in Africa. And the second is to highlight how the proposed Annual Report on Integration in Africa (ARIA) could be used as a device to articulate the pertinent issues, monitor progress towards deeper integration by periodically assessing the current state of economic integration in Africa, and identifying future direction.

The main issues of regional economic integration in Africa could be grouped into three interrelated broad areas: issues of conceptual clarity, implementation, and approaches to regional integration. Conceptual clarity refers to a range of issues that deal with the theoretical and empirical underpinnings of regional economic integration including a full account of its costs and benefits. Similarly, implementation issues cover both the economic, political and institutional constraints that surface at the implementation stage of economic integration treaties. And the approach issue refers to the menu of options available to pursue economic integration. These options range from a step-wise bilateral cooperation, region based, to continent-wide integration.

The paper suggests that devising a means to articulate the issues and developing quantitative and qualitative mechanisms to evaluate the progress made via an annual report will greatly contribute to the realization of the objectives of economic integration in Africa.

Introduction

Regional integration initiatives in Africa have a long history, dating back to the establishment of the South African Customs Union (SACU) in 1910 and the East African Community (EAC) in 1919. Since then a number of regional economic communities have been formed across the continent, particularly since the 1970s. Currently there are about 10 or so regional economic groupings in the Africa. At present, there is no country in Africa that isn't a member of at least one regional economic group. As reflected in the number of regional agreements both in the continent and world- wide, therefore, the issue continues to occupy a center-stage in the economic agenda of countries.

Attempts have also been underway to create economic cooperation (and ultimately meaningful economic integration) among African countries at a continental level. This effort culminated in the signing of the African Economic Community Treaty (or the Abuja Treaty) in 1991. This treaty came into force in 1994. Among the initial stage objectives of the treaty is to establish continent-wide economic cooperation by strengthening the existing (and encouraging the formation of new) regional economic communities (RECs) across the continent. Accordingly, as Teshome (1998) noted, six RECs within the continent were perceived as the main building blocks for such a continent-wide integration initiative. These were: the Arab Maghreb Union (AMU), the Common Market for Eastern and Southern Africa (COMESA), the Economic Community of Central African States (ECCAS), the Economic Community of West African States (ECOWAS), the Southern African Development Community (SADC), and the Intergovernmental Authority on Development (IGAD). The intent and declarations to form a certain level of continent-wide unity continues unabated until today as demonstrated in the Sirte Declaration of September 1999 (which suggested a speedy implementation of the Abuja treaty) and that of Lome held in July 2000, which agreed to concretize that suggestion.

It has to be noted that despite differences in membership-size and level of economic cooperation sought, the ultimate objective of all RECs has been to enhance economic growth through cooperation in relevant areas of economic activity, such as trade and infrastructure, for instance. But, though degrees vary among groups, there

seems to be a consensus that the success of all the RECs in achieving their objectives has been less than satisfactory (Johnson, 1995, Lyakurwa, 1997). Various reasons are suggested as causes for the lack of progress in regional integration efforts in Africa. Chief among these reasons, are unwillingness of governments to:

(i) surrender sovereignty of macroeconomic policy making to a regional authority;

(ii) face potential consumption costs that may arise by importing from a high cost member country;

(iii) accept unequal distribution of gains and losses that may follow an integration process, and

(iv) discontinue existing economic ties with non-members (Johnson, 1995, p. 213).

Lyakurwa *et al* (1997, p. 176) further adds to the list, "lack of a strong and sustained political commitment and macroeconomic instability", among others, have hindered the progress of economic integration in Africa.

Despite the unsatisfactory performance to date, however, there seems to be a new momentum to invigorate the process of cooperation and ultimately integration of African economies. Among others, the following are some of the reasons that re-kindled interest in African economic regional integration. First, the Abuja Treaty of 1991 by African Heads of States seems to have re-ignited interest and strengthened the commitment for some form of a continent-wide economic cooperation. Second, the formation and the strengthening of various regional blocks outside of Africa (in Europe, Asia and the Americas) seems to have forced African countries to reconsider the issue more seriously if they are to avoid further marginalization. Third, the realization by African countries (particularly the small ones) that their respective national markets are too small to provide the benefits of economies of scale and specialization which are perceived as preconditions for economic growth; getting an access to the markets of partner countries has become a relevant consideration. Fourth, the liberalization initiatives undertaken by almost all countries in Africa (mainly sponsored by the Bretton Woods institutions) has also created a conducive environment to pursue an outward-looking economic policy, which encompasses economic cooperation in general and trade policy in particular. Whether these factors, among others, are sufficient to take the integration initiative to a higher

level or not remains to bee seen, but that they have created some optimism than ever before is apparent.

