

THE IMPORTANCE OF REGIONAL ECONOMIC INTEGRATION IN AFRICA

by

MANONE REGINA MADYO

Submitted in fulfilment of the requirements for the degree of

MASTER OF COMMERCE

in the subject

ECONOMICS

at the

UNIVERSITY OF SOUTH AFRICA

SUPERVISOR: PROFESSOR OA AKINBOADE

JULY 2008

## DECLARATION

Student number: 35928883

I, Manone Regina Madyo, declare that **'The importance of Regional Economic Integration in Africa'** is my own work and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete reference.

---

Manone Regina Madyo

Date:\_\_\_\_\_

## **Dedication**

To my son, Afika Kabelo Madyo. May this work be an encouragement to you in future.

## **Acknowledgements**

Thank be to the Almighty God for giving me the strength to deliver this dissertation.

I would like to express my gratitude to my supervisor Prof O.A. Akinboade for his guidance and support every step of the way. His relentless constructive criticism contributed to the quality of this dissertation.

I am grateful for the support I received from my families, the Modibas and Madyos, which directly and indirectly contributed to the completion of this work. To my husband, Thembinkosi Madyo, for his invariable encouragement, love and support; and my son, Afika Kabelo Madyo for all the hours that I spent away from him studying and for being the pillar of my strength.

## Abbreviations

ACM	African Common Market
ACP	Caribbean and the Pacific
AEC	African Economic Community
ATPC	African Trade Policy Centre
AU	African Union
CEN-SAD	Community of Sahel-Saharan States
CACM	Central American Common Market
CAEU	Council of Arab Economic Unity
CAP	Common Agricultural Policy
CAR	Central African Republic
CARICOM	Caribbean Community
CEPGL	Economic Community of the Great Lakes States
COMESA	Common Market for Eastern and Southern Africa
CU	Customs Union
DRC	Democratic Republic of Congo
EAC	East African Community
ECA	Economic Commission for Africa (UN)
ECCAS	Economic Community of Central African States
ECOSOC	Economic and Social Council
ECOWAS	Economic Community of West African States
EU	European Union

EFTA	European Free Trade Association
EPA	Economic Partnership Agreement
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
ICT	Information and Communications Technology
IGAD	Intergovernmental Authority on Development
IGADD	Intergovernmental Authority on Drought and Development
IMF	International Monetary Fund
LCD	Least Developed Country
MDG	Millennium Development Goals
MERCOSUR	Common Market of the South
MFN	Most Favoured Nations
NAFTA	North America Free Trade Area
NTBs	Non-tariff barriers
OAU	Organization of African Unity
OCA	Optimum currency area
OECD	Organisation of Economic and Community Development
PAP	Pan-African Parliament
PPP	Public-Private Partnerships
PTA	Preferential Trading Agreements
REI	Regional economic Integration
RIA	Regional Integration Agreement

REC	Regional Economic Community
SADC	Southern African Development Community
SADCC	Southern African Development Co-operation Council
TDCA	Trade and Development Cooperation Act
UEMOA	West African Economic and Monetary Union
UMA	Arab Maghreb Union
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organisation

## **Abstract**

Motivation of virtually all regional economic integration (REI) initiatives has been prospect of enhanced economic growth. Although REI's role in contributing to growth and development was recognised and acknowledged, its importance in Africa has never been properly outlined. Theoretical background, economic assumptions and evidence of REI are examined to bring out REI's importance to Africa. Depicting from these, benefits and challenges of REI in Africa are explored. This dissertation analyses the progress, pace, approach, sequence of REI in Africa looking at different variables. Africa's regional integration blueprint and institutional framework are compared to EU's but selected areas are identified as essential for Africa. Progress on REI has been found to be slow. This study concludes that REI should be viewed as one aspect of strategy towards Africa's development and growth. However, the benefits of REI make it imperative for it to remain the central pillar of Africa's development agenda.

### **Key terms:**

Regional economic integration, free trade agreement, trade creation, trade diversion, customs union, common external tariffs, common market, economic union, monetary union, macroeconomic convergence, Regional Economic Community, African Economic Communities, and African Union.



# Table of Content

---

	Page
Chapter One: Introduction	1
1.1 Background	1
1.2 Problem statement	5
1.3 Research objectives	6
1.4 Research methodology	7
1.5 Significance of the study	7
1.6 Organisation of the study	9
Chapter Two: Review of Literature on Regional Economic Integration	11
2.1 Introduction	11
2.2 Definition of terms	12
2.3 Review of literature	14
2.4 Conclusion	36
Chapter Three: Benefits and Challenges of Regional Economic Integration	38
3.1 Introduction	38
3.2 Theoretical welfare effects of Regional Economic Integration	39
3.2.1 Static Effects	40
3.2.2 Dynamic Effects of Regional Economic Integration	43
3.2.3 Static and Dynamic Effects on African Countries	46
3.3 Benefits of regional economic integration	49
3.3.1 Policy Co-ordination	50
3.4 Challenges associated with regional economic integration	52

3.4.1	Appropriate and Desirable Trade	53
3.4.2	Can African Countries Reap Benefits from their Economic Integration?	55
3.4.3	Potential Revenue Loss	57
3.5	Rationale and motivation for regional economic integration in Africa	59
3.5.1	Prediction of Economic Doom in Africa	60
3.5.2	Requirements for Achieving MDGs	61
3.5.3	Market Size and Market Access	62
3.5.4	Increased Investment	63
3.5.5	Industrialisation	64
3.5.6	Limitations of Protection and Trade Expansion	65
3.5.7	Specialisation	66
3.6	Conclusion	67
Chapter Four: Integrative Institutions and Blueprint for Regional Economic Integration in Africa		69
4.1	Introduction	69
4.2	The Treaty Establishing the African Economic Community	70
4.3	Abuja Treaty vs. Treaties of Regional Economic Communities	74
	4.3.1 Analysis of Protocols of RECs	80
4.4	The EU experience	81
	4.4.1 Lessons for Africa	83
	4.4.2 Theory Explaining the European Integration Model	85
4.5	What should Review of Abuja Treaty entail?	86
4.6	Rationalisation: A New Institutional Framework	87
4.7	Conclusion	89

Chapter Five: Progress on Regional Economic Integration in Africa	91
5.1 Introduction	91
5.2 Progress on regional economic integration	92
5.2.1 Economic Performance and Trade Increase in the Regions	93
5.2.2 Progress in Intra-African Trade	102
5.2.3 Progress in Integration based on Sectoral Performance	108
5.2.4 Macroeconomic Policy Convergence	111
5.2.5 Trade Reforms	114
5.3 Lessons from other regions	116
5.3.1 European Union Integration Model	117
5.4 Conclusion	119
 Chapter Six: Recommendations and Conclusion	 121
6.1 Introduction	121
6.2 Conclusion	122
6.3 Recommendations	125
 Bibliography	 138
 Annex 1	 145

## List of Tables

Table 4.1:	Profiles of the AEC and RECs	75
Table 5.1:	Average Growth Rates of African Regions	95
Table 5.2:	Factors that Contributed to Regional Economic Performance	96
Table 5.3:	Shares and Rankings of RECs in intra-community trade, 1994-2000	104
Table 5.4:	Overall direction of export trade, 1994-2000 (average %)	106
Table 5.5:	Sources of imports to RECs, 1994–2000 (average %)	107
Table 5.6:	Weighted Mean CPI Inflation of African Regions	113

## List of Graphs

Figure 5.1:	Regional Growth performance 2005-2007 (%)	95
-------------	---	----

# CHAPTER ONE

## INTRODUCTION

### **1.1 Background**

The importance of regional economic integration is a very pertinent issue in Africa, particularly in light of existing political and economic weaknesses. Africa is infested with the deepest levels of poverty, lowest share of world trade, and weakest development of human capital and infrastructure, to say the least. It is because of this that regional integration is needed in Africa, as this will assist in enhancing economic development and growth. This dissertation will focus primarily on the economic aspects of regional integration, and the importance of regional economic integration to Africa. It is based on the notion that those member states which are of the view that regional economic integration will make African economies worse than they are now have not fully explored this topic, as this would indicate that the opposite is in fact true.

In acknowledging the importance of economic integration for accelerating growth and development, one should appreciate its universally recognised benefits, which potentially apply to Africa. These benefits include lower transaction costs for business, lower risks associated with investments, expansion of markets, pooling of regional resources, better utilisation of economies of scale in production, and more efficient allocation of resources. It is, however, indisputable that, in order to achieve some of these benefits, strong national economic policies will need to be made. In addition, regional integration can help to provide a framework for coordinating policies and regulations. Regional economic integration might also help to prevent and resolve conflicts by strengthening economic ties between African countries. Regional initiatives can also foster a variety of non-economic objectives, such as promoting regional security and political contact among members (Carbaugh, 2004). Regional economic integration can also enhance and solidify domestic reforms.

Ensuring that regional economic integration succeeds in Africa is very important, not only because of the prospective benefits mentioned above, but also because the policies that are required to ensure its success are the same as those needed if Africa is to benefit from the process of globalisation and integration into the world economy. As it demonstrates the importance of regional economic integration, this study will examine how regional economic integration can help to overcome some of the problems experienced by Africa. It will show that regional integration can help member countries to overcome constraints arising from small domestic markets, and to obtain benefits that can raise productivity and assist in diversifying production and exports.

With its reintroduction around the world after the Cold War, regional economic integration was recognised as potentially making a significant contribution to the development efforts of the Third World. It did not become a significant topic only in Africa, but also in other parts of the world. Most of the regions look up to the European Union (EU) as a model of regional economic integration, as it has been successful in this regard. Africa will need to be careful and selective in the areas that it wants to replicate, due to the differences in the situations of countries on both continents.

In recent decades, the urgency for regional integration has been underscored by a combination of external and internal factors. For instance, the acceleration of the globalisation process, as well as Africa's risk of further marginalisation in a multi-polar world in which it is dominated by trading blocs in North America, Europe, South-East Asia and China, have presented African regional economic integration as an imperative. The challenge is therefore for Africa to take it upon itself to ensure that it succeeds in regional economic integration. This will be possible by ensuring that the importance of regional economic integration is spelt out and understood by all the necessary role players.

The theory of economic integration was originally developed from traditional trade theory, which assumes perfect competition, and whose major concern is the location of production of different kinds of goods. In this regard, according to Cheru (2002), since the end of the Cold War, and with the emergence of powerful trading blocs, there has been a renewed interest in Africa regarding the need to create strong regional economic integration (REI)

mechanisms to promote economic growth. Although Africa had integration high on its agenda, attention paid to it decreased substantially when it experienced implementation failures and shortcomings, particularly in Africa. This issue was reintroduced later in the agendas of Africa when regions such as the European Union succeeded in integrating their economies. While the interest in regional economic integration had been part of the development discourse since the Second World War, there has been a new wave of interest in regions in the development process since the 1990s.

The above background serves mainly to indicate that the interest by Africans in regional economic integration and co-operation has always been there, but was renewed after the end of the Cold War. The transformation from the Organisation of African Unity (OAU) to the African Union (AU) as the continental body in 2002 provides Africa with an opportunity to rekindle its political commitment to Africa's unity, but it also brings the challenge of stepping up the pace of regional integration at the forefront of the continent's agenda. These and other attempts to promote political and economic integration in Africa have resulted in some advances in sub-regional cooperation and integration, but its wider integration efforts have proved much more difficult.

The renewal of interest in regional integration by African leaders has occurred without sufficient thought to its impact on the welfare of Africans and their economies. This seems to be a trend in most regions, and is contributing to the growth and further development of such regions, but its importance to Africa has not been outlined. The ongoing efforts towards regional integration in Africa have so far progressed slowly and have failed to change the realities in Africa, and are instead still treading on the past failures of regional integration initiatives.

Africa needs to acknowledge that regional economic integration is the best way to accelerate Africa's growth and development agendas. This is very important, because most of Africa's economies are currently faced with a plethora of challenges, which add to the external pressures. These challenges range from dependency of most countries on agricultural exports, small and inefficient industrial bases, vulnerability to fluctuations in the world market, lack of compensation mechanisms, external debt etc. Of course, with all

these challenges, the process of regional economic integration will not be easy, and the situation is further compounded by the globalisation and liberalisation of the world economy, greater integration of financial and money markets, and a shift towards the creation of large trading and economic blocs in North America, Europe, South-East Asia and China, which lead to Africa's risk of further marginalisation in a multi-polar world.

Furthermore, Africa has the deepest levels of poverty, lowest share of world trade and the weakest development of human capital and infrastructure, to say the least, and its trade accounts for less than one third of the world's trade. This study acknowledges the importance of economic integration in the promotion of intra-regional trade and the acceleration of development. As a result, it examines the universally recognised benefits which potentially apply to Africa, which include lower transaction costs for business, lower risks in terms of investments, expansion of markets, pooling of regional resources in research and development, better utilisation of economies of scale in production, and more efficient allocation of resources. In order to achieve some of these benefits, however, strong regional and national economic policies need to be in place. Economic integration is therefore imperative if Africa is to achieve growth and development.

Ensuring that regional economic integration succeeds in Africa is vital, not only because of the prospective benefits mentioned above, but also because the policies that are required to ensure its success are the same as those needed if Africa is to benefit from the process of globalisation and integration into the world economy.

There are a number of theoretical studies that have addressed the importance of and/or necessity for regional economic integration, but most of them have focused on regions other than Africa. Most countries engage in economic integration schemes or join trade blocs, mainly to obtain economic benefits associated with this process. Regional economic integration is believed to be one of the means for increasing their welfare, and with it, countries may increase either the welfare of the integrated group, some countries within the group, or the world as a whole. There are also costs of integration as much as there are benefits, and while member states might want to obtain economic benefits of integration,



they may also be reluctant to make the necessary sacrifices or compromises associated with being a member of a regional body.

This study makes it clear that it is important to make a distinction between regional economic integration as a conscious policy of the region to coordinate and integrate member states' economic policies, and regional economic integration which is an outcome of such policies or of natural economic forces. It further illustrates that, based on the difficult economic and political situations in Africa, the prospects for regional economic integration depend on improving the continent's enabling economic environment, and overcoming the considerable political problems that it has.

This study further supports the idea that, in spite of past negative experiences with integration in Africa and other developing regions, there are also new opportunities. These opportunities have been prompted by at least four developments since the mid-1980s (Jovanović 2001). First is the deepening and widening of integration in the EU and North America; second, economic transition in the formerly centrally planned economies of central and eastern Europe, and the possibility of some kind of integration with the EU; third, a change in economic policies in developing countries towards more outward-looking models; and fourth, integration between developed countries (such as the United States and Canada) and developing ones (such as Mexico). Woolcock (2003) take this further by indicating that in the early 1990s, the world witnessed an unprecedented growth in regional trade agreements. This proliferation was rationalised at the time in terms of widespread concern relating to the potential failure of the Uruguay Round of multilateral trade negotiations and the ensuing weakness – if not collapse – of the rules-based multilateral trading system. Countries were establishing their own safety nets on a regional basis, should the multilateral system disintegrate.

## **1.2 Problem Statement**

This study assumes that regional economic integration is very important for Africa, particularly in enhancing and accelerating the continent's economic growth and development. In other words, regional economic integration is important because it can be used as Africa's roadmap to

development. In this regard, this study identifies and examines benefits, challenges and opportunities related to regional economic integration.

After examining the contribution of regional economic integration to Africa's economic growth and development, this study analyses the progress, pace, approach and sequence of regional economic integration in Africa. This indicates whether or not Africa is on the right track as far as regional economic integration is concerned.

Recognising the current weaknesses in the economies of Africa, this study intends to analyse the importance of regional economic integration in Africa, particularly in the promotion of intra-African trade and the enhancement of development and growth.

### **1.3 Research Objectives**

The objectives of this study are as follows:

- To define what regional economic integration means for Africa.

In terms of this objective, this study identifies the regional economic integration objectives of Africa, and compares them with those of other regions. Theory is used to determine the approach and sequence of integration, in order to identify the integration model that will ensure optimal mobilisation of regional resources, while minimising external dependence. In learning from successful trade blocs, it is also critical to examine how Africa should adjust to new realities and challenges, given its unique situation. An analysis of the blueprint and institutional framework for regional economic integration will also clarify this issue.

- To determine how important regional economic integration is in Africa's quest for liberalisation.

This is an underlying objective which is not discussed in detail, but is introduced in most areas of the study. It addresses questions such as: Is regional economic integration in Africa an adequate

response to the economic challenges it faces? Will it manage to prevent further marginalisation of several economies?

- To determine if regional economic integration's benefits outweigh its costs.

In this regard, this study examines the benefits and challenges of regional economic integration, and also the extent of success in enhancing economic growth and development via regional economic integration, as compared to individual trade liberalisation. In other words, will regional economic integration contribute more effectively and efficiently to African economies than national economic policies do?

- To examine the pace of regional economic integration and the progress so far.

