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Challenges of Regional Integration in Africa:
A Review of Pertinent Issues

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Challenges of Regional Integration in Africa: A review of Pertinent Issues



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I Introduction

- **Regionalism is now widespread in SSA**
- **This is driven by economic challenges:**
 - Improve economic performance by enhancing growth and development
 - Reduce poverty
 - Manage the process of liberalization
 - Form an alliance to facilitate participation in the globalization process
 - Negotiate in WTO and other international agreements
 - Reduce dependence on trade and aid

Regionalism in Africa

- Regionalism is life in Africa – even after failed and stagnating schemes
- UNECA has argued that RI should support the process of industrialization and should be supported by large numbers
- But has not worked well – see for example the COMESA case

Regionalism in Africa..

- Literature suggests that the failure has come lack of sustainability due to:
 - Economic factors
 - Political will and weak political institutions
- Recent momentums are driven by:
 - Globalization and fear of marginalization
 - Need to expand markets
 - Strive for development

Regionalism in Africa..

- Benefits of regionalism as seen now (but this is an old story):
 - Trade creation and growth
 - Reallocation of resources – supply response
 - Specialization and industrialization
 - Economies of scale
 - Efficiency stemming from competition
 - Increased investment
- But there are costs – mostly revenue loss from trade taxes

II Trade and Growth Debate

- Evidence - countries successful in growth also take most advantage of trade opportunities
- Rapid growth has gone hand in hand with expansion of exports and imports
- However it may be that trade facilitates other fundamentals of growth

Trade and Growth Debate...

- Two observations about trade and growth in SSA:
 - SSA is increasingly being marginalized in world trade: inward looking policies, slow growth and structural factors explain this outcome
 - Lack of openness to trade constrains the region from exploiting trade opportunities

Trade and Growth Evidence in SSA – Supports RI

- Trade and growth mechanisms:
 - Transmission mechanism between trade openness and growth
 - Dynamics: trade, trade policies and growth
 - Importance of supporting macroeconomic policies
- Transmission channels:
 - Openness of the economy –efficiency and effectiveness - investments increase, export-led growth, competitiveness, forex liberalization and less import constraints: in sum, credibility of policies

III Constraints to RI: Past and Present

- **RI in SSA is beset with contradictions:**
 - Lack of clear consensus on benefits of RI
 - Lack of political will to make it work
 - Impatient with the benefits
 - Proliferation of RI schemes and multiple memberships
- **There are structural as well as policy failures to explain this outcome.**
- **SAPS failed to address weak institutional framework**

Structural problems and policy failures

- Economic structure
- Dependency on a few exports
 - Exports compete in third markets rather than complementary
- Low intra-regional markets
- Dependency on trade taxes
- ISI Policy produced firms affiliate to MNCs
 - Contribute to uneven benefits of RI
 - Militates against convergence

Structural problems and policy failures..

■ **Infrastructural facilities:**

- Increases transactions costs
- Reduces productivity and profitability of investments

■ **Literature argues that there is need for:**

- Harmonised policies on infrastructure
- Improved physical infrastructure

Improve and support the flow of benefits in RI

Structural problems: supply-side constraints...

- Regional transport system
- Regional energy networks
- Regional ICT networks
- Regional Financial system
- Human capital development
- Regional tension and national civil strife

IV The limits to RI in SSA

- **Lack of economic convergence**
 - Asymmetric macroeconomic shocks
 - Un-coordinated macroeconomic policies
 - Un-coordinated trade reform policies
- **Lack of political convergence**
 - Political will and political discontinuity
 - Weak political institutions
 - Political reforms resisted or made as a result of conditionalities
 - Successful RI militates against sovereignty

The limits to RI in SSA...

- **Multiple memberships to RI schemes**
 - Provides suitable exit options when benefits are slow to come
- **Policy Credibility at the national level**
- **Supply side constraints in the short and medium term**
- **The slow flow of benefits**

V The Way Forward

- **Costs of integration must be assessed**
- **Countries must diversify production and reduce dependency on narrow exports**
- **Countries must address and adopt appropriate compensatory mechanisms**
- **Countries must address the supply side constraints**



The Way Forward: Necessary Prerequisites

- **Effective leadership with vision: Clear expectations: political & economic**
- **Simplicity and automaticity of policies**
- **Compensating losers**
- **Factor mobility**
- **Identify a 'lock in' supranational body**
- **Involve the civil society groups**

The Way forward..

■ Even when all the above is achieved:

- Coordinate regional macroeconomic policies (esp. monetary, fiscal and exchange rate policies)
- Harmonize investment incentives
- Harmonize industrial development policies
- Create a supranational regional body with real powers