The objective of this paper is not to review the vast literature of regional integration, but to focus on highlighting the most important issues that have in the past affected the progress of regional integration in Africa. Based on these discussions, it will identify some of the questions that should be answered, the most outstanding issues that should be addressed and the indicators of progressive integration that should be measured via the proposed Annual Report on Integration in Africa (ARIA).

Accordingly, the paper is organized as follows. Section Two briefly outlines the theoretical and the empirical issues related to regional integration. The scope of this discussion is only to provide some background. By presenting the main conceptual and theoretical issues, this discussion will reflect on current thinking on the subject. Section Three will review the main outstanding issues of economic integration in Africa based on past experience. The Fourth section will outline the scope and content of the proposed Annual Report on Integration in Africa (ARIA). And finally, section Five will present a brief conclusion.

2. Theoretical and Empirical Issues of Regional Integration

Economic integration may be formed at different levels. Starting from the simple arrangements of a free trade area, two or more countries may form a customs union, a common market, an economic union and/or (ultimately) a political union. Each of the above levels of economic integration requires their own distinct level of commitment and degree of harmonization of policies on the part of member countries[1].

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[1] The main requirement of a free trade area is the commitment to eliminate internal barriers to trade among members while maintaining an independent policy against non-members. In a customs union, on the other hand, all members of the union have a common external tariff. In a common market, barriers to the movement of labor and capital are also removed. An economic union further requires co-ordination of macro-economic policies (such as interest rate, exchange rate and other relevant macro variables) among members. And the ultimate form of integration, the political union, occurs when countries agree to have a common policy on almost all sectors of the economy, and political coordination in the areas of defense and foreign policy.

Irrespective of the type of economic integration established, however, all have the following common ultimate objectives. They all seek to benefit from trade creation, economies of scale, product differentiation, and efficiency gains through policy coordination that follow implementation of regional integration agreements. Regional integration is also expected to reduce vulnerability to external shocks induced by fluctuations, instability, and uncertainty in the rest of the world.

Though the specific requirements vary on the type of economic unity established (as noted above), regional integration as a process involves the merging of industrial structures, economic and administrative policies of member countries. Such a process is motivated by the recognition that national economic welfare could be enhanced in a more efficient way through such partnership than by adopting unilateral policy at each country level. According to the traditional paradigm, the main features of an integration process include:

- Progressive removal of trade restrictions that exist across national boundaries;
- Creation of common policies (both at a micro and macro levels);
- Establishing a stable division of labor among participating members;
- Moving towards equalization of prices (of similar goods) across boundaries; and
- Allowing free movement of factors of production.

As the old paradigm of regional integration demonstrates, the above rationale get their insights from the standard trade theory which states that free trade is superior to all other trade policies. As an extension of this basic principle, therefore, free trade among two or more countries will improve the welfare of the member countries as long as the arrangement leads to a net trade creation in the Vinerian sense. That is, though as the theory of the second best indicates, regional agreements do not guarantee an improvement in the welfare of member countries, they could do so provided trade diversion is minimal and/or trade-creation tilts the balance.

It has to be noted that the above traditional theories of trade which assume constant returns to scale and focus on static gains provide a limited practical insight to regional integration policy issues. Even the theoretical insight of the more recent trade theories, do not fare better. For instance, Krugman's (1991)'economic geography' model

which attempts to explain the determinants of regional concentration of economic activity, is yet to be fully explored and its practical relevance to be tested (particularly in the African context). The basic idea of Krugman's hypothesis is that under assumption of increasing returns to scale, economies of scale and trade cost considerations determine the location of economic activity. The implication of this hypothesis for regional integration is that regional blocks could enhance economies of scale by locating a production activity in one location rather than each activity in each country. Similarly, reducing trade costs will add to production efficiency (Lyakurwa, 1997). But as Baldwin (1997, p. 46) correctly pointed out, "one very important -but neglected- aspect of integration is the effect of a trade arrangement on the region's economic geography". That is the impact of integration on concentration of economic activities. Some argue (Foroutan, 1993, for instance) that one of the reasons for the failure of regional integration in Sub-Saharan Africa is the fear of some countries, particularly the poor ones, that the few industries they have may migrate to relatively more advanced neighbors. Therefore, while the basic principles of trade theories provide us with some general insights, they fall short of serving as practical guides. For instance, the above briefly- cited trade theories raise the following outstanding issues.

First, the standard trade theory is based on comparative advantage, which in turn is premised on differences in each country's endowments. The real practical question then is: does this hypothesis provide a useful guide for African economies which (with some exception) could be characterized as producing, exporting and importing goods that could be categorized as substitutes, and not complements, at least in the short run? Second, in terms of Krugman's hypothesis of 'economic geography: is the potential migration process of industries unidirectional, or all countries will equally (in the sense of gain) share from such a process? Third, and if such relocation is politically unacceptable by all countries in a region, is it possible to design a compensation scheme whereby countries will be compensated for location effects? These and similar questions are at the heart of regional integration process and problems in making progress with integration, as will be discussed in detail later.