Under this objective, this study attempts to determine if the approach taken towards integrating Africa is a correct and adequate one. The intention here is to examine if there is a wide gap between set goals and results achieved thus far, and the fundamental contradiction between ideas in blueprints and formidable, everyday constraints.

#### **1.4 Research Methodology**

In order to address the abovementioned objectives, this study uses a methodology that is qualitative in nature, and the point of departure for this is therefore to examine and analyse the literature that exists on this topic. It builds on the coursework that has already been done, elements of past research, observations and evidence available on this issue, in order to consolidate the theoretical background on this issue.

Quantitative studies of Regional Integration Agreements (RIAs) have traditionally sought to measure the benefits of regional trade agreements and other forms of regional economic cooperation. Thus, one finds in quantitative studies a wide variety of economic variables and relationships deemed fundamental and important in assessing the impact of regional economic integration.

## **1.5 Significance of the Study**

There are a substantial number of theoretical studies that have addressed the issue of regional integration. These include ones which specifically address the main issue of the importance of and/or necessity for regional economic integration, but most of them have focused on regions other than Africa. Thus, this study is very important, since research on this topic has mainly focused on other regions.

This topic is relevant and timely, given that Africa is trying to enhance its regional integration process. There are outstanding issues that need to be recognised and addressed by African states, individually and collectively, in order to take this process forward. First and foremost is to recognise the importance of regional economic integration in the general integration process.

Regional bodies such as the EU are considered by many to be the most successful model for the majority of regions. This study demonstrates whether or not the economic integration model of the EU should be used as it is, given the differences between the two continents. It highlights areas in which Africa must learn from the EU, taking into account the realities of Africa.

In terms of the institutional framework for regional economic integration in Africa, integrative institutions will be examined on how far and how efficient they are. Another observation is that the sub-regional integration framework, formed by the RECs, serves as the pillar of the continental integration agenda. In this regard, this study will also look at the key issue of how to optimise the current configuration of RECs as the building blocks. The analysis of this issue will end by stating areas in which improvement and review are needed.

The importance of, and necessity for, regional economic integration, will be clearly shown through the analysis of benefits of such integration. Specific areas on which African countries should capitalise will also be highlighted. This does not imply, however, that this integration does not present any challenges.

Schiff (2002) have indicated that a new analysis is now starting to focus on developing countries. This is mainly because, firstly, developing countries are turning to regionalism as a tool for

development, and effectiveness of this strategy needs to be assessed. Secondly, regionalism is part of the global economic environment and affects developing countries, whether or not they participate in it. Understanding its implications can help them to better prepare for and cope with regionalism, and to maximise the benefits thereof.

## **1.6 Organisation of the Study**

This study consists of six chapters, including this one. This first chapter introduces the topic and rationale behind the study. Chapter two is a review of literature on this topic, and pays attention to both traditional and modern theories of regional integration. It begins by defining the concept and goes on to analyse theories on regional economic integration, and then highlights the elements of original theories on integration, in order to show how they have evolved with time. The theory will be supported by evidence against or in favour of it. The issue of determining whether or not the theory can be applied to the African region, given its economic and political weaknesses, will be addressed by the chapters that follow.

Chapter three examines the welfare effects of regional economic integration. In this regard, this study examines how regional economic integration will affect the allocation of resources and welfare of member countries. It further examines the benefits and challenges of regional economic integration. The benefits are examined in order to indicate the importance of regional economic integration to Africa. It will further acknowledge the fact that regional economic integration is not simply a matter of potential gains and balancing benefits at the same time. It examines challenges of regional economic integration. It will look at the challenges that impact on the ability for Africa to reap the benefits of regional economic integration.

This will be followed by an examination of the institutional framework and blueprint of regional integration in Africa in chapter four. It looks at the approach that the Abuja treaty has adopted towards regional economic integration. This chapter will also look at the institutional framework and blueprint of the EU. This is mainly to identify relevant areas from which Africa can learn.

Progress made thus far by Africa in terms of regional economic integration will be examined in chapter five, in order to determine if Africa is on the road to success as far as economic

integration is concerned. This includes progress made by regional economic communities (RECs), sub-regional and continental sectoral programmes and institutional progress. In this regard, the reality of the situation in Africa versus the objectives of the Abuja Treaty will be highlighted by examining progress versus the implementation of the Abuja Treaty and the relevant provisions of the African Union Constitutive Act.

Chapter six gives recommendations on what Africa should focus on to ensure that regional economic integration is successful, and will highlight the importance of regional economic integration to Africa.

## CHAPTER TWO

### A REVIEW OF LITERATURE ON REGIONAL ECONOMIC INTEGRATION

#### **2.1 Introduction**

During the early years of regional integration, critics continued to raise concern about how the integration terminology could be properly used in the midst of a lack of clarity regarding its content. There are different aspects of regional integration, and these include economic, social and political aspects. Regional integration schemes are famous ways in which regions embark on their integration. There are differences, however, in the manner in which regional integration schemes have been implemented across the world, as well as in the results obtained by different regions. The main difference is in the extent of commitment to the application of regional integration in economic integration schemes in both developed and developing countries.

The term 'economic integration' is specifically meant to refer to either regional economic integration or international economic integration. Whereas international economic integration is synonymous with globalisation, regional economic integration limits economic integration to a particular region. In this context, this study will focus on the regional aspects of economic integration, specifically African economic integration.

This study basically supports the notion that regional economic integration is crucial to Africa's economic development and growth. In addition, integration contributes to ensuring that member countries are not globally marginalised. In this regard, this chapter aims to evaluate the theoretical background, economic assumptions and evidence on regional economic integration, in order to reflect its importance to Africa.

This chapter starts by defining regional economic integration, and goes on to elaborate in detail on the economic theory that surrounds this concept. In this regard, the stages of regional economic integration and the economic theory behind them are examined.

## 2.2 Definition of terms

In ordinary language, the term 'integration' means to bring parts of an object into a complete whole, while in economic terms it would imply, in its narrowest sense, the coordination of economic activities within a country for the purpose of enhancing the development of that particular country (Mutharika 1972). Mutharika further gives the term a wider meaning, and indicates that it implies the process of integration of various economies in a given area or region into a single unit for the purpose of regional economic development. In a more precise way, economic integration occurs when two or more nations undertake policies that result in greater mutual economic interdependence. It follows that if such countries emanating from a single region or Regional Economic Community (REC), as it is referred to in Africa, embark on economic integration activities and /or processes, these activities or processes will be termed 'regional economic integration'.

Economists have defined the term 'economic integration' in several different ways over time. Economic integration is a process of eliminating restrictions on international trade, payments and factor mobility (Carbaugh 2004). Economic integration thus results in the uniting of two or more national economies in regional trading agreements. According to Biswaro (2003), regional economic integration involves the process of trade, economic and financial convergence of integrating states.

The economic integration literature clearly distinguishes between regional economic integration and regional economic cooperation. Regional economic cooperation is seen more as an ad hoc and temporary scheme, which is mainly based on contractual agreements with regard to projects of mutual interest between member states. Such projects could involve two or more countries in the region. On the other side, regional economic integration involves agreements that are more permanent.

The classical trade-oriented economic theory of regional economic integration sees regionally coordinated development of infrastructure as an issue of cooperation rather



than integration. Balassa (1961) has pointed out that economic cooperation denotes the suppression of such discriminatory practices as are usually embodied in trade agreements, and like Carbaugh, he agrees that economic integration implies an elimination of trade restrictions. In addition, other economists have argued that there cannot be integration without cooperation. However, it is clear from these descriptions that both these concepts are means to an end, and not ends in themselves. According to Mutharika (1972), the process of economic integration will, at various stages in its development, embrace some aspects of economic cooperation efforts. This notion is fully supported by this study.

Biswaro (2003) points out that regional integration is characterised by the establishment of joint institutional mechanisms and a degree of shared sovereignty. Although this may be true in theory, the practicality of this is very difficult, particularly in Africa, as it involves ceding a percentage of the country's power to take decisions. This is confirmed by Biswaro, when he argues that existing regional integration schemes in Africa function in a governmental rather than a supranational mode, and the actual sharing of sovereignty is minimal.

The term 'economic integration' also has other applications which do not require member countries to be from the same region or neighbours. In other words, the generic form of the term can also refer to establishing and developing ties between countries that may or may not be geographically linked. Examples of ties between countries which are not geographically linked include the South Africa-EU Trade and Development Cooperation Act (TDCA) and the EU-ACP (Africa, Caribbean and the Pacific) Economic Partnership Agreements (EPAs), which are envisaged to begin in January 2008. In its restrictive form, economic integration refers to increased trade and factor flows between neighbouring countries as a result of trade liberalisation or coordination and harmonisation of economic policies (Biswaro 2003). It makes economic sense for most countries to be part of regional economic integration, mainly because they realise that by increasing the region's mutual economic interdependence, it is highly possible that the productive capacity and efficiency of member states will be increased as a result.

### **2.3 A Review of Literature on Regional Economic Integration**

This part of the study will examine and analyse the theory of regional economic integration. It will further review existing literature on this topic, in order to determine what its conclusions are in this regard.

### **2.3.1 Origins of regional economic integration theory**

Some scholars believe that the theory of economic integration is based on the broad study on this issue by Balassa (1961), but there are those who believe that this theory began with the contributions to the customs union issue by Viner (1950) and Meade (1955). In essence, the theoretical foundations of conventional approaches to regional integration date back to three important schools of economic and political thought, which are neo-classical, Marxist and development economics. The theory of economic integration was originally developed from traditional trade theory, which assumes perfect competition, and whose major concern is the location of production of different kinds of goods (Imbriani and Reganati 1994). Biswano (2003) points out that the earliest theoretical work on regional economic integration emanated from the theory of comparative advantage in international trade, and the interests of liberal economists in promoting the reduction of tariff and non-tariff barriers to trade.

The main ingredients of regional economic integration, as indicated by theory, include the removal of tariff and non-tariff barriers among member states, having a common external trade policy which initiates common external trade restrictions against non-members, initiating free movement of goods and services, as well as free movement of factors of production across national borders, harmonisation of policies, unification of national monetary policies, and acceptance of a common currency. These happen in stages which include free trade area, customs union, common market, economic union and complete regional integration.

Regional economic integration is pursued for a variety of reasons. The main motivation for all regional integration schemes has been the prospect of enhanced economic growth and development. With regard to the welfare impact of regional economic integration, theory delineate it from two perspectives, i.e. static effects of economic integration, which is in

terms of productive efficiency and consumer welfare, and dynamic effects of economic integration, which relates to member states' long-term rates of growth. These points will be explained further in chapter three.

### **2.3.2 Stages of Regional Economic Integration**

All types or stages of regional economic integration provoke interest, because they promote and restrict trade at the same time. In an economically integrated region, trade is liberalised, at least partly, among participating countries, while it is also distorted with third countries, as there are various barriers between the integrated group and the rest of the world. On these grounds, the analysis of economic integration is delicate, complex and speculative. A customs union is the type of integration that has received the most attention in research, and it is the most rigorously developed branch of the neo-classical theory.

Balassa (1961) identified and distinguished between five degrees or stages of economic integration, which include: stage 1: free trade area; stage 2: customs union; stage 3: common market; stage 4: economic union; and stage 5: complete regional integration. Most regional groupings are using this model in their quest for regional economic integration, even though not all have been successful. For instance, the Southern African Development Community's (SADC) schedule in this regard is to achieve a Free Trade Area by 2008, customs union by 2010, the common market by 2015, the monetary union by 2016, and the single currency by 2018. Some critics have, however, said that SADC's integration targets are too ambitious and may not be met. The EU is one example of successful regional economic integration in the world, and their model is in line with the theory.

In the past, until the late 1960s, it was fashionable to analyse customs union, but extend conclusions to free trade areas, preferential agreements or common markets (Tovias 1992). However, since then there have been a series of studies showing the originality of each of these economic integration forms or stages. In addition to these stages of regional economic integration, this study will also discuss preferential trade arrangements.

### i. Preferential Trading Arrangements (PTA)

Unlike Balassa (1961), other economists have suggested that the first step in economic integration is a preferential trading agreement (PTA), even though it is limited in its scope. As a result, a PTA is referred to as the lowest level or form of regional economic integration. Hodgson and Herander (1983) describe a PTA as an agreement in which members apply lower tariffs to imports produced by other members than to imports produced by non-members. This means that the participants in a preferential trading agreement reduce restrictions on trade between themselves, while maintaining a higher level of restrictions on goods imported from nations outside the agreement.

In other cases, the restrictions of PTAs are one-sided, in that one group of members reduces their trade barriers on imports from other countries, and other members may not reciprocate. An example of this is the case of the non-reciprocal Lome` Agreement, which was replaced by the Cotonou Partnership Agreement between EU and ACP countries. The Cotonou Agreement provides for negotiations on new trade agreements that would be compatible with the WTO rules on reciprocity. Currently, trade agreements are non-reciprocal, and a waiver had to be sought from the WTO to allow a transition period in which new trade agreements could be concluded. This led to negotiations for EPAs, which will be more than just a trade agreement, and will cover development and other social issues. The EPAs are scheduled to be concluded by December 2007, and will come into effect in January 2008.

Furthermore, preferential access schemes offer developing countries additional tariff cuts below MFN rates agreed on by the WTO (ATPC 2004). In the process known as preference erosion, the overall value of preferences will be reduced in the long-term as reductions in general tariff levels are agreed upon through the WTO, other preferential agreements are concluded, or changes occur in market prices. This will be good for Africa, as it will smooth the region's integration into the global trading system and lead to growth that will expand market opportunities and stop the distortion of incentives within African countries. However, this does not assume that there will be no short-term costs, but rather that those can be overcome through various measures.

Firstly, ensuring that existing preferences work effectively would provide a temporary boost to access. When coupled with other measures to increase trade capacity, this access could help Africa to expand its competitiveness and get ready to compete more effectively in a global market with reduced tariff preferences. Secondly, such measures will need to be coupled with assistance in addressing the adjustment challenges arising from preference erosion, as well as support in order to move away from reliance on preferences (ATPC 2004). According to the Report of Commission for Africa (2005), there are substantial gains from preferential schemes, particularly when they work well.

During Viner's period of analysis of economic integration, in order to justify the creation of preferential trading agreements, one had to assume that there were economic or political constraints preventing the use of better economic policy instruments at the necessary level. For instance, if the objective was the need to be independent from countries outside the region, the best policies for this were a FTA and then a customs union between the countries of the region, which will be discussed below.

#### ii. Free Trade Area (FTA)

As indicated above, a FTA is regarded as the best policy to be considered if the region's objective is to be independent from countries outside the region. A free trade area is a suppression of discrimination in the field of commodity movements among member countries. In this regard, they often agree to suppress or gradually eliminate all trade restrictions. As Nieman (2000) pointed out, the construction of a free trade area occurs when the neo-liberal orthodoxy aims for the elimination of barriers to trade and capital flows around the world. This means that member countries need to be well prepared if they intend to participate in a FTA.

In a FTA, tariff and other trade restrictions between member countries and third parties remain unaffected, and member countries are free to impose any level of tariffs against non-members countries. This is good for tariff revenue, particularly for Africa, since its intra-industry levels are low at this point in time and will not affect trade revenue that

much. FTA member states decide on their own tariff policies, while they keep intra-bloc tariffs at zero. Schiff and Winters (2003) have pointed out that interactions between member states may reduce external tariffs for three reasons. Firstly, if tariffs on members are constrained to zero, the optimal level on closely competitive goods from other countries will be relatively low, so as to reduce trade diversion. Secondly, if there is trade deflection (i.e. the redirection of imports from other countries through the FTA member with the lowest external tariff), high tariff countries lose tariff revenue. If they reduce their tariffs to just below the level of their partners, they can recapture the revenue without affecting the internal prices or resource allocations. Such moves tend to eventually lower external tariffs. Thirdly, if duties on inputs used to produce exports to other members cannot be rebated, high import tariffs render exporters of the final goods uncompetitive.

There are, however, counteracting forces that can increase protection in member countries, and these include rules of origin which seek protection against third-party country imports by firms as a result of fierce FTA competition. Since tariffs on members are fixed at zero, resources for lobbying against third-party countries become more plentiful. To be more specific, a FTA requires the enforcement of rules of origin which in practice often become instruments of protection. Nevertheless, it is important for states to be informed that enforcing these rules has administrative costs, i.e. besides the negotiating costs and costs associated with travelling to meet as nations, and this process can be long, particularly in Africa where countries from the same sub-regions produce the same goods.

In addition, there is also an indirect form of trade deflection, which cannot be pre-empted by rules of origins, and this is known as the shifting effect. Rules of origin may prevent the FTA member with the lowest tariff rate from importing goods and sending them on duty-free to another member, as is currently happening in some African states. However, they do not prevent a low-tariff partner from meeting its own requirements for a product from the rest of the world and then transferring a corresponding amount of its own production to its partners. This is what is termed indirect trade deflection, and its consequences for efficiency depend on the capacity of the low-tariff country to supply all its partner's needs.