Limited guidance from the above and similar standard trade theories and the observed lack of progress in the integration process have led some authors (Fine and Yeo, 1997, for instance) to suggest that the focus of regional integration in Africa should reorient itself if it is to enhance economic growth. In what they referred to as the new paradigm of regional integration, they argue, "regional integration in SSA could contribute to economic growth in a very different way than envisaged previously, namely by helping to underpin stable and sound national macro-economic policies and rapid accumulation of human and physical capital". In addition to reorienting the emphasis of regional integration from trade to macroeconomic coordination, others also argue in favor of focusing on cooperation in infrastructural and natural resource development (Robinson, 1996). He argues (p. 69) that "the requirements for making reasonably complete forms of regional integration work are demanding: the distribution of gains has to be carefully enumerated, compensation mechanisms established-- to make the distribution equitable-- and a degree of national sovereignty surrendered in order to achieve the necessary harmonization at the regional level. By contrast, regional cooperation in infrastructure and natural resources is far less demanding. Typically, there are clear gains for all the countries involved in regional cooperation in infrastructure, irrespective of their size and level of economic development". What is not clear from such proposals is whether regional cooperation should be viewed as complementary to (first stage), or a substitute for regional economic integration initiatives. If it is pursued as an end by itself, does it meet all the objectives of regional integration?

Whatever the limitations in our understanding of regional integration issues at a theoretical level, our grasp of the empirical evidence regarding the issue, is even more scanty. The popular model used to evaluate regional integration issues is the gravity model. This model, as Frankel *et al* (1994) put it, "has a fairly long history and fits the data remarkably well empirically, though its theoretical foundations are limited". One has to add that, since by formulation it cannot capture dynamic gains, the results obtained are far from conclusive.

Whatever its merit, some studies have been carried out to asses the performance of regional blocks in Africa using a gravity model. Among such studies are those of Foroutan

and Pritchett (1993), Ogunkola (1994), Elbadawi (1997), and Lyakurwa (1997). Though the results of the studies slightly vary, the general conclusion seems to be similar. They all conclude that the experience of regional integration in Africa has been a failure in achieving its objectives of increasing intra-regional trade in particular and fostering policy coordination in general. As will be discussed later, these econometric results are also collaborated by simple descriptive intra-regional trade statistics. Except some improvements in few regions, the growth of Africa's intra-regional trade has been either small, stagnant or declining in recent years compared to 1970. Similarly, intra-regional, inter-regional and the intra-African trade in general are very low. As pointed out by Lyakurwa et al., 1993; Seydina and georgiadis, 1993; Foroutan, 1993; World Bank, 1989; OECD, 1993, there have been no changes in the composition of trade that would suggest that integration has led to any significant structural change in the economies concerned. Indeed the removal of even minor impediments has been a painstaking and complex process, in contrast to the more rapid progress toward multilateral tariff reductions.

The weak intra-regional trade flows and the lack of progress over time-- despite the multitude of treaties to that effect-- do warrant further exploration. Should the weak performance of regional integration in Africa be attributed solely to lack of implementation? Or should it be attributed to some attendant characteristics of African economies, which led Foroutan and Pritchett (1993) to conclude that even in the absence of trade restrictions, the scope for trade among African countries is "intrinsically" modest? If so, does this suggest the need for a new approach to regional integration?

3. Regional Integration in Africa: The Issues and the Challenges

As noted above, the weak performance of regional integration in Africa raises a host of inter- related issues that range from conceptual and institutional design to implementation problems. The purpose of this section is to outline the main issues and identify the challenges confronting regional integration in Africa for continued attention by the continent's decision-makers. The discussion will be limited, however, to general themes facing all regional groupings and does not attempt to evaluate each regional entity

separately. This is mainly because, as Fine and Yeo (1997, p. 433) noted "the performance of the regional entities has been well documented both by the separate case studies and in other reports. The discussion is focused on the main outstanding issues, and not the details of why regional economic integration initiatives fail or the constrains they face.

It has to be stressed from the outset that success or failure of any regional integration initiative should be evaluated in the context of the objectives it sets to achieve, and the political, economic and institutional context under which it operates. In the case of regional integration in Africa, all regional groupings—including the more recent ones like the Common Market for Eastern and Southern African (COMESA), set out to eventually form a common market area among member countries. As noted earlier, the formation of a common market requires not only the free movement of goods and services but also of labor, capital and non-factor services among member countries. Judged against this objective, the consensus seems to be none of the regional groupings have to date successfully fulfilled the requirements of a functional common market, in many cases not even that of a customs union. This suggests that more often than not, governments failed to implement the treaties they signed, which in turn suggests lack of political commitment in practice (in contrast to pronouncements). And given the political conflict that have been prevalent in the region (including among members of a block), it is clear that the political environment under which the existing regional groupings have operated has not been conducive to any form of meaningful economic integration/cooperation.