In a FTA, each country trades on their own, but in line with the rules of origin. Members of the FTA may be able to avoid some of the trade diversion costs by reducing their external tariffs, but it is important to note that this autonomy is lost in a customs union. African states might need to be careful when choosing an external trade policy independently, because there are two types of pecuniary externalities that may arise, which need to be discussed in the negotiation process. The first is an incentive for FTA members to compete for tariff revenue, whereby low tariff revenue charged on a good will attract more imports of that particular good and bring revenue into the country. This can also happen when imports are subject to rules of origin, in that sales of FTA firms will be directed from high tariff countries, thus raising imports in a low tariff country, assuming that firms are operating in perfect competition. Secondly, import tariffs set by one country will affect all countries in the FTA if the world price of the product decreases. In addition, theory indicates in this case that a country with high tariffs will lose all revenue, and how this occurs in reality will be explained in chapter three.

The principal goal of a free trade area is to gradually achieve a state of perfect competition among industries of member states. For example, when establishing the European Free Trade Association (EFTA), its member countries agreed to promote, in the FTA as a whole and in each member state, a sustainable expansion of economic activity, full employment, increased productivity and the rational utilisation of resources. This ensured that trade among member states take place in conditions of fair competition, and also contributes to the harmonious development and expansion of world trade. It was evident in this case that the theory of competitive firm behaviour viz a viz passive quantity adjustment under perfect competition is very important in analysing regional economic integration.

The fundamental nature of free trade areas in Africa is that member states recognise the importance of the development and strengthening of trade through the elimination of intra-regional barriers, as a means of accelerating economic development in member states. The fact that this level of integration does not call for the immediate removal of all customs and other restrictions will allow national economies to prepare for the gradual removal of restrictions. As an example, the Common Market for Eastern and Southern Africa's (COMESA) FTA was achieved in 2000, and its customs union was expected by 2004,

but this process was delayed and now a new date is being proposed. This time delay allows industries of COMESA member states to set themselves on a competitive footing and be ready for free trade with other Regional Economic Communities (RECs), as they are known in Africa.

The general expectation of a FTA is that it will increase the flow of trade between member states. Although this might have proved to be true in developed countries, it is not convincing enough to hold for African countries. The reason for this is that trade theory is mainly based on certain assumptions, which include the following: by integrating the economies of the region, a large and differentiated regional market will emerge; the member countries have diversified production patterns in which industrial goods prevail, so competition and specialisation efforts will be stronger; and member countries have a long history of intensive trade and capital flows, and an efficient infrastructure, before common trade policy can be initiated (Inotai 1991). Unfortunately, none of these conditions are sufficiently present in developing countries, including those in Africa. The market size of individual African countries is small, all the more reason for regional economic integration. It is often argued that the large populations and cheap labour of some developing countries are a major potential advantage to economic integration. This obviously overlooks other factors such as low per capita income and low import per capita figures, which place a major constraint on the total volume of effective regional demand.

Furthermore, African countries cannot generally increase trade among themselves simply through the creation of FTAs. According to the Commission for Africa Report (2005), only twelve percent of all African goods go to other African countries, and this basically means that intra-trade still remains a fairly small part of total trade in Africa. The early investigators of RIAs among LDCs attributed the low levels of African intra-trade not only to fundamental factors such as similarity of resource endowments of neighbouring countries, but also to frequent failure of LDCs to fully implement terms of their regional integration agreements, and sometimes to deliberately undermine these RIAs.

The question of similarity of resource endowments is an old adage, and one wonders if it still holds, given the internationalisation of production. For example, the extent to which



Egypt and South Africa are exporting to Africa is one proof. The main point that needs to be looked at is whether or not there is information on export products of most African countries. In addition, this argument that African economies have similar export-oriented production patterns, and therefore cannot usefully pursue policies of integration ignores the role of integration in creating both the scope for specialisation and joint markets, allowing more rapid broadening of present lines of production. There are many strides that have been made to increase intra-trade within African RECs, which were encouraged by the reduction in tariffs.

Other factors that are often ignored when analysing low levels of intra-trade in Africa include the availability of channels of transport and communications, as well as the network of finance and credit. The greater part of this infrastructure was developed during the colonial era, and is heavily oriented towards North-South trade (Srinivasan 1987). Countries such as India have succeeded in shifting their pattern of trade away from their former colonial masters to other developed countries, and also in centrally planning their economies. In addition, the import substitution development strategy pursued has meant that many developing countries tended to create production capacities in similar and identical commodities, thereby limiting the potential for fruitful trade among them. It could be that a FTA (reduction of internal trade barriers) supported by appropriate industrialisation policies is the answer to the expansion of intra-African trade.

In this regard, this study has reservations about the view of the Commission for Africa Report (2005), which states that the greatest gain for developing countries will come from the Doha multilateral process, and not through FTAs. This is firstly because less progress has been made in the Doha round and secondly, because FTAs should be viewed as the stepping stones for multilateral trading, and not the other way around. Regional integration affects the progress of multilateral trade liberalisation in several ways. These include altering internal incentives for trade liberalisation, affecting the way in which the members of regional groupings interact, and changing interactions between regional groupings and the rest of the world. It is obvious that the behaviour of the major blocs such as EU, NAFTA and APEC will affect multilateral systems in ways that are basically

exogenous for developing countries. Developing countries might need to seek ways to influence this behaviour, in order to protect their interests.

One other issue related to this is the establishment of free trade agreements between Africa and other regions or countries. One good example is the planned establishment of free trade agreements with the EU under the EPAs. This represents an enormous challenge to African countries, and a study on the impact of EPAs on the welfare of Africans is currently being conducted by the Economic Commission for Africa (ECA). Africans will have to liberalise their trade with the EU and carry out a range of institutional and regulatory reforms. One of the benefits of EPAs is enabling African countries to participate in a reform programme, with the aim of making their economies more competitive internationally (ECA 2004b). However, one concern is the division of Africa into five regions, as dictated by the EU, which is not progressive if the continent is to be integrated. One more concern is the impact of EPAs on government revenues. These concerns will be discussed in detail in chapter three.

Schiff and Winters (2003) argue that Regional Integration Agreements (RIAs) may affect the behaviour of developing countries themselves, altering their own propensities for non-discriminatory liberalisation, and their willingness to support and protect the multilateral system. Regional integration does not only affect the process of multilateralism, but also the outcomes of this process. In this regard, many regional trade blocs aim to increase the negotiating power of their members, so as to influence the outcomes of multilateral trade negotiations. In a customs union, the scope for enhancing negotiating power by coordinating the positions of several countries is obvious. Coordination in trade negotiations is open to any set of countries, but having a formal regional trade bloc makes it easier and more credible.

### iii. Customs Union (CU)

A FTA evolves into a customs union, which is regarded as a stronger form of co-operation, according to Markussen et al (1995), who describe a customs union as co-operation that eliminates all trade barriers among member states of the union, but imposes a common

tariff against non-member countries. Generally speaking, a customs union combines the elements of a FTA with policies of protection, since it provides for freedom of movement of goods between member states, while on the other hand it protects the market within the union from competition from other countries.

It is normally expected that a customs union should refrain from introducing any new customs duties among themselves that would have the effect of increasing duties to above the levels existing at the time of the agreement among member states. This was confirmed by Mutharika (1972), and he further indicated that if this were to happen, the basis for continuing the customs union would not remain attractive to some member states. This stage demands that countries make firm commitments to reduce tariffs gradually over a period of time, whereby there will be complete freedom of movement of goods originating from the partner states in the end.

It is true that African countries are at different levels of development. While some countries are doing well and advancing economically, some have been left behind. Economists argue that an annual rate of reduction in tariffs which is acceptable to all is a fair basis for starting negotiations towards the total abolition of customs duties. It is most advisable to draw up a list of goods with different levels of customs duties, in order to avoid harming weaker member states, especially when weaker industries will be exposed to stronger industries, and when there will be a loss of revenue. This is the stage in which deserving industries are accorded more favourable treatment and rates in Least Developed Countries (LDCs). This is important for Africa, as a large number of LDCs in the world are in Africa.

Theoreticians had a sceptical attitude towards the economic value of customs union formation until the mid-1970s (Tovias 1992). They also considered a customs union to be the second best policy from an economic viewpoint, particularly neoclassical trade theorists. These theoreticians believe that distortions do not guarantee an improvement in overall economic welfare, as long as other economic distortions remain unchanged. As it applies to the static theory of regional integration agreements, the theory of customs unions implies that reducing tariffs on a discriminatory basis under a regional integration

agreement does not guarantee an improvement in welfare for individual countries, as originally maintained by Viner (1950).

The view that customs union are second best, as compared to unilateral tariff reductions, has been criticised, particularly given the unrealistic assumptions that come with this theory. For instance, one argument is that this theory disregards the fact that non-member countries also have tariffs, disregarding by the same token that countries are interested in a customs union because they want to improve market access and not only efficiency or welfare. According to Pearce (1970), the aim of a customs union is to distribute world income in favour of member countries through an improvement of the terms of trade with the rest of the world. In contrast, the neo-classical view of unilaterally dismantling tariffs on a non-discriminatory basis does not improve terms of trade, or may even lead to a deterioration of terms of trade. However, in practice, creating a customs union for this purpose is akin to introducing an optimal trade restriction at the national level, and when joining the customs union, a country can do more than when it acts individually.

There is no doubt that Africa's newly existing customs unions are still facing many problems. Most of these problems are not new, but have been there for a long time, as some of the customs unions, such as the SACU, date back to 1910. Nonetheless, Africa has now started to deal with such problems in accordance with article 39 of the Abuja treaty on customs co-operation and administration.

Because a customs union has common external tariffs, it does not formally need rules of origin. If member countries define and enforce any non-tariff protection measures at bloc level, they can avoid all the administrative costs and distortions associated with rules of origin. Harmonising non-tariff barriers, however, has proved to be a demanding task for most African countries. In effect, a customs union needs to have not only common external tariffs, but also a trade policy that is common in all respects.

Customs unions have been considered to be more difficult to create than FTAs. Although customs unions offer greater market integration and lower costs, they also require more ongoing co-ordination, which includes reconciling the interests of member states and then

establishing continuing political arrangements in order to deal with subsequent adjustments. Examples in this case include modifications stemming from global trade talks, or the imposition of temporary safeguards, anti-dumping duties or anti-subsidy duties. Furthermore, customs unions require member states to surrender autonomy, both in multilateral trade talks and the application of anti-dumping measures and other forms of contingent protection. This implies that member states might end up with external trade barriers that are not nationally optimal from an economic and political perspective.

Often, expectations and practices in terms of customs unions or overall economic integration may be hard to merge, due to complexities ranging from national interests and resource distribution to differences in levels of development of respective members. This implies a substantial loss of sovereignty over trade policy and revenue sources. This is also the case as far as FTAs are concerned, as they also need an initial reconciliation of interests, effected through the nature and restrictiveness of the rules of origin adopted. However, once this is settled, only relatively light institutional arrangements are adopted.

#### iv. Common Market

When the economic integration process extends beyond the elimination of trade barriers to the movement of factors, this stage is called the common market. A common market is defined as a group of trading nations that permits (i) the free movement of goods and services among member nations; (ii) the initiation of common external trade restrictions against non-members; and (iii) the free movement of factors of production across national borders within the economic bloc (Carbaugh 2004). It combines product market integration with factor mobility, which tends to equalise returns on factors of production throughout the market. The theory of the common market is less developed - in fact, factor market integration has hardly been addressed (Tovias 1992) until recently, starting in the early 1990s. Whether a move from a customs union to a common market would be beneficial or not is another area that has only recently been researched.

A common market, as a higher level of economic integration than a free trade area and a customs union, ensures that member states' unity is strengthened and that there is

harmonisation and co-ordination of policies and activities. This can be effectively achieved through the elimination of customs duties and quantitative restrictions between member states with regard to goods originating from member states. This is the reason that the first two levels of economic integration need to be reached before the next ones can be embarked on. In addition, member states should establish a common customs tariff and a common commercial policy towards third parties.

In accordance with its definition, a common market is established mainly because the movement of goods and services among member states is restricted, especially when these countries adopt different trade and commercial policies and practices. The primary reason for promoting factor mobility is that it will lead to a more efficient allocation of labour and capital within the economic bloc. In this stage of regional economic integration, both labour and capital will move from their least productive locations, and as a result the bloc's total level of production and income, as well as its welfare, will be enhanced. Ercoli (2006) highlights the fact that in most cases, the transfer of industries from developed countries to the 'third world' has created unemployment in the developed world, which in turn creates instability. These unemployed workers will export their ideas to workers of the Third World, which again creates a new form of workers' struggle.

It could be argued that the harmonisation and co-ordination of policies is an adequate response to different trade policies and practices, but in a common market there needs to be a free movement of factors of production among member states. Although member states may have different currencies, there is often a free convertibility between the currencies of partner countries. In addition, Mutharika (1972) has argued that the common market also implies that there will be free competition between productive units in member countries. Competition is healthy and important in this regard, but the trade theory from which the theory of economic integration is originally developed, assumes perfect competition. In this theory, trade is driven by comparative advantage, which is based on productivity or factor endowments in which producers make homogenous products and individual firms have no power to influence the prices at which they are sold. However, in the real world, competition is often imperfect.

In theoretical models, imperfect competition can be represented in terms of the relationship between monopolistic profits and the number of firms in an industry producing similar products. Most importantly, the change from perfectly to imperfectly competitive markets allows economists to explain intra-industry trade. However, some economists have argued that intra-industry trade seems less important for developing countries. This cannot be true, mainly because intra-industry trade involves goods with similar factor requirements and trade in homogenous goods, as much as in differentiated products. In terms of homogenous goods, a country may export and import the same product because of transportation costs. For instance, a South African firm based in the Mpumalanga Province might import a product from Mozambique, whereas a manufacturer in the Northern Cape might export the same product to Namibia. Such trade makes it less expensive to transport products from Mozambique than from the Western Cape. Another reason for intra-industry trade in homogeneous goods is seasonal. The seasons in different regions of Africa are not the same, and therefore one region will export seasonal items such as agricultural products at a certain time of the year, and import them at another time of the same year.

Freedom of movement of factors of production has proved to be difficult and restrictive in most parts of Africa, particularly the free movement of people. In most cases, states embark on strict measures in order to protect their territories from illegal immigrants, particularly those who are unskilled. The common market is very important to Africa in terms of its economic integration agenda, mainly because it is a means of obtaining independence from overseas trade, and of increasing intra-African trade, which is lagging behind at this point in time.

Hodgson and Herander (1983) have also suggested that the movement of factors of production is ordinarily inhibited in a region where there is no common market. In the case of labour, barriers of mobility include the following: i) many nations maintain quotas restricting the number of foreign workers that may be employed in that country; ii) information regarding the availability of employment in foreign countries is often limited; and iii) for skilled labour, certifications of competency are often unacceptable outside the country of certification. To be able to implement the free movement of labour, these and

other related barriers not mentioned here would have to be eliminated within a community.

In addition, capital mobility (physical and financial) could be inhibited by national legislation. This legislative barrier could be in the form of limitations of capital flows by national governments, by imposing a tax on returns earned on foreign investments, or by placing outright quantitative limitations on capital movement. Information costs and institutional barriers could also play a role in inhibiting capital mobility. Institutional barriers include an absence of financial facilities through which to conduct an international transfer of funds. For instance, if commercial banks of different African countries are unwilling or unequipped to accept foreign assets and liabilities, or to handle international payments, then the international flow of capital will be severely impaired.

#### v. Economic Union

After becoming a common market, an economic bloc can pursue a much deeper level of integration, i.e. an economic union, which is described by Balassa (1961) as a common market in which national economic policies are harmonised in order to remove discrimination due to disparities in these policies. Carbaugh (2004) has defined it as a common market in which economic policies such as monetary, fiscal, social and counter-cyclical policies are unified, and in which a supra-national authority is set up to administer these policies, and whose decisions are binding for member states. In Africa, there are contradictions in the quest for regional economic integration, and one of these is the existence of regulations and rules that are at variance with each other, particularly in the financial sector. Where there are no contradictions, it is likely that provisions will only exist in one or two countries, but will not be found in other member states. A glance at the plethora of financial and banking laws and regulations in both SADC and COMESA member states, for instance, presents an image of divergences that tend to obstruct transactions



(The Times 2006). This has not only slowed down the process of integration, but has also proved to be tedious for the stakeholders in business.

The task of creating an economic union is much more difficult than achieving the other stages or forms of economic integration. This is mainly because a free trade area, customs union or common market results primarily from the abolition of existing trade barriers, but an economic union requires an agreement to transfer economic sovereignty to a supranational authority.

As mentioned above, member states decide to solve their problems through joint action during this stage. They agree to integrate all their economic activities, and to undertake joint decisions in all aspects of economic development policies (Mutharika 1972). This also implies a joint industrial policy. The importance of joint industrial and development projects in the process of economic integration has always been emphasised as positive integration.

It is important for markets to become highly integrated in Africa, particularly in terms of industrial and agricultural products. A direct method of measuring the extent of market integration would be to establish patterns of price convergence per product over time (Pelkman 1987), but such an approach might be ambitious for Africa. Even if tendencies towards price convergence could be found, they are likely to be associated with changes in the product structure of member countries' trade, and hence with altering production structures and spatial relocation within the union.

#### vi. Complete Economic Integration

Complete economic integration is the highest form of economic integration and involves a monetary union. A monetary union involves the establishment of fixed exchange rates between the currencies of member states, along with the harmonisation of monetary and fiscal policies. Besides the unification of national monetary policies, this stage also involves the acceptance of a common currency administered by a supranational authority. Elements

of the economic union, which are found in any form of economic integration, are different to elements of complete economic integration in this way.

A currency area, which is described as an economic region in which a single currency is used, or two or more currencies are joined together in value, is very important at this stage. This is primarily because the establishment of a monetary union in itself represents the merger of two separate currencies into a unified currency area. At the moment, Africa is without a common currency, and is also faced with risks from various floating exchange rates for currencies that are not convertible. An optimum currency area (OCA), which is a currency area that affords the most efficient adjustment process in response to both internal and external disturbances, is ideal. Factors that influence the size of an OCA include the degree of mobility of factors of production, as well as the degree of capital mobility, particularly financial capital. Other properties of an optimum currency area include price and wage flexibility, economic openness, diversification in production and consumption, similarity in inflation rates, fiscal integration and political integration (Mongelli 2005).

In its complete form, the responsibility of an economic policy is transferred from governments of individual member countries to a central authority representing the entire economic union. In other words, a sovereign nation would be expected to relinquish its right to establish an independent national economic policy. This process would include a much greater degree of involvement than a monetary union on its own, as a complete economic union implies a forfeiture of policy-making prerogatives by national governments to a supranational authority. In other words, because of the degree of cooperation needed for the successful operation of a full economic union, both financial and political institutions representing the entire union would have to be established (Hodgson and Herander 1983).

As an example, it would be necessary to create a unified banking system with a single central bank for the entire union, and a governing body representing the entire union would also have to be established in order to implement a common fiscal policy. Above all, in order to achieve the objectives of an economic union, harmonisation of political

relationships and identification of political ideologies is required, i.e. in order for a full economic union to be successful, experience suggests that there is a need to create conditions approximating a full political union (Mutharika 1972).

The most sensitive area of economic policy coordination is that of macroeconomic policy, i.e. the use of fiscal and monetary policy to achieve employment and inflation objectives. It should be reiterated that macroeconomic policy harmonisation is almost a prerequisite for a successful monetary union, since divergent policies will lead to divergent inflation rates, which will put severe pressure on fixed exchange rates. Member countries might show commitment to macroeconomic policy convergence, in order to support the union. In the SADC, the Finance and Investment Protocol is regarded as critical for the region's economic integration. The protocol is envisaged to be capable of laying a firm foundation for the SADC's macroeconomic convergence program (People' Daily online 2006).

Obviously, this stage will require the economic performance of different member countries to be similar. Countries can, of course, pursue different rates of monetary growth, different rates of economic growth, and different rates of inflation, while having currencies that do not fluctuate relative to each other (Carbaugh 2004). This is in accordance with the theory that currency areas need not be defined by national boundaries. In other words, if currencies of two countries have a rigid, irrevocably fixed exchange rate, and if the governments guarantee convertibility, then the two countries represent a single currency area. The success of a monetary union requires member countries to adopt sound fiscal policies.

Countries can organise monetary integration in various ways, depending on the degree of national monetary policy autonomy left to them. For instance, fixing parities reinforces market transparency, and can reduce risk under certain circumstances, so that product market integration is reinforced. With competitive tradable markets, there will also be strong pressures on prices of tradable goods to equal prices abroad. Policy measures could be important for reducing the variance of output and employment relative to that of the initial shock caused by full monetary integration, and maintaining full employment will

support aggregate demand in a customs union, and could indeed be a political prerequisite for maintaining economic integration.

### **2.3.3 Trade creation and trade diversion**

According to Gomes (1990), in his 1950 book, *The Customs Union Issue*, Viner pioneered a field of study that has itself become a specialist in international economics, encompassing both theoretical and empirical aspects of the subject matter. This is the book in which Viner introduced the terms 'trade creation' and 'trade diversion', and argued that regional economic integration would lead either to trade creation or trade diversion (Gomes 1990). Trade creation occurs when some domestic production of one customs union member is replaced by another member's lowest cost imports (Carbaugh 2004). The trade creation effect consists of a consumption effect and a production effect. Some authors suggest that if the trade creation effect is not more than what the integrative process contributes in terms of dismantling of protection in future partner countries, then Viner's theory is a sheer extension of free trade. Trade diversion occurs when imports from a low cost supplier outside the union are replaced by purchases from a higher-cost supplier within the union. Following Viner's book, trade creation and trade diversion have since been treated as virtually synonymous with the impact of a customs union and other regional economic integration agreements, particularly in terms of economic welfare.

If trade barriers between neighbouring countries are reduced, it is often argued that customs unions and free trade areas could promote economic efficiency in the allocation of resources, by contributing to the gradual strengthening of international trade. If a RIA is creating trade on a net basis, i.e. measured trade creation is greater than measured trade diversion, then the RIA is considered to make a positive contribute to the welfare of member states, in terms of traditional economic surpluses. However, the emergence of such economic entities could also promote trade diversions and become a source of economic inefficiency, i.e. if the most competitive producers of a particular product suddenly found themselves excluded from the regional market as a result of the customs union.

Viner (1950) stressed that the welfare cost derived from trade diversion is borne by the consumers of member countries, and not by the exporters of other countries. This trade diversion effect is damaging, because it results in the introduction of new obstacles to the entry of goods into the union which were the cheapest in the world.

In contrast, the new theory of economic integration does not aim primarily at trade creation, but rather at increasing credibility and attracting sustainable private capital flows (Jebuni 1997). This is also according to Marxist-Leninist theorists, who believe that integration emerges as a reflection of the internationalisation of capital, and is intrinsic to a capitalist economy. These theorists view the move towards the creation of a single market as being the concentration of capital and internationalisation of firms, rather than the desire of maximising welfare in order to rationalise the allocation of scarce resources among member states. In this respect, the integration of markets is a consequence, not a precursor, of the transformation of production and trade in favour of larger firms.

The above view is no longer the exclusive preserve of Marxist theorists, and a critical review of globalisation theory from a historical point of view attests to this. The new theory of economic integration is not opposed to globalisation, but instead is a means to secure the benefits of globalisation for the region. De Rosa (1998) pointed out that this modern theory emphasises interrelationships between markets for goods and factors of production throughout an economy. Regional economic integration, understood in this manner, is a source of exclusion and an impoverishment of small-scale enterprises and a range of social groups through the usual mechanisms of market displacement. This could be the case in theory, but in reality, African countries such as Mauritius have managed to prosper, not because of multinational companies, but through small- and medium-scale enterprises.

#### **2.3.4 Regional Economic Integration vs. Multilateralism**

Under the WTO regime, tariff reductions agreed on by any two nations should be extended to all other members. Although this international approach might be seen to encourage a gradual relaxation of tariffs throughout the world, the regional trading agreement approach via regional trading blocs or schemes is a recommended and viable way to

succeed in economic growth and development. Regional economic integration forms such as FTAs and customs unions are an exception to the principle of non-discrimination embodied in the WTO.

As indicated earlier in this chapter, this study supports the notion that FTAs should be viewed as the stepping stones for multilateral trading, and not the other way round. Regional integration affects the progress of multilateral trade liberalisation in several ways. Firstly, by altering internal incentives for trade liberalisation, secondly, by affecting the way in which members of regional groupings interact and thirdly, by changing interactions between regional groupings and the rest of the world. It is obvious that the behaviour of major blocs such as the EU, NAFTA and APEC will affect multilateral systems in ways that are basically exogenous for developing countries. Developing countries might need to seek ways in which to influence this behaviour, in order to protect their interests.

Schiff and Winters (2003) argue that Regional Integration Agreements may affect the behaviour of developing countries themselves in a multilateral setting, altering their own propensities for non-discriminatory liberalisation, and their willingness to support and protect the multilateral system. It should be indicated that regional integration does not only affect the process of multilateralism, but also the outcomes of this process. Many regional trade blocs aim to increase the negotiating power of their members, so as to influence the outcomes of multilateral trade negotiations. In a customs union, the scope for enhancing negotiating power by coordinating the positions of several countries is obvious. Coordination in trade negotiations is open to any group of countries, but having a formal regional trade bloc makes it easier and more credible.

### **2.3.5 Further literature review**

In his study on African regional integration, Biswaro (2003) urged developing countries to focus on the activity of promoting development through the initiative of the State, and not to rely on free market forces. He emphasised that integration among developing countries should therefore be geared towards the rational use of available resources, according to a planned and centralised approach to production for the satisfaction of the region's own

needs. However, it is important to use caution in this regard, because as appealing as Biswaro's approach is, it is based on some questionable assumptions, notably in terms of the effectiveness of planning in relation to markets.

A further review of literature on regional integration theory reveals a remarkable analysis by Marchal (1965) and Perroux (1955) as cited in DeRosa (1998). Marchal (1965) has proposed an alternative approach that will take into consideration the historical dimension of socio-economic phenomena of the region. He indicated that integration, as the result of development, is distinct from integration as an instrument or precondition of development. In other words, economic integration can be perceived as the historical product of evolving technical, economic and social structures, or a product of conscious efforts on the part of societies acting collectively to improve their economic condition. However, Marchal has shown that economic integration must be based on industrialisation as its driving force, and must be sustained by the social forces capable of supporting and organising the industrialisation process. This is a critical point, in view of the fact that Africa's industrialisation levels are very low and skewed, and are dominated by a few countries. If Africa is to increase intra-trade levels, it must seriously consider industrialisation.

According to DeRosa (1998), Perroux (1955) built his model around the concept of growth poles, strategic investments and industrialisation. Industrialisation is presented as a collective instrument of development, based on import protection. He proposed a socio-economic and political approach, and allowed it to be distorted by the influence of existing development theories. This model assumes that growth originates in regions where a propulsive industry is located, and then spreads to surrounding regions. However, it is possible that contiguous regions are deprived of their factors of production and markets because of the expansion of the growth pole.

These abovementioned models are known as regional disequilibrium theories, and are based on the neutrality or absence of extra economic factors in decision making. Such an approach might be useful in the design of theoretical architecture, but hopelessly inadequate in designing actual economic policies. Another group of regional development theories is based on the Keynesian macro-economic theoretical framework, such as the

Harrod-Domar model, factor-export models, and neo-classical multi-regional growth analysis.

The main issue which needs to be taken into consideration is the choice of modalities for implementing the effectiveness (and policies) of trade liberalisation and enhancement as a mechanism of economic integration. Effective integration requires more than simply reducing tariffs and quotas. The analysis of regional integration has recently focused on developing countries, because developing countries are turning to regional integration as a tool for development, and this regionalism is part of the global economic environment, which affects them whether they participate in it or not. Understanding its implications can help to better prepare these countries for it and to cope well with it.

## **2.4 Conclusion**

In defining regional integration, it was explained that this concept is based on three main characteristics, which are voluntary in nature, collectively undertaken and geographically defined. Regional economic integration has the same characteristics, except for the fact that it need not necessarily be geographically defined. Theoretically speaking, regional economic integration has been proved to contribute to enhancing economic growth in member states, and is thus good for development. A new analysis of regional integration has recently focused on developing countries, mainly because they are turning to regional integration as a tool for development. Theory further indicates that regional integration happens in stages, which include free trade areas, customs unions, common markets, economic unions and complete economic unions. There is also another form of regional integration which is limited in scope, and this is a preferential trade agreement.

This chapter has illustrated that most economists still use the same theory to explain and analyse both a FTA and customs union, although there is clearly a difference between these two levels of economic integration. This difference is reflected in terms of their main economic implications. Firstly, a FTA requires the enforcement of rules of origin, even though rules of origin are often viewed as a form of protection. Secondly, a customs union requires joint decision-making on trade policy, whereas a FTA does not. Theoreticians tend



to think that FTAs are a more liberal form of integration than tariff averaging customs unions, and probably more welfare increasing. However, the low tariff country is not compelled to raise its tariff in the FTA case, and can pre-empt trade destruction, while domestic prices in the high tariff country may take a plunge. It is acknowledged that the customs union's common external tariff is a form of protection, but nevertheless this protection is not substantive, as the rates tend to be reduced over time.

The theory of the common market is not as well developed as that of the FTA and customs union. A common market is mainly established in order to liberalise the movement of goods and services among member states. The next stage of regional economic integration discussed in this chapter is an economic union, which is defined as a common market in which national economic policies are harmonised in order to remove discrimination due to disparities in these policies. The final stage in regional economic integration is complete economic integration. This is a common market in which economic policies such as monetary, fiscal, social and counter-cyclical policies are unified, and in which a supra-national authority is established, whose decisions are binding for member states.

In order to determine if Africa has structured its regional economic integration phases in alignment with the manner in which theory dictates, chapter four is dedicated to this issue. Chapter four looks at the blueprint of regional economic integration in Africa, as well as integrative institutions. However, before this, chapter three will look at the benefits and challenges of regional economic integration.

## CHAPTER THREE

### BENEFITS AND CHALLENGES OF REGIONAL ECONOMIC INTEGRATION

#### **3.1 Introduction**

Following the theoretical explanations and examination of regional economic integration in chapter two, this chapter explores the benefits and challenges of regional economic integration in Africa. In doing this, it highlights the pros and cons of this process, which identifies potential opportunities when member countries have been economically integrated, as well as challenges that will need to be addressed by African countries, both individually and collectively. In this regard, member countries should realise that, as much as some benefits do not arise automatically, most challenges are not absolute. This chapter will reflect the importance of regional economic integration in Africa, particularly given existing political and economic weaknesses.

Chapter two basically explained the theoretical foundations of some successful RIAs, and analysed whether or not they could be applied to all regions. Following on from this is an examination of this general theory, in this chapter, to determine how practical it is in Africa, a continent with its own unique character and circumstances. In this regard, this chapter will begin by examining the theoretical welfare effects of regional economic integration on African countries. Many economists have observed that the motivation for virtually all regional economic integration has been the prospect of enhanced economic growth. This is discussed in section 3.2, which deals with welfare effects, which are static and dynamic effects. In addition, this section will highlight and analyse the benefits of regional integration of which Africa can take advantage. There are current challenges that affect Africa's progress in integrating its economies, and also challenges that it will face when proceeding with the stages of economic integration, which were examined in chapter two. These challenges are discussed in section 3.3.

The benefits and challenges of regional integration in a way reflect what Africa will come across in the process of regional integration. It is therefore essential to be familiar with them, as they are essential in ensuring commitment by member states and clarifying any

misconceptions in this regard. Drawing from these benefits and challenges, this chapter illustrates the rationale of committing to and enhancing the process of regional economic integration in Africa. This will help further in understanding the importance of regional economic integration in Africa.

### **3.2 Theoretical Welfare Effects and Benefits of Regional Economic Integration**

This section examines the possible welfare implications of regional economic integration. According to Carbaugh (2004), the theoretical benefits and costs of economic integration can be viewed from two perspectives, namely static effects and dynamic effects of economic integration. Static effects are mainly in terms of productive efficiency and consumer welfare, and dynamic effects relate to member countries' long-term growth rates. Combined, these effects determine the overall welfare gains associated with economic integration. All these are discussed in this section, as it examines how regional economic integration affects the allocation of resources of member states and impacts on their welfare.

As highlighted in chapter two, in the process of economic integration, it is important for African countries to change and harmonise their economic policies. For instance, member countries will need to abolish all tariff restrictions between themselves, while maintaining a common tariff policy against non-members. In this case, prices will obviously decrease, and this is one case in which static effects occur.

Economic theory predicts that free trade will improve the welfare of member countries, but the question is whether or not regional integration agreements (RIAs) improve welfare of member countries in reality. This will be discussed under sub-section 3.2.2, which deals with dynamic effects. Dynamic effects relate to member countries' long-term growth rates, as it will be shown later that dynamic effects of trade policy changes can in most cases yield substantial increases in this regard.

### 3.2.1 Static Effects

Static effects of regional economic integration are found more in terms of production efficiency and consumer welfare. Firstly, static welfare effects can be observed when tariff barriers of member countries of a trade bloc are lowered. To give a good example, we will assume that Africa is made up of two countries, Malawi and Nigeria, and that there is only one big country outside Africa, called the UK. Malawi and Nigeria decide to form a customs union, and this leads them to abolish all tariff restrictions between themselves, while maintaining a common tariff against the UK. Another assumption is that Malawi is small in comparison with Nigeria.