Similarly, early regional economic groups were formed when most of the respective members were implementing import substitution growth strategy. While such a strategy could be conducive to regional cooperation in order to expand market size, its focus on encouraging domestic production may hamper division of labor and specialization (which is implied by regional integration) among countries. Furthermore, reducing trade barriers in economies where tariff revenue is one of the most significant sources of government revenue complicates the inter-temporal trade off between the apparent short term loss of revenue and the expected long term benefits emanating from regional integration. Added to this is the complex issue of designing an agreeable compensation scheme for gainers and losers from regional integration initiatives. In the

absence of alternative evidence, one should conclude that all these factors must have contributed to the lack of political commitment (or at least the enthusiasm) to implement agreed upon treaties.

Despite the consensus view that regional integration efforts in Africa registered disappointing results, however, the enthusiasm to revitalize existing groupings and form new ones (including at a continent level) seem to have gained renewed momentum in recent years. To help clearly identify the outstanding issues and suggest a way forward, it is instructive to briefly outline the main reasons for forming economic communities among African countries and the main obstacles they faced at the implementation stage.

3.1. Motives for the Formation of Regional Integration in Africa

Many African countries attempted to form some form of a common front in the political and economic arena following independence. The formations of the OAU and the regional economic cooperation arrangements could be viewed in that context. Further, recognition that their respective economies were small in size, with poor infrastructure, vulnerable to external shocks and dependent on limited primary commodities for exports also contributed to the rationalization of regional cooperation as a means for a successful structural transformation of African economies. Cultural ties and colonial heritage largely dictated the basis of the cooperation (French speaking countries of West Africa and EAC member countries of East Africa are good examples).

Additionally, in recent years, the formation and reasonable success of many regional blocks in other parts of the world (in Asia, Europe, North America, and Latin American countries), the end of the cold war, the implementation of more liberal national economic policies across the continent and the rapid globalization of production, distribution and investment activities, have given further impetus to economic integration at the regional and continental levels. This is widely seen as a way to avoid further economic marginalization of the region. The regional integration imperative in the face of globalisation has also made most urgent to resolve issues that impeded progress in the past.

The pertinent question is, whether the prospects for establishing successful regional and/or continental economic integration scheme are better now than what has been observed so far? The answer to this question, of course, depends on the extent to which African leaders (and other stakeholders) are ready to overcome past constraints and adopt approaches that are incentive- compatible with stated objectives. Given the objectives stated in the above discussions, what are some of the outstanding issues in the way forward with regional integration in Africa?

3.2. Outstanding Issues in the way forward with Regional Integration in Africa

The factors that contributed to the weak performance of regional integration initiatives in Africa are many and complex (Aryeetey and Oduro, 1996), and if not solved, will continue to weaken the prospects of successful integration schemes. They include political, economic, conceptual, and institutional issues. Among the most important are the following.

(a) Compensation Issues: This issue could be conceived of as both compensation in terms of economic gains resulting from integration or as payment by gainers from integration to losers. As noted above, trade taxes constitute a significant share of government revenue in many countries. Such an immediate and a direct loss may create hesitation among member countries unless they foresee an immediate benefit from the integration process. And in an integration scheme where countries are at different levels of development and hence the gains from integration are disproportionate (as is the case in many regional blocks in Africa - SADC and ECOWAS, for instance), the commitment to implement agreed upon treaties could be adversely affected. Further, even if gainers agree to compensate losers in principle, setting up an agreeable mechanism and implementing it in a sustainable manner, is a complex exercise. For instance, how are expected gains to be calculated? To which country, and how much should it be paid to compensate for the loss? Such issues have

been at the center of discussions in regional integration attempts. And because such issues, in many cases, have not been addressed adequately or proposed solutions not implemented properly, they have contributed to the weak performance of regional agreements in Africa. Hence the outstanding question that should be addressed in this context is: what is the appropriate mechanism that ensures incentive- compatibility and the political good will that would enable countries to see the dynamic benefits of regional integration, rather than focus on static gains and losses?

(b) *Loss of Sovereignty:* Incentive- compatibility principle dictates that agreements should be structured in such a way that they are binding to ensure that the costs of reneging on agreements are higher than of implementing them. Regional integration experience in Africa (and elsewhere for that matter) indicates that countries are hesitant to create a supra-national bodies and transfer power to them as a sanctioning authority. The secretariats that are formed (such as that of ECOWAS and SADC, for instance) do not have the legal backing to force countries to fulfill their obligations – such as reducing tariff rates and other trade barriers in accordance to their commitments. The continent-wide initiative (the Abuja Treaty) could potentially serve that purpose, but has yet to setup the structure to do so. But countries are likely to be protective of their vested interests and be hesitant to trade some loss of sovereignty for perceived economic gains from economic integration. One of the outstanding challenges is therefore, to establish an enforceable mechanism that would ensure the implementation of treaties and protocols of integration initiatives, both at the regional and continent-wide levels.