Before the formation of the customs union, Malawi found the conditions of free trade convenient, as it purchased most of its imports from the UK. To make things easier, we will use one good, maize (which is supplied at R3.00 each by the UK and R3.25 each by Nigeria), as an example. It makes economic sense for Nigeria not to participate in the market, because its supply price exceeds that of the UK, particularly given the tariff of 50c per item. Upon formation of the customs union between Malawi and Nigeria as part of their trade liberalisation agreement, Malawi drops import tariffs against Nigeria, but keeps it on imports from the UK. This means that Nigeria now becomes the low price supplier, and Malawi now purchases all its imports from Nigeria, and nothing from the UK. Facing a lower supply price from Nigeria, Malawi can now afford to increase its consumption, and will therefore increase its quantity of imports.

In terms of the static effects of REI, the movement towards trade liberalisation will affect the welfare of the countries in two opposing ways, i.e. a welfare increasing trade creation effect, and a welfare reducing trade diversion effect. These effects, trade creation and trade diversion, are often referred to as welfare effects, and have to do more with resource allocation. The overall effects of economic integration, particularly in a customs union, on the welfare of its members, depend on the relative strength of these two opposing forces (Zu and Corpus 2000).

As indicated in chapter two, trade creation represents the improvement in the economic welfare of the importing country, resulting from the lower import price and the consequent increase in the quantity of imports associated with a customs union formation. Consequently, the welfare of the member countries, Malawi and Nigeria, in our earlier example, is increased by trade creation, because it leads to increased production specialisation according to the principle of comparative advantage. This trade creation effect clearly consists of a consumption and production effect. On the other hand, trade diversion occurs when, because of customs union formation, imports from low-cost non-member country are replaced by imports from high-cost member countries. In this regard, trade diversion is seen as a major challenge in the sense that it gets expensive for member countries to import goods from member countries. The best example in this regard is the Common Agricultural Policy of the European Union (EU). Empirical estimates suggest that the cost of protection amounts to twelve percent of EU farm income (World Bank 2000b), and this means increased prices for goods from non-member countries. Other examples include clothing imports in the North American Free Trade Agreement, and capital goods imports in some Andean Pact countries, which resulted in member countries importing high cost products from other members.

In regional economic integration, in order for the region to be able to determine the net welfare effects of integration, trade creation effects need to be compared with trade diversion effects. If it is found that trade diversion effects are greater than trade creation effects, it means that there is a possibility for the integration to result in a reduction in economic welfare of the importing country. On the other hand, if trade creation effects are found to outweigh trade diversion effects, it means that there is a net increase in the economic welfare of the importing country. The balance between trade creation and trade diversion is an important determinant of the overall benefits of a RIA. There are several factors which are used to determine the relative size of these two welfare effects. One important factor is the difference between the cost of producing in the home country, other member countries and the outside world. On the other hand, when the magnitude of trade creation effects is greater and the trade diversion effects smaller, then the cost of imports from the member country tends to be lower.

Besides trade creation and trade diversion effects, formation of a customs union also yields a production effect that will result in a more efficient use of world resources. For instance, eliminating tariff barriers between Nigeria and Malawi, in our example, will mean that Malawi will have to compete against lower-cost and possibly more efficient Nigerian producers. When imports from a low-cost country are replaced by imports from high-cost countries within the customs union, this suggests that world production is reorganised less efficiently, in that part of the production has been diverted from a low-cost producing country to a high-cost producing country.

Theory assumes that the world in which inter-country trade occurs is driven entirely by differences in productivity and factor endowments. However, contrary to this assumption, trade can also arise from product differentiation and economies of scale. In addition, resources are and can be saved if inefficient production is cut through trade creation, but resources are and can be lost if imports are switched from low-cost to high-cost partner sources through trade diversion. This analysis only applies to a free trade area and customs union, and not to stages of economic integration that go beyond them.

This is supported by Jovanović (2001), when he states that the net static impact on world efficiency of a move to a customs union depends on which of the two 'Vinerian' effects' dominates - it may be positive, negative or neutral. Hence, this theory of Vinerian effects is not in line with GATT (Article XXIV) as far as customs unions and free trade areas are concerned. Major economic policies in the EU, such as the Common Commercial Policy (customs union) or the Common Agricultural Policy (CAP), are mostly shaped according to the interests of domestic producers, and it has been observed by some economists that there is a possibility of a potentially trade-diverting bias in the EU. Nonetheless, the expanding role of the European Parliament may increase the influence of consumers in the EU decision-making structure. In this regard, trade diversion may be more beneficial than trade creation for the consumption in one country that gives preferential treatment to certain suppliers. However, this might be because this country does not sacrifice home production. The source of benefits has anticipated trade creation since, by assumption, bilateral trade flows must be balanced. However, a member country will not benefit from trade creation unless it increases its exports to its partners.

In terms of the static effects of economic integration, not only is the source of imports altered with deeper integration, but the quantity of imports is increased as well. These changes in trade patterns are usually due to the discriminatory nature of tariff policy in a customs union. In other words, imports from member countries are treated more favourably than those from outside the union, and it can therefore be expected that trade between member countries will increase, at the expense of non-member trade, and this means an increase in intra-trade. In addition, the price-reducing effects of lower tariff rates can be expected to result in an increase in the quantity of trade. The static effects analysis in this section has illustrated that the formation of a customs union will increase the welfare of its members, as well as that of the rest of the world, if the positive trade creation effect more than offsets the negative trade diversion effect.

According to Venables (2000), although the focus of trade creation and trade diversion has concentrated on trade flows that are induced by regional integration, there are two distinct effects which are important. The first one is that changes in trade flows may change world prices, possibly improving the terms of trade of member countries, although this gain occurs at the expense of outside countries. Venables indicated that empirical work has shown that, for example, Brazil's membership of MERCOSUR has been accompanied by a significant decline in the relative prices of imports from non-member countries. The second effect is that changes in tariffs and trade volumes will lead to a loss of government tariff revenue. This can occur as intra-RIA tariffs are cut, and also as a consequence of trade diversion.

### **3.2.2 Dynamic Effects of Regional Economic Integration**

Although the previous subsection on static effects seems exhaustive, it has been widely observed that not all welfare effects of regional economic integration are static in nature. There are also dynamic effects which have an influence on member countries' long-term growth rates. These include gains which, according to the theory of optimum currency, are to be had from sharing a currency across countries' borders (Carbaugh 2004). These gains

include more uniform prices, lower transaction costs, certainty for investors, economies of scale, factor productivity and enhanced competition.

These dynamic gains of regional economic integration stem mainly from the creation of larger markets by the movement to freer trade under customs unions (Carbaugh 2004). In principle, economic integration combines markets, making it possible to reduce monopoly power, as more firms from different member countries are brought into more intense competition with each other. The benefits associated with a customs union's dynamic gains may more than offset any unfavourable static effects.

DeRosa (1998) argued that countries whose pre-union economies were quite competitive are likely to benefit from integration, because of the greater opportunity for specialisation. From another angle, Tovias (1992) deduced from several authors' conclusions on this subject that a country that traded with its future partner before the formation of a union was likely to gain from integration, whereas partners with large trade stakes in the rest of the world would lose. This is true unless the latter is able to improve their terms of trade with the rest of the world through trade diversion. However, the improvement of terms of trade depends on the size of the union in relation to other countries. The larger the size and greater the number of countries in the union, the greater the gains are likely to be.

Market enlargement further allows firms to exploit economies of scale more fully. There is a trade-off between economies of scale and competition, which is 'if companies are larger there are fewer of them, and the market is less competitive'. Enlarging the market shifts this trade-off, as it becomes possible to have both larger companies and more competition. Another benefit arises when each company produces a different variety of products. The other possible gain is the reduction in internal inefficiencies that companies are encouraged to achieve. If a RIA can increase the intensity of competition, then it may induce companies to eliminate internal inefficiencies. In this case, the important question is whether or not Africa will be able to take advantage of these benefits.

Although the impact of regional integration on growth has been difficult to assess, the theory of endogenous growth should give Africa hope. This theory suggests that the growth



rate of an economy is critically affected by the type of economic policies, the rate of technological progress and knowledge accumulation, as well as the quality of institutions and governance. In this regard, the ECA (2004) has supported this endogenous growth theory by indicating that regional economic integration can contribute to economic growth by magnifying the impact of three factors. Firstly, trade is often associated with technological spillovers, because a country can import technology and knowledge developed abroad. Therefore, by stimulating trade, regional economic integration can increase the rate of technological progress. Foreign Direct Investment (FDI) (as one of the gains of integration stimulated by a large market) can also channel technology and knowledge across borders, and as regional integration promotes FDI, the technological spillovers increase.

The second factor is adhering to specific macroeconomic convergence criteria and forcing countries to create a macroeconomic environment that is supportive of international competition. This in turn facilitates sound economic outcomes such as low inflation, low deficits and consistent exchange rates. The third factor is that, as part of integration, member countries are often required to update and improve legislative and regulatory frameworks.

Another issue in terms of the impact of regional economic integration on growth concerns poverty alleviation. This is linked to the traditional view that faster growth might translate into dispersed income distribution, and have consequences for poverty alleviation. However, the ECA (2004) introduced some counter-evidence which suggests that the growth rate of average income is matched exactly by the growth rate of the income of the poor. Thus, regional economic integration could promote growth and reduce poverty. Another argument is that regional integration can have an effect on income convergence across countries. As will be indicated in section 3.5, the universality of this argument is questionable.

Schiff and Winters (2003) have indicated that, although the changes in trade have been proved to be of considerable benefit to the economies concerned, not all trade changes come from regional integration. In testing the significance of changes in effects, they have

looked for three separate effects in terms of the trade of each RIA: effects on intra-bloc trade, extra-bloc imports, and extra-bloc exports. Their findings were that in RIAs between developing countries, the evolution of trade over a certain period appears to have been dominated by external liberalisations. All trade increased over this period relative to expectations, but the increases in intra-trade were statistically no larger than those in extra-trade. The conclusion of these authors is that regionalism or regional integration has had a smaller effect on developing countries' recent trade flows than the discriminatory liberalisations that these countries have undertaken. It appears that member states did not increase their trade with each other significantly as a result of their RIAs.

Nevertheless, contrary to what is argued above by Schiff and Winters, there appears to be a consensus that regional economic integration offers developing countries substantial benefits. This consensus is based on the evidence provided by the ECA (2004) of positive impacts that trade liberalisation has on efficiency through economies of scale and increased competition. The ECA qualifies this consensus by providing two additional insights. Firstly, it indicates that many of these benefits can be achieved through trade liberalisation. Secondly, full realisation of these benefits requires firms to engage in more direct and intense competition. This means that member countries must implement deep integration.

### **3.2.3 Static and Dynamic Effects on African Countries**

Africa is characterised by countries with different levels of development. It has, among its countries, numerous LDCs. Many of these countries are too small for activities that rely on large economies of scale in order to reach an efficient size. Of the 53 countries on the continent, 39 have fewer than 15 million people, and 21 have fewer than 5 million. Small populations and low incomes limit the size of Africa's markets (ECA 2004).

Economic theory on static effects predicts that free trade will improve welfare by enabling citizens to procure goods and services from the cheapest source, leading to the reallocation of resources based on comparative advantage. It is thus reasonable to conclude that

regional integration agreements in Africa will generate welfare gains. This will occur only when trade creation dominates trade diversion in Africa.

Furthermore, regional economic integration offers a particular way of overcoming the disadvantages of smallness, i.e. by pooling resources or combining markets, countries can benefit from a combination of scale effects and changes in the intensity of competition. This does not mean that regional economic integration is the only way of overcoming the problem of smallness, as there are still economists who believe that unilateral liberalisation is more powerful than collective liberalisation.

On the other hand, larger African markets such as South Africa, Nigeria and Egypt may permit efficiencies attributable to greater specialisation of workers and machinery. As suggested above, this may also promote greater competition among producers within a customs union. In the REI forms or stages, firms are persuaded to cut prices and increase sales, and consumers get to benefit, as monopolistic distortion is removed. This point is very important and needs to be taken into account by states which have closed trade policies. Firms that are benefitting from a monopoly in such countries will have no option but to raise standards, improve quality of goods and reduce prices, in order to have a competitive advantage, otherwise they will face the possibility of financial bankruptcy. In order to survive in expanded and more competitive markets, producers will need to come up with strategies which will include investment in new equipment, technologies and product lines.

Most African countries are afraid of competition, hence the closed nature of their economies, e.g. Ethiopia. Production efficiency of firms within the union will tend to increase, as will the investment expenditure, and as a result the production capacity will be stimulated, and in turn the income and output levels of member countries. As Bretschger & Steger (2004) indicated, investment expenditure from outside the union may also be stimulated.

As of 2004, only African countries have undertaken cost-benefit analysis studies of their integration (ECA 2006). And of those countries, 42% found that regional integration

portends net long-term gains, while only 8% concluded that they were likely to experience net long-term costs. The findings clearly support integration in Africa, and can influence national decisions regarding regional economic communities.

However, the point is that the small size and relatively closed structure of many African countries mean that there is scope for more fully exploiting economies of scale and removing local monopoly power. Therefore, regional economic integration may offer African countries substantial potential gains through competition and scale effects. The benefits are, however, not automatic in this case, and ensuring that they are achieved calls for careful policy planning and development. On the same note, the estimates provided above in terms of the benefits of the economic integration of MERCOSUR reflect what might be expected, and not what was achieved.

According to the findings of the ECA's (2006) cost-benefit studies on integration as of 2004, most African countries reported benefits in trade and market integration and in transport programmes, but this has not been quantified. In effective and efficient regional trading agreements, African countries would benefit from integration and cooperation, especially resource pooling, in order to promote regional public goods. Regional integration agreements promote cooperation in two ways. Firstly, they generate regular contact and collaboration between policy makers. Secondly, they provide a framework for cooperation on shared resources or problems. Thus, embedding regional cooperation in integration agreements can boost enforceability.

Theory indicates that it is possible to reduce tariffs and still maintain revenue. There is evidence to prove this in different countries. The ATPC (2004) has highlighted the fact that Lesotho managed to triple its income when equalisation of VAT rates with South Africa and other agreements reduced smuggling and simplified revenue collection on the border. There are other countries that have achieved success in removing trade barriers. In Mozambique, goods are now cleared 40 times faster than before reforms took place and customs revenue in the first two years grew by thirty-eight percent.

In moving deeper into the levels of integration, it is important to note that there are gains that have not been properly addressed by static and dynamic effects. For instance, a study by the Economic Commission for Africa indicates that allowing dynamic effects such as capital accumulation increases will enable Sub-Saharan Africa to benefit from full liberalisation by becoming six times larger (ECA 2004b). It is therefore an accurate observation that monetary unions can generate potentially large benefits for African countries through increased trade flows, macroeconomic stability and economic growth. Therefore, strong monetary integration is required if regional economic integration wishes to go beyond free trade agreements or customs unions to a truly unified common market.

According to the ECA (2006), African countries have reported many benefits from regionally coordinated macroeconomic policies. More than half reported that regional coordination and targeting assisted in controlling inflation, and 44% reported increased investments. However, in macroeconomic policy convergence and a few other sectors, most countries did not feel that they had as yet realised significant benefits from regional integration.

### **3.3 Benefits of Regional Economic Integration**

Section 3.2 above has shown that benefits of regional economic integration assist in better understanding its importance to Africa's economic growth and development, in that free trade allows consumers and firms to purchase from the cheapest source of supply, ensuring that production is located according to comparative advantage. In this section of the study, an examination is made of whether or not these effects are beneficial.

The static effect analysis in sub-section 3.2.1 has illustrated that the gains of regional economic integration are mainly in terms of production efficiency and increase in consumption. Dynamic gains were reflected as economies of scale, greater competition and stimulation of investment. Overall benefits of regional economic integration include benefits for all through synergy and symbiosis; having a strong bargaining bloc in international forums; having a viable market size that attracts foreign direct investment; as

well as improved scope for diversification and its benefit of lower risk. Enhanced competition is one other advantage of economic integration, and together with economies of scale, they exert a downward pressure on costs and prices. This enables an increase in non-inflationary growth. None the less, it is unclear how this would happen in practice. It may occur through increased output with unchanged inflation or less price inflation or, and most likely, a combination of both. One real problem is that the gains of international economic integration may not be easily understood by non-economists.

According to Hodgson et al (2003), there are several factors that will influence whether or not the net welfare effect of customs union formation, as one of the regional economic integration forms, will be beneficial. Firstly, trade diversion might be eliminated completely if the importing country continues to import from a low-cost world producer after entering into a customs union agreement. As explained in section 3.2, this would only occur if the low-cost producer is a partner in the customs union. However, the likelihood of a customs union including a low-cost producer will increase as the number of nations joining the customs union increases. Secondly, even when the low-cost producer is not a member of the union, trade diversion can be avoided if the common external tariff is so low that low-cost non-member countries can still offer a selling price below that of member countries. In this case, regional economic integration will be yielding a production effect that will result in a more efficient use of world resources.