(c) *Lack of Political Commitment:* The above two factors (loss of trade tax revenue and sovereignty) are believed to contribute to the lack of political will to implement regional integration treaties. In addition, the absence of enforcement mechanisms put no constraint on political leaders to respect the treaties they signed. And to the extent that there are different commitments emanating from multilateral, bilateral and regional agreements, countries may give priority to those that entail tangible consequences.

This in turn will erode trust among political leaders, diminish credibility and send wrong signals about policy consistency, which are essential requirements for a dynamically evolving economic integration among national entities. The issue then is: what are the appropriate restraints that could be devised to compel governments to respect their commitments and establish policy credibility ?

(d) *Overlapping membership:* simultaneous membership of countries in more than one regional group is widespread in Africa (except in North Africa). For instance, in the Eastern and Southern African region, some countries are members of both SACU (Southern African Customs Union) and SADC (Southern African Development Community), and COMESA (Common Market for Eastern and South African States) and SADC at the same time. Similarly in West Africa, many countries that are members of ECOWS (Economic Community of the West African States) are also members of UEMOA (Economic and Monetary Union of the West African States). The usefulness of overlapping membership issue or more generally the existence of subset groups within a larger group, sometimes referred to as variable geometry approach, has not enjoyed the consensus that other issues have received. For instance, Lyakurwa (1997, p. 196), contends, "in the African context, such an approach of variable geometry could, for example, mean making genuine progress at ECOWAS level while maintaining the achievements and benefits of UMOA (West African Monetary Union).

In a similar manner, the concepts of variable geometry and subsidiarity could also be useful in southern Africa in relation to the PTA [COMESA], SADC and SACU". But others argue that multiple membership is a hindrance to regional integration since, among other things, it introduces duplication of effort. For instance, Aryeetey and Oduro (1996) quote McCarthy as arguing that, "It is difficult to envisage how SADC and COMESA, given their convergence to both sectoral cooperation and trade integration, can live and prosper with the overlapping membership of the Southern African countries". As noted in the introduction, this line of thinking that is premised on the rationalization of membership, seems more consistent with the Abuja treaty, which has an ultimate goal of

creating a continent-wide integration. The issue here is whether sub-regional groups are serving as building or stumbling blocks to a continent-wide integration? If so, Suliman (2000) asks, "Do we need to reconfigure the integration building blocks, because of overlap and loss of efficiency? Should the RECs be given supra-national authority to enforce common decisions? All these questions seem to be worth exploring beyond theoretical conjectures to evaluate the prospects of realizing the objectives of continent-wide economic integration.

(e) *Poor private sector participation:* to the extent that implementation of the treaties requires the understanding, conviction, and confidence of the private sector, an active involvement of this sector in particular and the general public at large are crucial. This aspect of the regional integration process in Africa has been singled out as one of the major weaknesses of the initiative (Aryeetey and Oduro, 1997). This, of course, has to be put in context. Such practices (that government policies are formulated with little or not input from the general public) are not unique to economic integration issues. The point is however, if economic integration is to succeed it has to involve the maximum participation of the relevant stakeholders in society, particularly the private sector, civil society, the media and the different layers of government. Establishing specific government entities that would promote and administer economic integration at a country level (as some countries – Burkina Faso, Senegal, Ghana, and Nigeria and few others- have done) would also not only show commitment of countries but also enhance the effectiveness of implementing the treaties. The question is then, what are the modalities and at what level should the private sector participate in such initiatives?

(f) *Non-Implementation of Harmonization Policies:* the importance of harmonization of policies related to trade flows and at a macro-economic level, of increasing the efficacy of economic integration, cannot be overstated. Due to the focus of regional economic integration in Africa on trade liberalization policies (tariffs and non-tariff barriers), most analysis mainly focused on the impact of regional integration

on trade flows. In contrast, the importance of macro- economic policy coordination on economic integration has received relatively little attention. But as O'Connell (1997, p. 90) noted, "Among the most often cited constraints to greater intra-African trade is the inhospitable macro-economic environment associated with overvalued exchange rates and non-convertible currencies". Clearly, in the context of regional integration, the issue of currency inconvertibility is still a major obstacle while the issue of overvalued currency is of less concern these days due to the widespread exchange rate liberalization polices carried out in many African countries. One should also add, a related obstacle in this context is currency instability, as recently witnessed in the Southern African region (Malawi, South Africa, Zambia and Zimbabwe, for instance). Therefore, in addition to harmonizing trade policies, the gradual coordination of macroeconomic policies, covering fiscal, monetary and operations of all financial institutions, is a necessary condition for a smooth implementation of economic integration schemes (both regional and continental).

The above discussion attempted to outline the main features of regional integration in Africa and to identify the most outstanding issues. The rationale has been to review the performance of regional integration in Africa, highlight the questions that have to be answered and identify the most outstanding issues that need further research. Identifying and addressing such issues not only will ensure a clear understanding of the future challenges, but also guide the implementation and evaluation processes of regional integration initiatives. Carrying out the tasks of defining the framework and devising a mechanism through which such information is compiled, analyzed and disseminated to all stakeholders, is the important objective of the ECA's proposed Annual Report on Integration in Africa (ARIA). The next section outlines the basic features of ARIA.

4. Monitoring and Evaluating Progress of Economic Integration

The discussion thus far has focused on the main outstanding issues facing economic integration in Africa. Despite the challenges, if indeed the renewed optimism

and interest expressed by African leaders could be translated into practical action, the challenges are not impossible to overcome. The intended goals of economic integration could be achieved provided the issues raised are effectively addressed.

As argued in the above discussion, there are theoretical issues that are not clear, empirical findings that are inconclusive and compiled data that are scanty. To identify the main research issues, to compile the required data, and to monitor progress, therefore, requires devising a mechanism that fills these gaps so to facilitate the process of economic integration. No such a report on economic integration in Africa exists to date in any systematic, comprehensive and coordinated manner. The proposed An Annual Report on Integration in Africa (ARIA) is expected remedy this weakness. Such a report could be organized in different ways, but it should at least incorporate main features outlined below.

4.1. Scope and Broad Themes of the Report

As noted above, the main objectives of the Annual Report should be to provide relevant information to all stakeholders in the integration process, and to monitor progress made using relevant indicators. To fulfill these objectives, the annual report must include two major themes: First, it must compile, analyze, and report regional integration activities at all levels (sectoral, national, regional and continent-wide). This will include both qualitative and quantitative measures of regional integration at macro and micro levels of economic activities, including the areas of commodity trade, financial flows, infrastructure outlays, and institutional arrangements and other activities. The compilation, analysis and evaluation of such information will serve as an input into the assessment of the extent of mutual cooperation, so as to suggest improvements where necessary and to make such data available to monitor progress.

The second theme of the Annual report should focus on special topics which address regional integration issues in Africa (and for comparison purposes the world at large) on a prioritized basis. That is, it will answer some of the questions raised, and the outstanding issues discussed earlier. In addition to the issues identified, it should also address other relevant issues. For instance, how cooperative efforts through integration

could ensure sustainable agriculture and food security, relieve domestic production from dependence on imported inputs, strengthen infrastructure linkages (transport and communication networks), and coordinate macroeconomic policy (monetary, exchange rate etc.) in order to attain a stable macro-economic environment. It could also address, demand, supply and production structures of African economies in order to understand the cost structures, complementarity, and attendant constraints.

In line with the above two broad themes, more specific issues that should be addressed are suggested below. The first part deals with indicators related to progress-monitoring aspect of the report, while the second deals with analytical issues that the report should focus on.

4.1.1. Performance Indicators

In order to compile data, analyze issues, and monitor performance of economic integration, the annual report should also develop relevant monitor-able yardsticks in the form of indicators. The purpose of these indicators is to evaluate the performance of economic integration and other economic activities in a methodological and consistent manner. Such indicators must be constructed (data permitting and when applicable), at sector, national economy, region, and at continent levels to shed light on the current state of the economic activity being examined and to monitor progress over time. It has to be noted, while many national accounts and international publications report a wide range of economic activities at different frequencies (annual, quarterly and monthly), the available data on African economies is incomplete, particularly on parameters relevant to regional integration. The proposed annual report will therefore fill this gap by focusing on economic integration activities. The economic indicators that the ARIA should focus on and indices that it should develop include the following economic aggregates.

(i). Trade Related Indices: trade flows could be measured using various indicators. Among the most important, are indicators of the flow of goods and services across a defined economic space (national, regional, continental and global) are the following:

- *Intra-regional Trade:* This is a measure of the extent to which member countries of a regional entity increase trade between them relative to their trade with the rest of the world. There are already developed indices to measure canges in the magnitude of this item. What needs further development is a performance ranking scheme and its application to a commodity level analysis. The same index could also be used for *inter-regional* trade, with slight modifications.

- *Concentration and diversification index:* These are measures that focus on how concentrated or diversified a country's export and import commodities are. While the case of exports and imports are widely reported, it would be useful to apply the concept to other aspects of the economy, such as production.

- *Nominal and Effective- Rates of Protection:* These measure the effects of the tariff structure on domestic value added. The measures will therefore help not only in evaluating the tariff rate imposed by countries, but also in monitoring progress and identifying the commodities that have a relatively high effective tariff rate (this has a direct implication for economic efficiency).