### **3.3.1 Policy Co-ordination**

Chapter two of this study indicated that in order to pursue much deeper levels of integration, governments should prepare themselves to move towards a common market, i.e. after a customs union, and then move to an economic union and finally a complete regional integration. Appropriate economic policies such as macroeconomic stability among integrating partners, openness of trade and harmonised payment regimes, among others, are prerequisites for the deepening of efficient economic integration, i.e. into monetary, fiscal and financial integration. As a result, macroeconomic convergence targets in developing and deepening capital markets, regional financial institutions and investments, will ensure that the region gets the maximum benefits from its economic

integration. Notwithstanding, there is no single policy that is sufficient on its own to ensure a favourable growth in economic integration, but economies need at least a moderate degree of success in several policies in order to get the most benefit from regional integration.

The coordination of economic policies, which may be brought about by regional integration, only has the potential to exercise its full beneficial effects in the long-term (Jovanović 2001). These joint economic policies should, however, not be abandoned, even if they do not bring the desired results in the short-term.

Other benefits from regional economic integration may not be obvious. For instance, regional economic integration might enhance the credibility and continuity of economic reforms in member states. If credibility is lacking, there tends to be uncertainty among investors. Specific macroeconomic convergence criteria force countries to create a macroeconomic environment that supports international competition. This facilitates sound economic outcomes such as low inflation, low deficits and stable exchange rates. Participating in regional economic integration can thus increase the credibility of a country's commitment to macroeconomic stabilisation, with additional spillovers to growth.

There is a common expectation that the benefits related to economic integration should translate, in the long-term, to a significant increase in the general level of welfare, which is measurable in terms of real domestic product per capita. However, there are arguments concerning developing countries which suggest that potential competitive gains may be larger for low-income economies than for high-income ones. Although substantial theoretical literature dealing with potential growth effects exists, most of its approaches lead to conflicting results, and there is no agreement on their significance or direction, as well as on the mere existence of the growth effect of economic integration (Brodzicki 2005). Several studies have computed potential scale and competitive benefits of regional integration, but actual gains have been hard to measure. The ECA has also expressed difficulty in assessing the effect of regional integration (ECA 2004). A study for the

Common Market of the South (MERCOSUR) suggests GDP gains of 1.8 percent for Argentina, 1.1 percent for Brazil, and 2.3 percent for Uruguay (World Bank 2000b).

It needs to be emphasised that many of these benefits do not occur automatically. In other words, they require a lot of work, sacrifice, compromise, commitment and dedication. Firms are to engage in more direct and intense competition, in order to realise the full benefits of integration. This includes commitment to pursuing deeper integration. In addition, it is important to note that the analysis of static effects in section 3.2.1 illustrates that the success of a customs union depends on the factors contributing to trade creation and trade diversion, and the relative size of these effects.

### **3.4 Challenges associated with Regional Economic Integration**

In contrast to the benefits mentioned in section 3.3, there are challenges that are associated with regional economic integration, in particular challenges that Africa should address in order to fully realise its goals related to economic integration. Successful African economic integration will not happen by chance, but will be as a result of deliberate, sustained efforts and the drive or enthusiasm to improve the sub-regions' economic conditions and relations. In other words, before one can start celebrating the benefits mentioned above, there is a need to ask questions such as whether or not every increase in trade is desirable and is actually attributable to regional economic integration. This will ensure that Africa is following the right path, and is not misinformed about the effects and gains of regional integration, which are claimed by regions which have successful regional integration programmes. It is also important to ask whether or not African economies are in a state to reap the maximum benefits of regional economic integration. In addition, it will be imperative to ask what the economic and other conditions are that serve as obstacles in Africa's move to develop and enhance its regional economic integration.

When most African countries gained political independence in the 1960s, there was so much promise and potential. With abundant natural resources, fertile lands and a growing labour force, there was a belief that if African leaders could create an environment that was conducive to growth and integrate the region, there would be improvement in the



development of African countries. Although this vision was recently created, to date Africa has progressed at a slow pace, and this is reflected in its poor economic performance, i.e. despite its resources and endowments, and also in relation to other developing countries. Various explanations have been given for this poor economic performance, and these include poor domestic policies, the external environment and marginalisation of Africa, among others.

### **3.4.1 Appropriate and Desirable Trade**

Asking whether or not every increase in trade is desirable and actually attributable to regional economic integration will ensure that Africa is following the successful regions blindly, by taking their statistics on growth at face value.

Schiff and Winters (2003) stated that the reason for gains from trade is that global free trade allows consumers and firms to purchase from the cheapest source of supply, ensuring that production is located according to comparative advantage. In contrast, trade barriers discriminate against foreign producers in favour of domestic suppliers. Domestic import-competing producers are induced to expand, even though their costs are higher than the cost of imports. This misallocation will starve domestic export sectors of resources, raise their costs, and cause these sectors to be smaller than they would otherwise be. Switching production from goods that a country can efficiently produce to those that it cannot produce reduces real income.

Furthermore, the argument in terms of gains from trade outlines what happens if all trade barriers are reduced, but does not apply to a partial and discriminatory reduction in barriers, as in a RIA. Integration in Africa is partial, and this means that African countries might not be able to take advantage of or fully maximise the benefits of economic integration. The reason that Schiff et al provided in this regard is that discrimination between sources of supply is merely shifted, not eliminated. If a member country's production displaces higher cost domestic production, there will be gains, i.e. trade creation. However, it is also possible that a member country's production may displace lower cost imports from the rest of the world.

Many people think that Africa's problems in trade come primarily from trade barriers imposed by rich nations. As much as it is important to fight discrimination by rich nations against goods in which Africa has a comparative advantage, it is equally important not to assume that abolishing these trade barriers and export and agricultural subsidies will automatically ensure an increase in trade and economic growth. One other matter to be considered as a cause of Africa's trade problems is that Africa does not produce enough goods with which to trade, and in other cases the goods are not of the right type and/or quality, or at the right price (ATPC 2005). This is one key issue that Africa needs to address if it is to prosper. In essence, in order to assist in improving Africa's capacity to trade competitively, developed countries, G8 and EU countries should compete fairly.

It is true that these barriers are absolutely unacceptable and unfair. The trading relationship between developed and developing worlds has long been dominated by a complex web of rules, taxes, tariffs and quotas, which hugely bias the entire business of international trade in favour of the rich. The collapse of the WTO Doha Round is not giving the developing world any hope.

Going back to static effects, it is important to show circumstances in which trade diversion is more likely to be a problem. Firstly, in reality, products from different African countries are not perfect substitutes, and trade faces transport costs and other barriers, apart from tariffs. These factors will tend to make the change in the sourcing of imports less marked, mitigating the costs of trade diversion, but also reducing the benefits of trade creation. Secondly, a trade bloc or RIA between small developing countries is only likely to generate trade diversion, and not trade creation. These small countries will not be able to supply all of their partners' need for imports - each member will continue to import a quantity of goods from the rest of the world. Although integration is taking place, consumption does not change, but production increases because each country can now sell to the partner without paying a tariff. Thus, each member country replaces cheaper imports with more expensive partner imports, and the outcome is trade diversion and loss for both countries (Schiff and Winters 2003).

### **3.4.2 Can African Countries Reap Benefits from their Economic Integration?**

According to the Commission for Africa (2005), even today most African countries rely on a very narrow range of exports and their colonial legacy, therefore Africa is not able to break into new markets. When comparing Africa and Asia, one observes that there is a huge difference, even though they are both classified as developing continents. This is mainly because in the last twenty years, Asia developed an industrial infrastructure, skills and a learning culture, which Africa still lacks. One of the key failures of Africa in the 1970s was to not move away from primary commodities' reliance and start with diversification of African economies straight away. As a result, the task of breaking into new markets is now harder than ever before for Africa.

A lack of trade between African nations poses a challenge in this regard. By 2005, only twelve percent of all goods produced in Africa went to other African countries. In order to improve this situation, Africa will need to embark on a reduction of its internal trade barriers. This includes reducing and simplifying African tariff systems, and reducing regulatory and other barriers at border posts. All this comes down to Africa harmonising its trade and other economic policies. Most African governments fear that removing trade barriers will cut their income, because customs revenue provides up to a quarter of government revenue in Africa. However, as indicated above, theory indicates that it is possible to reduce tariffs and still maintain revenue.

It is well known that some African countries are hesitant to fully liberalise their economies. The ATPC (2004) study cites several reasons for this. Firstly, the evidence linking trade liberalisation to growth and development is not as clear as economists would like to believe. There is no convincing evidence that trade liberalisation enhances growth and development, and that it is systematically linked to economic growth. Secondly, the study indicates that several African countries rely on trade taxes for government revenue, and therefore are concerned about the fiscal consequences of liberalisation for their economies. Figures indicate that between 1999 and 2001, import duties represented about 34 percent of government revenue in LDCs in Africa, and this therefore represents the difficulty for

these countries to fully liberalise and maximise the benefits of regional economic integration.

In the past, Africa's attempt to integrate have failed, and some of the factors that led to this disappointing and limited integration include external trade regimes that undermine export activity, structural rigidities, dependency of most African countries on agricultural exports, weak production structures, small and inefficient industrial bases, and vulnerability to fluctuations in the world market. It is increasingly apparent that tariffs and quotas alone are a small percentage of the overall barriers to trade created by an international border. Rules of origin create frictions, and so do contingent protections, duplicated customs procedures, differing national product standards, and simple border red tape. Most of these factors inhibit trade and investment (Schiff et al 2003; Aryeetee 1998), but it is important to bear in mind that these occurred against the backdrop of globalisation. Some African challenges in economic integration are policy oriented and institutional in nature. They include a lack of mechanisms to integrate, multiple and overlapping memberships of RECs, divergent and unstable macroeconomic policies, and inadequate capacity and resources. Cheru (2002) cites a lack of political will, bad legal environment, inadequate infrastructure, vulnerability due to high commodity dependence, etc., as obstacles to effective economic integration.

With regard to the issue of inadequate infrastructure in Africa, it is clear that the continent needs a functioning transport and communications system, in order to get goods to their destined markets. In addition, the costs of communication and transport are one of the major concerns for Africa. For instance, transport costs for landlocked countries can be three-quarters of the value of exports. According to the Commission for Africa Report (2005), transport costs impose the equivalent of an 80 percent tax on clothing exports from Uganda. These costs make it extremely difficult to get goods to markets at a competitive price, and it also costs a lot to ship goods from Africa to other continents. This problem of inadequate infrastructure hampers intra-Africa trade and trade with other regions.

In order for African economies to grow, there is therefore the need for a massive investment in infrastructure, in order to break down the internal barriers that hold Africa

back. As the Commission for Africa Report (2005) stated, there is a need to double-spend on infrastructure in Africa. This includes investment in rural roads, small-scale irrigation, regional highways, railways, larger power projects and information and communications technology (ICT). Investments must also involve rural development and slum upgrading, because without this, poor people in Africa will not be able to participate in growth. However, there is a general lack of interest by external investors in investing in Africa, due to its underdeveloped markets and other problems which have been previously mentioned. The vicious circle of poverty is a serious constraint to development, and as a result most African countries do not achieve a substantial rate of economic development.

Different levels of monetary integration impose different constraints on the macroeconomic policies of member countries. In Africa, the failure to reach macroeconomic convergence targets is due to both economic factors and gaps in institutional design of criteria (ECA 2004). Traditionally, macroeconomic convergence has focused on the maximum allowable levels for a few key indicators that have to do with fiscal discipline and monetary and financial stability, but might be extended to monitor the level of recurrent spending in government finances, external and interest rate stability, the level of foreign currency reserves and central bank lending to governments.

### **3.4.3 Potential Revenue Loss**

The issue of revenue loss has been cited by many African countries as one of the problems of regional integration in Africa. In countries that trade a lot within a given REC, government revenue losses due to integration can be large, because international trade is the main source of tax revenue in many African countries. However, in those countries that trade less with their economic community members, the static revenue loss due to opening their markets to other community members will be extremely small. As an example, the 1998 estimated government revenue losses from further integration into COMESA was highest for Uganda and Tanzania, at 9.12 % and 8.6 % of the total revenue respectively. The lowest affected countries were Angola (0.03 %), Djibouti (0.14 %), Seychelles (0.56 %) and Ethiopia (0.90 %) (ECA 2004).

It has been indicated above that regional integration reduces barriers to trade such as tariffs among member states and may improve terms of trade of member states. Regional integration agreements also generate another trade effect which can be considered a challenge of importance that varies among member states. Moreover, regional integration agreements reduce government revenue from tariffs, directly through tariff cuts among members, and indirectly through a shift away from imports from non-members subject to tariffs. The cost of this loss depends on how easily members can switch to alternative ways of raising funds, but can be high in countries that rely on tariff revenue. For example, some countries in the SADC are heavily dependent on trade with South Africa, and there are substantial amounts of revenue involved, amounting to perhaps 5.6 percent and 9.8 percent of government revenue for Zambia and Zimbabwe respectively (ECA 2004).

In theory, trade liberalisation is unlikely to lead to any significant loss of trade tax revenue if it involves either the removal of quotas or reduction of very high tariffs, and if the pre-liberalisation regime was characterised by import compression. African countries could, however, adopt measures to ensure that trade liberalisation does not erode their revenue base. These include attracting more investments, finding alternative sources of tax revenue, domestic tax reform, diversifying the economy, and dealing with smuggling and corruption. Thirdly, if there is no domestic mechanism in place to compensate African countries for potential revenue loss, then this will put pressure on African leaders to resist liberalisation. Fourthly, there is a perception among African countries that integration will give them limited policy space to address other pressing development problems.

In addition to the abovementioned challenges, Africa has many internal barriers to trade which damage its ability to get out of poverty, and make it difficult for them to optimally benefit from integration. These include bureaucracy, cumbersome customs procedures, and corruption by civil servants. As it is now, the journey from Lagos to Abidjan involves official and unofficial checkpoints every 14 km. In Ivory Coast, getting a single lorry from one side of the country to the other adds \$400 to the journey in official payments and bribery (Commission for Africa Report 2005), and this might be because of conflicts in this country. This clearly indicates that Africa's customs desperately need reform, as it suffers from the highest average customs delays in the world. As an example, Lithuania requires

one day for customs clearance and Ethiopia averages 30 days for complex customs procedures. According to this report, changes in governance are needed in order to strengthen the investment climate in Africa, because transparency can help to combat the corruption which African governments need to root out. However, the pertinent question is: “Is this enough to ensure successful integration?” Obviously, there are other reforms that are needed, but without progress in governance, all other reforms will have limited impact.

### **3.5 Rationale and Motivation for Regional Economic Integration in Africa**

Following the discussion on welfare effects and the identification of benefits and challenges of economic integration, it is appropriate that the rationale for Africa’s engagement in this process is now highlighted. Although the theory and practice of these concepts have been discussed, it does not mean that this is sufficient motivation for Africa to view it as important, and to therefore pursue it. A lot of issues have been raised, and the ones that affect Africa the most and are most important to Africa are examined in this section. One issue that should be emphasised here is the overall objective of economic activities, which is an increase in welfare, and that regional economic integration is viewed as one of the means for an increase in welfare. The importance of regional economic integration in Africa is a pertinent issue, particularly given existing political and economic weaknesses.

Regional economic integration is an essential element in reducing the vulnerability of African countries to external influences. Regional economic integration will assist in dealing with challenges such as fluctuations in the prices of primary goods and large increases in imports of manufactured goods, which render African countries vulnerable to external influences. This argument is especially valid for those countries that depend on only one commodity, or are experiencing an adverse balance of payment. Africa’s high share of primary commodities in exports has been costly: terms of trade losses because of declining real commodity prices have had negative impacts on external indebtedness and investments, thus hampering income growth and poverty reduction (UNCTAD 2003).

Economic integration as a tool for economic development does not have the same impact on developed countries as it has on developing countries (Mutharika 1972). Although there are disparities in the characteristics of economies of developed and developing countries, it is not clear how true this statement is. It is however practical to say that in order for African countries to benefit from regional economic integration, they must design integration agreements suited to their needs and capabilities. Just like developed countries in the 1960s, 1970s and early 1980s, African countries should accept economic integration.

### **3.5.1 Prediction of Economic Doom in Africa**

There is a study by the ECA that was conducted in 1967, which aimed at estimating how long it would take African countries to reach the income level of developed nations (Mutharika 1972). The study concluded that it would take these countries about 273 years to reach the income level of middle-level developed countries, and 343 years to reach the income level of high-level developed countries. This could be viewed as undermining the economic potential of African countries, but the truth is that the study was conducted in 1967, on the assumption that income would grow at a consistent rate. This reflects an over-generalisation of the results of this study, i.e. all countries produce the same products, such as coffee and cassava; all countries are in conflict etc. However, counter-observations have shown that these similarities, as well as differences, between African countries, could make integration and cooperation beneficial. As much as they share common resources and problems such as low agricultural productivity, they also exhibit important differences, particularly in terms of endowments. Therefore, by pooling resources and exploiting their comparative advantages, integrated countries can devise common solutions and use resources more efficiently to achieve better outcomes (ECA 2004b).