- *Intra-industry trade Index:* This index measures the extent to which trade in similar commodities (ideally commodities grouped in the same SITC) takes place between two countries. The purpose of this index is to measure the degree of product differentiation, taste, or price differences. The same index could also be used to measure *inter-industry* trade. This index is available in the literature and could be easily applied to various commodity groups in Africa.

(ii) Financial Flow Indices: These indices include all indicators that measure the extent to which the financial sector of African economies is integrated at inter-country

and inter-region levels, and with the rest of the world. These indices will cover foreign direct investment, portfolio investment, inter-bank financial flows, and other financial arrangements.

(iii) Other Suggested Indices:

- *Infrastructure cooperation Index*
- *Resource exploration (and/or utilization) cooperation index:* (most appropriate for capital- intensive projects, such as irrigation schemes or natural resource explorations.
- *Effective Nominal and Real Exchange Rate Indices:* (including a PPP measure, exchange rate variability index, and the spread between parallel and official exchange rates, if possible)
- *Production indices:* --they could be constructed by commodity, sector, and country - (these should include at least the measure sectors, such as agriculture, industry, services, mining etc.).
- *Efficiency indicators:* output per worker, output per plant, and unit cost of production - and at a sector and national levels this could be summarized by an over all *competitiveness index*
- *Capacity Utilization Index:* (by plant or industry)
- *Compliance Index:* this will measure (using either qualitative ranking scheme or, if data is forthcoming, quantitative ranking) the extent of each contracting country's compliance with signed treaties.
- *Policy Harmonization Indices:* these refer to macroeconomic policy indicators that could be constructed to show the degree of convergence or divergence in macroeconomic policy stance.
- *Immigration index:* measures the free flow of people, if possible by skill level and purpose of movement.

- *Composite Integration Index:* This index should attempt to measure (based on a group of selected key indices directly related to regional integration) the performance of each entity (country, region and continent) relative to a given target.

Analytical and Implementation Issues

The second focus of ARIA should be on analyzing current and relevant issues that help guide both decision- makers and other interested parties. The specific issues that should be addressed at a given point in time will vary, but the two main broad areas of regional integration in Africa that ARIA should address are conceptual clarity of key issues, and the constraints encountered at the implementation stage.

4.1.2.1. Theoretical and Empirical Issues: Conceptual clarity refers to a range of issues that deal with the theoretical and empirical underpinning of regional integration issues which may include a full account of its costs and benefits. It was noted earlier that both economic theory and the empirical evidence available to date fall short of being a reliable guide in charting the course of regional integration initiatives. To have a firm grasp of the theoretical underpinnings and the empirical evidence the Report could address such issues in a prioritized and systematic manner. The theoretical and empirical issues include the following:

- ***Regional Integration and Trade Liberalization:*** Many African countries have demonstrated a keen interest in both regional integration schemes and participating in multilateral organization in recent years. For instance, most African countries are members of the World Trade Organization (WTO). Out of the total of 54 African countries, the number of full members reached 41, while 4 have an observer status, by early 1998. This constitutes 31 per cent of total WTO membership and about 13 per cent of those who hold an observer status. The first important questions to be addressed, in this regard is: how compatible are regional integration initiatives with

multilateral agreements in general and trade liberalization in particular? Second, what is the net economic benefit of regional integration arrangements in contrast to unilateral trade liberalization by each country?

- ***The Pace of Integration - Gradual Vs Rapid:*** Both at a continental and regional levels, the pace at which the integration process should proceed influences the outcome. As reflected in the recent (July 2000) Lome conference, the views of African leaders on how rapidly or slowly the integration process should proceed seem to vary between those who urge for a rapid move (Led by Libya) and those who favor a slower approach (by countries such as Nigeria and South Africa). Evaluating the issue based on theoretical conjectures and best practice that could be applicable in the African context is therefore desirable.

- ***Structuring the Integration Process:*** Dividing the continent into four sub-regions (West Africa, Central Africa, Eastern and Southern Africa, and North Africa), the Abuja treaty envisages continental integration using the existing regional groupings as building blocks. Some of the important questions that have to be addressed in this context are: (i) how is the process of integration of the various blocs to be engineered? (ii) Which body should have the authority to monitor progress made by each regional group towards a targeted objective? And should different targets be assigned to each group or country to implement signed treaties, based on their level of development, or a common standard be set to all group(s) of countries?