However, the situation in Africa has worsened, the contributing factor probably being that the population is growing at a faster rate than African economies. Nevertheless, the underlying fact remains that Africans have to make an effort to increase opportunities for economic development, even in the current era. Having agreed that population growth is



high, this clearly reflects one of the dynamic gains, namely enlarged market size and economies of scale.

Developing countries, particularly in Asia, have used trade to break into new markets and change the face of their economies. This was done even when, two decades ago, seventy percent of their trade was in raw materials. Today, eighty percent is in manufactured goods. This clearly shows that Africa is not doomed to slow or no growth, because it can also trade like Asia has done. It needs to embark on regional integration, which will ensure that policies are harmonised, industrial strategies developed and trade barriers eliminated. As a result, there will be an enlarged market scale, which might lead to an increase in investments. In addition, free trade allows consumers and firms to purchase from the cheapest source of supply.

### **3.5.2 Requirements for Achieving MDGs**

In considering the impact of trade liberalisation on people's well-being, it is vital to consider its effects on poverty and inequality. The issue of the relationship between trade policies, income distribution and poverty in Africa is an area that has attracted a lot of research. It has been mentioned by the ECA (2004b) that trade policies affect household welfare through the following mechanisms: price of consumption goods, factor prices, income and employment, government revenue, incentives for investment and innovation, and short-term risk and adjustment costs. In 2000, world leaders made commitments to raise the standard of living within developing countries in the form of Millennium Development Goals (MDGS). The goals were set out as follows: eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality and empower women, reduce child mortality, improve maternal health, combat HIV/AIDS, malaria and other diseases, ensure environmental sustainability and develop a global partnership for development. The Commission for Africa (2005) indicates that at least seven percent of overall GDP is needed for developing countries and LDCs to achieve these goals by 2015.

The Commission for Africa (2005) acknowledged that attaining the proposed targets without increasing external assistance is impossible. Increasing aid and debt relief were

seen as being key elements. However, if one assumes that resources are available to African countries, in countries such as Togo and Lesotho, the size of their markets would still hinder the expansion of the rate of development, unless several markets are combined through economic cooperation and integration. This fact further strengthens the case for regional economic integration in Africa.

### **3.5.3 Market Size and Market Access**

Another argument in support of economic integration in Africa is that it can assist countries to overcome constraints associated with the smallness of domestic markets, by allowing them to benefit from economies of scale as well as smooth market access. These kinds of benefits can lead to stronger competition, and as a result raise productivity and diversify production and exports.

In regional economic integration, neighbouring African countries will constitute a regional market for certain goods that, for reasons of taste or excessive transport costs, are not tradable with the rest of the world. If a RIA includes all potential suppliers of such a good, in terms of small countries, it is bound to be welfare-improving. In addition, delays and transaction costs involved in border formalities will be reduced by the formation of a RIA. These are often reported to be more important hindrances than customs duties, and can be more avoidable for RIA members than for non-members.

Because of the small size of many African countries, Africa appears to be unattractive in terms of cooperation with the international community. When integrated, Africa will be a large, unified economy with an enlarged market, which can better co-ordinate international trade policies. This will enable Africa to strike better bargains with its trading partners. It can reap terms of trade benefits which are not available to member countries when they act independently.

Furthermore, a regional integration agreement also promises the benefit of duty-free access for exports to partner markets. It must, however, be noted that the benefit that a member country derives from such market access can only come at the expense of its

partner, which could be better off if it were to eliminate its tariffs, and therefore both parties would gain from such a move. In addition, if improved access to another market depends on opening one's own market, then it would be advisable for African countries to establish trade reforms. In this case, adjustment might be easier if export sectors are expanding as import sectors contract. These are all the reasons for coordinating trade reforms across countries, and regional economic integration in any form provides one way of doing this.

#### **3.5.4 Increased Investment**

Section 3.2.2 mentioned investment as one of the benefits of regional economic integration. Mutharika (1975) wrote about the theory of one of the foremost advocates of economic integration, Paul Rosenstein-Rodan, in this regard. He believed that the need for widespread application of capital investments arises as a result of various technical indivisibilities and external economies. He mentioned that in developing countries, the indivisibility of the production function, especially in terms of the supply of social overhead capital, causes investments to be less profitable when undertaken by an individual state. When an individual state in the developing region invests largely in capital, the result is under-utilisation of plant or excess capacity in Africa, more so because the application of such capital in isolation has often been uneconomic and wasteful, due to the very underdeveloped nature of the markets.

The second setback to economic progress, as recognised by Rosenstein-Rodan, is the indivisibility of the demand function or lack of complementarity. This recognition prompted Rosenstein-Rodan to advocate the participation of various governments and international agencies in the investment of capital over a wider range of industries on a large scale, instead of individual state investments which are more risky. This argument applies to Africa, in that any individual effort to accelerate the rate of economic development is bound to be very limited. In other words, piecemeal investments will not solve the problems of economic development.

Regional economic integration, particularly a customs union, can encourage investors to engage in tariff jumping, i.e. investing in one member country in order to trade freely with all members. Another direct impact of FDI, as indicated in section 3.2, is promotion of knowledge, technology transfers and spillovers, which in turn raise productivity in member countries. In order to attract more investments, African countries need to establish an economic environment that encourages investments. When economies are integrated, foreign investors will be attracted to invest because of economies of scale, a larger market, and because the risk is spread over a wide area.

### **3.5.5 Industrialisation**

There is a considerable lack of capacity in most basic industries in Africa, and in some cases production units are operating below 50 per cent of their capacity. This is a very serious situation, and to correct it would call for coordinated planning and distribution of capital, and its application over a wider area involving more than one state. Africa needs long-term strategies in order to increase its productivity, by co-ordinating in terms of building industrial infrastructure, in order to also enable it to break into new markets. While macroeconomic reforms that reduce waste can produce short-term productivity gains, sustained long-term productivity gains require a balanced mix of capital accumulation, human capital development and structural change (ECA 2006). In addition, reallocation of factors of production to more productive uses can permanently raise total factor productivity.

Regional integration agreements are likely to induce economic activities to relocate, by reducing existing distortions and altering incentives for business. Industries may relocate based on the comparative advantage of members, relative to one another and to non-members. Relocation can change income levels and demand for factors of production, generating gains for some members and losses for others. RIAs can also lead to income convergence, and the perfect example in this regard was shown by the EU when Ireland, Portugal and Spain closed the gap in richer EU members. In the mid-1980s, their per capita incomes ranged from 27 % to 61 % of the average of larger EU countries, and by the 1990s, they ranged from 38 % to 91 % (ECA 2004). It has been questioned as to whether or not

this argument for income convergence also holds for developing countries, or only for developed countries.

The level of industrial development in Africa is very low compared to other countries in the world, and agriculture is dominant in terms of both overall economic activities and volume and value of exports. Therefore, it is to Africa's advantage to integrate its economies, particularly if member countries want to industrialise behind protective barriers. Forming a group that provides scope for intra-bloc industrial specialisation reduces the cost of protection, and can generate welfare gains that would not be open to members through unilateral liberalisation. Furthermore, if industries can be rendered competitive at higher levels of output when preferential markets are available, regional economic integration is well justified. However, it might need to be explained why an industry would need the support of a protected regional market if expansion of output suffices to make its costs competitive.

The ultimate goal of integrated countries should be to achieve the spread of industrial progress and distribution of benefits from industrial development and progress to all member states, thereby avoiding clustering of industries in one country. The pattern of industrial development in Africa at the moment is skewed towards certain countries, and benefits are enjoyed by only a few. One of the difficulties of regional economic integration is that its long-term gains accrue to everybody, but in relatively small instalments. It may also be easy to identify the costs of integration. They affect certain visible and vociferous segments of business and labour, but their effects may have only a relatively short-term impact on the national economy.

### **3.5.6 Limitations of Protection and Trade Expansion**

A liberal trade and flexible adjustment policy for a small country like Gambia may be a superior alternative to the policy of long-term protection. The competitive position of small countries can be jeopardised if protection increases the price of inputs. Moreover, protection can provoke retaliatory measures from trading partners. It can also inhibit the adjustment incentives of the protected industry, with an overall negative long-term impact

on the whole economy. While having a limited influence on events in the world economy, small countries can have leverage over their own competitive future by means of a liberal economic policy and/or international economic integration. This indicates that regional economic integration will benefit small African countries rather than harm them.

Although the trade creation effect is seen as a welfare-increasing one, Jovanović (2001) has stated that it should not be overemphasised. This is mainly because the decrease and eventually elimination of domestic tariffs does not automatically result in an increased trade expansion effect in a customs union. This will first lead to a reduction in profit margins of protected domestic producers. The trade expansion effects due to the creation of a customs union will not be as large as would be suggested by the difference in tariffs before and after the creation of a customs union. Therefore, the scope for trade diversion is, indeed, smaller than it may first appear. It is simply the potential for an expansion in trade and competition that does this good work for consumers, as well as producers, in the long-term.

### **3.5.7 Specialisation**

For Africa to survive sharp competition from the developed world and to gear itself for modern technology, suitable conditions for large-scale production and specialisation should be created. There is a general consensus among economists that African economies have the potential for introducing specialisation that can be used to the greatest advantage of all Africa. Even though African countries depend on primary commodities, these are distributed in a particular pattern in the sub-regions. For example, some countries produce gold, some diamonds, some coffee, some iron, etc. This is not disputing the fact that several countries produce the same raw materials, but the point is that Africa has 53 countries. Mechanisms in terms of how this can be integrated have been seen to be working in several countries which have come together to deal with this issue.

All African countries are members of at least one REC or trade bloc. They have realised that staying outside these RECs is more costly, and the incentive for joining them is increasing. The problem in Africa is dual membership of member countries, as well as overlapping of

RECs. The main challenge is therefore harmonising RECs. These are considered by member countries to be very important, but they fail to commit to decisions made in this regard. Africa is in the meantime forfeiting obtaining maximum benefits from regional integration. Its benefits go beyond what was discussed in the preceding sections, as it also includes other possible benefits of reducing the chances of conflict with neighbouring states in Africa, and its role in helping countries to negotiate agreements to share regional resources. Other possible reasons for integration include the history of cooperation, language, sharing the same colonial masters, and a desire to replace past tensions with an institutional framework that promotes cooperation.

### **3.6. Conclusion**

Regional economic integration is very important for promoting interregional trade and accelerating development and growth. Trade has been a key driver of economic growth in other developing and developed countries, and therefore the economies of the regions are interdependent. The economic interdependence among countries has created a situation in which national economic problems are increasingly becoming a matter of international concern.

This study supports the static effect argument that well-crafted and managed economic integration can increase efficiency and economic welfare in its members by facilitating increasing consumer choice and increasing the competition that producers face. These are the gains of regional economic integration from a static effect perspective. There is also a dynamic effect, which comes with gains that are sufficient motivation for the enhancement of regional integration in Africa. The small size and relatively closed structure of many African countries mean that there is scope for more fully exploiting economies of scale and removing local monopoly power. Therefore, regional economic integration may offer African countries substantial potential gains through competition and scale effects. The capacity to exploit opportunities that come about as a result of economic integration is also a major element in achieving maximum benefits of cooperation.

Member countries should fulfil the basic requirements of regional economic integration if the result of integration is to succeed and justify the efforts of all member countries. These benefits are not automatic, and ensuring that they are achieved calls for careful policy planning and development. Appropriate economic policies are prerequisites for the deepening of efficient economic integration - there is no single policy that is sufficient on its own to ensure favourable growth in economic integration. Economies need at least a moderate degree of success in several policies in order to benefit optimally from regional integration.

There are several challenges in terms of regional economic integration, but this chapter addressed Africa's challenges that centre around three issues, namely Africa's desirable trade, the difficulty for Africa to optimally benefit from economic integration, as well as potential revenue loss. Africa will need to systematically and strategically approach these challenges and learn from each other, as some RECs have been successful in this regard. Furthermore, Africa has internal barriers which need to be addressed in order for trade as a tool of regional economic integration to be effective. These include improving infrastructure, reducing trade barriers, diversifying African economies away from current levels of dependency on primary commodities, industrialisation, promoting governance in Africa, improving and harmonising policies, and addressing inadequate resources, among others.

The question of how regional economic integration can help to overcome the problems faced by Africa in its quest for growth and development has been successfully addressed. In this regard, economic integration might be able to assist Africa in expanding domestic markets, increasing industrial opportunities, diversifying production, and expanding intra-Africa trade, among others.



## CHAPTER FOUR

### INTEGRATIVE INSTITUTIONS AND BLUEPRINTS FOR REGIONAL ECONOMIC INTEGRATION IN AFRICA

#### **4.1 Introduction**

Institutional development has been increasingly recognised as important to the integration process. The fundamental role of institutions in providing the right framework for regional integration has also been recognised. The most important documents serving as regional integration blueprints for Africa are the treaty establishing the African Economic Community (AEC), and the Constitutive Act of the African Union. The Abuja Treaty has declared that RECs are the building blocks of the African Union, which makes the African Union and RECs the fundamental integrative institutions in Africa. However, the reality of RECs keeps many scholars questioning the importance of the role played by institutions in regional integration.

Harmonisation and coordination among RECs in Africa has been seen as crucial, and this issue has been the topic of many forums. This has been recommended by most economists and government officials, mainly because harmonisation and coordination will ensure that internal and external forces affecting Africa's integration are well controlled and managed. Furthermore, RECs will follow the same pace or might be able to learn from each other, without reinventing the wheel whenever such coordination is implemented. The Abuja treaty stresses the importance of creating the African Economic Community through coordination, harmonisation, and progressive integration of the activities of RECs. This is also repeated in article 3 of the Constitutive Act, which mainly emphasises the importance of coordinating and harmonising policies between existing RECs for the gradual attainment of the Union.

The Abuja Treaty serves as a framework that guides the regional integration process, both at continental and REC level. The treaty outlines the structure for attaining Africa's regional integration by gradually consolidating all African countries' economies into a single

regional market. This was a sign that Africa had decided to be part of the global economic society, and that it recognised that economic integration was important for its development. The founding of the AEC in 1991 is also a sign that Africa had decided to develop into a strong bloc of nations (Cheru 2002).

This chapter will therefore address the framework for regional economic integration in Africa. In so doing, it will concentrate on the effectiveness of the blueprint for regional economic integration in Africa in terms of the Abuja treaty, other treaties and integration agendas, and different RECs, lessons to be learnt from the EU, and assessment of the need for a new institutional framework. This will be discussed by looking at the characteristics of regional agreements of RECs as integrative institutions, and examining the motivation for creating them.

#### **4.2 The Treaty Establishing the African Economic Community**

Regional economic integration was reintroduced later in 1980 when the OAU Extraordinary Summit adopted the Lagos Plan of Action as a major step towards the goal of integration. Beginning in the 1980s, several African countries engaged in domestic trade reforms, but mainly in an effort to increase their participation in international trade. The commitments in the Lagos Plan and the Final Act of Lagos were translated into concrete form in Abuja, Nigeria in June 1991, when the Organisation of African Unity (OAU) Heads of State and Government signed the Treaty establishing the African Economic Community during the 27<sup>th</sup> ordinary session of the OAU, and this Treaty has been in operation since May 1994.

The African Economic Community aims to promote economic, social and cultural development, as well as African economic integration, in order to increase self-sufficiency, self-reliance and endogenous development, and to create a framework for sustainable development, mobilisation of human resources and materials, and maintaining economic stability. The setting up of the Community would be achieved by co-ordination, harmonisation and progressive integration of the activities of existing regional communities, and was supposed to last 34 years (until 2028), divided into 6 uneven stages.

The six stages towards the AEC are also reflected in the Constitutive Act, and they include the following: the first stage focuses on strengthening existing regional economic communities (RECs) and establishing new ones in regions where they do not exist. This stage was scheduled to last five years and ended in June 1999. The problem with this stage is that there was no agreed number of RECs to be created, and therefore more and more RECs were created, hence the current problem of the multiplicity of RECs and overlapping membership. In a meeting held in March 2006, African ministers responsible for integration placed a moratorium on the recognition of new RECs by the AU (AU Declaration 2006). Even though this stage was scheduled to end in 1999, Africa is still committed to strengthening RECs. It has been observed that strengthening RECs cannot be limited in terms of time. It will have to be done through all these stages, but it does not prevent RECs from moving to other stages of economic integration. Reasons for this differ from one REC to another, but common ones include lack of capacity, resources and commitment of member states etc.

The second stage has to take place within eight years, and is targeted to achieve quite a lot. Firstly, at the level of each REC, Africa is to embark on stabilising tariff and non-tariff barriers, customs duties and internal taxes, determining the timetable for the gradual liberalisation of regional and intra-community trade, and harmonising customs duties vis-à-vis other states. This stage also includes strengthening of sectoral integration, particularly in the fields of trade, agriculture, finance, transport and communications, industry and energy, as well as co-ordination and harmonisation of the activities of the RECs. As will be observed in section 4.4, some RECs have made significant progress as far as this stage is concerned. This is fairly impressive, given that this stage is only scheduled to end this year.