- ***Modalities of Integration:*** The old market integration approach focused on intra--regional trade flows. As noted above, this approach is questioned both on economic viability and political commitment grounds. The questions that should be addressed are then, (1) should African countries should also focus on cooperation on selected areas (collaborative institutions for man power training, infrastructure, communication, research...), or pursue only the traditional market integration approach? (2) Could regional integration and cooperation be designed as complementary approaches? (3)

given that African leaders seem to have opted for the regional group based approach to achieve continent-wide economic integration, what are the likely practical problems that such an approach will encounter? For instance, how do you rationalize the multiple membership issue and the co-existence of competing groups within a region? And (4) which integration model is the most appropriate for Africa? For instance, is the outward oriented East Asian model relevant for Africa? What about the choice between that of European (with supra-national institution) model and that of the North American type (which leaves the national sovereignty intact)? What should be the relationship of AEC with powerful regional blocs, such EU, NAFTA etc.? ARIA could play a vital role in addressing such crucial questions.

4.1.2.2. Implementation Issues:

Implementation issues cover both the economic, political and institutional constraints to regional integration initiatives. Many of them have their origin in the conceptual questions raised above.

- ***Commitment Issues***: Like any rational economic decisions, the main reason why governments hesitate to sign new commitments and implement already agreed ones could be summarized by lack of incentive compatibility. This may result from either lack of conviction in economic gains that could be derived from economic integration, or unwillingness to give up the existing economic benefits (trade tax revenue, for instance) and diminished political authority on economic policies that are required by economic integration. The success of such initiatives will therefore crucially depend on the extent to which they are incentive compatible. Given that the distribution of gains (even when they exist) are disproportionate, what is the best compensation schemes that could be designed that ensures incentive compatibility and hence encourage commitment, not only on the part of political leaders but also all other stakeholders in society?

- ***The Role of Regional International Institutions***: If ARIA is to effectively

play the envisaged role of informing and facilitating implementation of regional integration, it will need the support, and active participation of various regional and international institutions--like the OAU, ECA and AfDB UNCTAD and WTO, to name a few. They could play a crucial role in coordinating and financing such a report. As the central role of serving as the secretariat of the AEC is presently assigned to the OAU (in addition to its other roles), its ability to facilitate the analytical work to drive the integration process in a coordinated framework is going to be vital. Accordingly, the need exists to link the ARIA process to the AEC secretariat functions of OAU. In this regard, the ECA could serve as the research arm of the integration initiative. These will include providing relevant information, researching outstanding issues and providing guidance in the process of formulating and implementing relevant policies. By systematically addressing the above outlined outstanding issues via ARIA (in collaboration with other institutions), it could serve as the information center (link) on matters relating to the economic integration process. It should assume the role of coordinating the compilation, analysis and dissemination of data and research results via ARIA. To make its work more inclusive, ECA should make the effort to initiate and coordinate the participation of academic and research institutions both in the region and abroad.

The AfDB is another relevant regional organization that could serve as part of the coordinating team and assist in meeting financing requirements of regional integration, particularly in implementing regional projects. It could facilitate and guide in the areas of macroeconomic policy harmonization in general and the financial sector in particular.

In the age of globlization and liberalization, continental economic integration cannot insulate itself from external economic forces. And given Africa's dependence on external assistance for its development efforts, the role of international institutions and bilateral relations are important. In addition to the initiatives that focus on granting market access to African countries (the recent US initiative and the Lome convention, for instance), bilateral and multilateral institutions must reorient their emphasis to the economic integration as well. For instance, as Aryeetey and Oduro (1996, p. 45)

noted, "The Bretton Woods institutions, given their presence in almost every African country, have ample opportunity to make use of the wealth of information they have to put together a regional programmes of structural adjustment". Similarly, the assistance (both in terms of financial and non-financial resources) of institutions like the WTO, UNCTAD, for instance, is relevant since Africa's capacity is going to be limited in realizing the objectives of regional integration, at least in the immediate future, unless such assistance is forthcoming. Such assistance should also be extended to areas of data compilation, analysis and other related efforts.

5. Conclusions

Despite the above outlined outstanding issues, regional integration has a lot to offer to the fragmented, small and weak economies of Africa. This is not necessarily only in the areas of trade, as has been the focus of all the regional groupings to date, but also in the areas of cross border investment, project specific coordination, and macroeconomic policy harmonization. Such coordination of efforts will assist in mobilizing scarce financial resources, and in fostering a competitive and dynamic environment in each of the economies.

It is true that the practical problems of implementing regional integration schemes cannot be overstated, but they are not problems that could not be overcome. In broad terms, the three main issues that need to be addressed are, first, how best and adequately to provide the necessary information to make the benefits of economic integration clear to all contracting parties. Second, how to devise an incentive- compatible scheme that ensures commitment on the part of nation-states to implement agreed treaties. And, third, how best to coordinate the efforts of regional and international institutions to provide the necessary support to the economic integration initiatives. The paper attempted to outline the above themes to initiate further discussion and research.

In line with the last point, it also highlighted the role ARIA could play in monitoring progress via the suggested indicators, and in analyzing relevant current

issues. This will provide on an on- going basis, an up to date information on the state of the integration process and provide guidance by highlighting future directions.

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