The third stage is where each of the RECs representing the five African regions should start with the establishment of a Free Trade Area and a Customs Union. This stage is supposed to last for ten years, and this means that it starts in 2008 and ends in 2018. Again, section 4.4 will show if there is progress made in this regard and how significant it is. In the fourth stage, the continent has to concentrate on co-ordination and harmonisation of tariff and

non-tariff barriers among various RECs, with a view to establishing a Continental Customs Union, and this has to happen over two years. This stage is still running, and therefore no conclusions on how Africa is doing can be made. However, this is the area that Africa should work towards, mainly because of challenges that are envisaged and mentioned in chapter three of this study. As an example, there are challenges that lead to a low level of inter- and intra-REC trade. As indicated in chapter three, most African countries trade more with European countries than amongst each other. It was in this regard that African Ministers of Trade, in their April 2006 meeting, resolved to urge RECs to take the lead in the rationalisation process by immediately starting to harmonise their policies and customs and trade instruments, and to coordinate their programmes with a view to achieving convergence (AU Resolution 2006).

The fifth stage is all about the establishment of an African Common Market (ACM), and it has been given a minimum of four years. The sixth and last stage has to happen within five years, and it involves consolidation and strengthening of the structures of the ACM, including free movement of people and factors of production; creation of a single domestic market and Pan-African Economic and Monetary Union, African Central Bank and African currency; and establishment of a Pan-African Parliament.

Despite these stages, the Abuja Treaty states that the cumulative transitional period shall not exceed 40 years from the date of its entry into force. It also provides for measures to be undertaken concurrently with regard to the formulation of multinational projects and programmes for the promotion of harmonious development among member states. However, the stages are not inflexible - the process can be expedited with regular verification of completion of the stages.

Critiques of the treaty range from its lack of faith in the sequencing of the phases, the treaty being ambitious and a carbon copy of the European Union's blueprint (Cheru 2002), to it not taking sufficient account of the actual political, economic and cultural realities of the African continent. However, there are those like Aryeetee (1998) who support the market integration approach that the treaty has taken. In the AU Declaration (2006), the ministers responsible for integration agreed that the Abuja Treaty should be reviewed and revised,

so as to rearrange the timetable for its implementation, taking into account the provisions of the Sirte Declaration of September 1999.

The structural adjustments programmes pursued on the continent have generally not yielded the desired or expected results, and the industrial sectors of parts of the continent have also suffered from its effects (Commission for Africa 2005). This is why joint programmes and projects towards the development of infrastructure and other sectors constitute one of the pillars for integration spelt out in the Abuja Treaty. The Treaty includes numerous ancillary protocols on trade, customs, special treatment for certain countries, popular participation, dispute settlement and sectoral and infrastructure development, but none of these protocols have been ratified or finalised.

This project of reviewing the treaty will principally evaluate progress realised by RECs in the area of regional integration; identify progress accomplished, difficulties encountered as well as future prospects; and make economic policy recommendations that will allow for the acceleration of the integration process. This project is vital, as it will take into account the realities, and determine if Africa can still achieve the milestones within the given timeframes. This project will ensure that the framework becomes more practical than theoretical.

With regard to the signatory status of the AEC, all countries have signed the treaty, but only 35 have ratified it. At this point in time, a Free Trade Agreement has not been fully achieved across Africa. Common external tariffs were scheduled to be achieved by 2017, a common market by 2023, and a political union by 2028. The timetable should speed up as a result of the African Union. In actual fact, when the OAU was transformed into the AU, the Constitutive Act was implemented. This Act, however, supersedes contrary provisions of the Abuja Treaty, and lays out integration objectives similar to those in the Abuja Treaty.

Since the Treaty was signed in 1994, there has been modest progress in implementing economic integration by RECs in Africa. This progress reflects the reality of the situation viz a viz the objectives of the treaty. African leaders realised that there was an urgent need to accelerate Africa's integration. In September 1999, the OAU's Extraordinary Summit

adopted the Sirte Declaration, which called for an accelerated process of implementing the Abuja Treaty. A further decision was taken to transform the Organisation of African Unity into the African Union, as a sign of African countries' commitment to achieve the vision of economic and political unity. The African Union is indeed based on the OAU's 1991 Abuja Treaty, and concretises the aspirations of this treaty.

The African Union was created because the integration process in terms of the Abuja Treaty was moving too slowly. The Constitutive Act of the African Union aims to fast-track the integration process in order to realise this vision. In particular, it aims to shorten the implementation periods of the Treaty, ensuring the speedy establishment of all the institutions provided for in the Treaty, such as the African Central Bank, the African Monetary Union, the African Court of Justice and the Pan-African Parliament (PAP). Initially, the aim was to establish the PAP by the year 2000, in order to provide a common platform to enable all African people and their grassroots organisations to be more involved in discussions and decision-making on problems and challenges facing the continent. However, this could not happen at that point in time.

As will be shown in section 4.4, some of the AU's key institutions are in place, and thus the African Union has made a tremendous difference to the substance and pace of progress towards integration goals. The next section will therefore take us through what has been achieved so far in Africa as far as regional economic integration is concerned, and the significant impact of such progress on the overall economic integration programme of Africa.

### **4.3 Abuja Treaty vs. Treaties of Regional Economic Communities**

The Abuja Treaty has made provision for protocols that should be established. These include protocols in the area of trade and customs, sectoral and infrastructural development and cooperation, special treatment and exemption of certain categories of countries, relations between the African Economic Community, now the African Union, and Regional Economic Communities, and establishment of the Pan African Parliament and the Court of Justice. All these are found from article 14 to article 88. They are also repeated in the Constitutive Act of the African Union.

The protocols on trade liberalisation include protocols on rules of origin, reduction and elimination of customs barriers, non-tariff barriers, intra-community transit facilities, customs operation, simplification and harmonisation of trade documents and procedures, trade promotion, re-export of goods, free movement of persons, right of residence, and right of establishment.

All recognised RECs have established more than one of the abovementioned protocols which are basically set out in different areas of the agreement. Table 4.1 below shows how far the implementation has progressed in this regard. In addition, RECs have economic policies in place that aim to converge such policies in national governments. All regional economic communities have treaties which formalise the establishment of these communities and define their broad objectives, principles and commitments. However, one concern is that the African Union is expected to adopt its own protocols according to the Abuja Treaty. Given the large number of these protocols, it is unrealistic to expect these protocols to be in force before harmonisation of those that are in the regions. This is one of the reasons for the review of the Abuja Treaty.

Table 4.1 below outlines the profiles of the eight RECs that have been recognised by the AU as regional economic communities. In most cases, the names of the RECs indicate their ultimate aim. For instance, COMESA is the Common Market for Eastern and Southern Africa, and its ultimate goal is to achieve a common market. This table also gives a brief summary on the RECs progress in terms of integration.

**Table 4.1: Profiles of the AEC and RECs**

REC	Date of establishment	Member Countries	Ultimate aim	Status
CEN-SAD	1999	Benin, Burkina Faso, CAR, Chad, Djibouti, Egypt, Eritrea, Gambia, Libya, Mali, Morocco, Niger, Nigeria, Senegal, Somalia, Sudan, Togo and Tunisia.	Free Trade area and integration in some sectors.	Study on feasibility of free trade launched.
COMESA	1993	Angola, Burundi,	Common	Partial free trade area

		Comoros, DRC, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.	Market	(nine of its members eliminated all tariffs at the end of 2000). Common external tariff expected in 2008.
EAC	1967*	Kenya, Tanzania and Uganda	Full Economic Union	Not yet a free trade area but significant progress made. Common external tariff planned for 2004-06.
ECCAS	1983	Angola, Burundi, CAR, Cameroon, Chad, DRC, Republic of Congo, Equatorial Guinea, Gabon, Sao Tome and Principe and Rwanda.	Full Economic Union	Inactive since 1994, but recently revived. Trade tariff reduction programme soon to be put in place. Study on FTA considered for implementation.
ECOWAS	1975**	Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leon and Togo.	Full Economic Union	Partial free trade area (for unprocessed goods and handicrafts). Customs union objective pushed back. Monetary zone and macroeconomic policy convergence in place.
IGAD	1986	Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan and Uganda.	Full Economic Union	Partial free trade area
SADC	1992	Angola, Botswana, DRC, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe.	Full Economic Union	Aim to establish a partial free trade area by 2010 and full free trade area by 2012. Power pool in place.
UMA	1989	Algeria, Libya, Mauritania, Morocco and Tunisia	Full Economic Union	Free trade area (due in 1992) not yet achieved. But conventions in force for investments, payments, and land transport.

\*Disintegrated

\*\* Treaty was revised in 1994

**Source:** ECA (2004)



It should be noted that some of the points in Table 4.1 have been overtaken by events. For instance, the goals of the SADC as far as economic integration is concerned includes: aiming to establish a free trade area by 2008, customs union by 2010 and common market by 2015. SADC was also not established in 1992, but was transformed from the Southern African Development Co-operation Council (SADCC), which was established in 1980. The current status of some of these RECs will be updated in the following paragraphs of this section and also in chapter five, which focuses on the progress of these RECs.

### **East African Community (EAC)**

The Treaty establishing the East African Community was signed by Heads of Government of member states on November 30, 1999 in Arusha, Tanzania, and came into force on July 7, 2000. The East African Community was formally launched on January 15, 2001. The broad goal of the EAC is to enhance co-operation in all areas for the mutual benefit of partner states. The treaty clearly indicates that in order to reach this goal, a customs union will be established as the entry point of the community, followed by a common market, a monetary union, and ultimately a political federation of East African states.

### **Economic Community of West African States (ECOWAS)**

ECOWAS is a regional group of fifteen countries, and it was founded in 1975. Its mission mainly involves promoting economic integration in all fields of economic activity, particularly industry, transport, telecommunications, energy, agriculture, natural resources, commerce, monetary and financial questions, and social and cultural matters. In July 1993, a revised ECOWAS Treaty designed to accelerate economic integration and increase political co-operation was signed.

### **Intergovernmental Authority on Development (IGAD)**

The Intergovernmental Authority on Drought and Development (IGADD) was formed in 1986, and functioned as a vehicle for regional security and political dialogue. The founding members of IGADD decided in the mid-1990s to revitalise the organisation into a

fully-fledged regional political, economic, development, trade, and security entity. This move was mainly motivated by the existence of many organisational and structural problems that made the implementation of its goals and principles ineffective. On 21 March 1996, the Heads of State and Government at the Second Extraordinary Summit in Nairobi approved and adopted an agreement establishing the Intergovernmental Authority on Development (IGAD).

The Assembly of Heads of State and Government signed a document called a Letter of Instrument. This was clearly to amend the IGADD Charter/Agreement, establishing the revitalised IGAD with a new name: The Intergovernmental Authority on Development. The Revitalised IGAD, with expanded areas of regional cooperation and a new organisational structure, was launched by the IGAD Assembly of Heads of State and Government on 25 November 1996 in Djibouti, the Republic of Djibouti.

### **The Common Market for Eastern and Southern Africa (COMESA)**

COMESA was founded in 1993 as a successor to the Preferential Trade Area for Eastern and Southern Africa (PTA), which was established in 1981. COMESA formally succeeded the PTA on 8 December 1994. The establishment of COMESA was a fulfilment of the requirements of the PTA Treaty, which provided for the transformation of the PTA into a common market ten years after the entry into force of the PTA Treaty.

### **Arab Maghreb Union (AMU)**

The first Maghreb Summit of the five Heads of State, held at Zeralda, Algeria in June 1988, resulted in a decision to set up the Maghreb High Commission and various specialised commissions. Finally, on February 17, 1989 in Marrakech, the Treaty establishing the AMU was signed by the Heads of State of the five countries.

### **Community of Sahel-Saharan States (CEN-SAD)**

CEN-SAD is a framework for integration and complementarity. Its aims are to work together with other regional economic communities and the Organization of African Unity, in order to strengthen peace, security and stability and to achieve global economic and social development.

### **Southern African Development Community (SADC)**

The SADC was created from the Southern African Development Co-ordination Conference (SADCC) in August 1992, when the Heads of State and Government met in Windhoek, Namibia, to sign a declaration and treaty establishing the new SADC. This move was mainly motivated by a need to shift the focus of the organisation from co-ordination of development projects to the more complex task of integrating the economies of member states. Hence, the Treaty, which is a blueprint for building a community of Southern African states. The ultimate objective of the SADC is therefore to build a region in which there will be a high degree of harmonisation and rationalisation, in order to enable the pooling of resources to achieve collective self-reliance, which in turn will improve the living standards of people in the region.

### **Economic Commission for Central States (ECCAS)**

ECCAS was established on 18 October 1983 by the UDEAC members and members of the Economic Community of the Great Lakes States (CEPGL) (Burundi, Rwanda and the then Zaire), as well as Sao Tome and Principe. Angola remained an observer until 1999. ECCAS began functioning in 1985, but has been inactive since 1992 because of financial difficulties (non-payment of membership fees) and the conflict in the Great Lakes region.

Because there are eight recognised RECs, all with different protocols, it is very important for the Abuja treaty to provide a framework for the convergence of the protocols of different RECs. This framework should also allow for smooth interaction among economic groupings. The protocol on relations between the African Union and RECs tries to address

this issue. It was adopted by the Heads of States in July 2007 in Ghana. It is in the form of a Memorandum of Understanding, and does not need to be ratified by member states.

#### **4.3.1 Analysis of Protocols of RECs**

The ECA (2004) made an observation regarding important features that the RECS have in common. These are summarised as follows:

##### 4.3.1.1 Lack of complementarity across RECs

Almost all regional economic integration communities have trade protocols, but these are different, despite the provision that they will eventually adopt a single continental trade agreement. Because regions' priorities are different, each protocol emphasises different issues. They therefore implement programmes that vary in intensity, schedule, effect on national policies and other features.

##### 4.3.1.2 Lengthy negotiation process

All protocols have taken time to conclude, and as a result these delays have made it difficult to adhere to the provisions of the treaties. For instance, most trade liberalisation had to be rescheduled because negotiations of trade protocols took time to be concluded and did not meet the target dates.

##### 4.3.1.3 Uneven signing, ratification and implementation

Some, if not most, member countries in Africa do not sign or ratify protocols, or even submit them timeously. For example, in the case of the SADC, the Summit reviewed and approved 15 protocols, but the DRC has neither ratified nor signed any protocol. No member state has ratified more than 11 protocols, except for Botswana.

#### 4.3.1.4 Uneven interest in the provisions of protocols

Some member countries are not that eager to implement certain protocols. This has been reported to be mainly island countries which have little interest in protocols on rail, road, or inland waterway transport. In other cases, countries sign but show less interest and commitment in ratifying protocols, because they stand to benefit less than other parties, or even to lose.

#### **4.4 The EU Experience**

In looking at the institutional framework of the EU, it is also vital not to disregard the history of European integration. The European Economic Community, the European Coal and Steel Community and the European Atomic Energy Community merged to form the European Community in 1967, which eventually paved the way for the Treaty on European Union (Maastricht Treaty) in 1991 (ECA 2006). This clearly indicates that the EU Treaty had gradual and pragmatic reforms, which had its downfalls. Africa can take its cue from the EU institutional framework, but because of its unique political and economic situation, the EU blueprint for integration cannot be followed to the letter. The European experience should inform some of the areas indicated in this subsection in which support is needed by Africa.

The functioning of institutions of the EU such as the Commission, Council of Ministers and Parliament are worth studying and researching by Africa, so that the latter can learn from them. The functions of integrative institutions can be identified as providing strategic direction; organising and coordinating the tactical process; and providing a forum for continuous engagement and negotiation of member states. Although some of these functions may be documented in the AU, implementation is another story. A high level of institutional capacity and investment of human resources in research, negotiation and monitoring has been important to the success of the EU, and the AU needs to learn from this.

The European Union was formally established when the Maastricht Treaty came into force on 1 November 1993. When the membership level increased to fifteen in 1995, with the inclusion of Austria, Sweden and Finland, the Maastricht Treaty was amended in areas such as foreign policy and democracy, and the Amsterdam Treaty came into being. This was followed by the Nice Treaty, which reviewed the Rome and Maastricht Treaties. In 2007, it was agreed that a New Reform treaty would amend and replace existing treaties. This was approved by EU Heads of States in October 2007. This evolution clearly indicates the need to review blueprints for regional integration in accordance with the realities and other developments on the continent. In this regard, Africa should not hesitate to amend its treaties, and should consider starting with the review of the Abuja Treaty.

On the issue of the fundamental goal that should be imprinted in the treaty, one can also consider the example of the European Union. According to the Treaty of Rome of 1957, the EEC agreed in principle to follow the path of economic integration, and eventually become an economic union (Carbaugh 2004). Political economists argue that the main goal was to achieve peace through economic integration and cooperation, a point which is not disputed in this study. In pursuing this goal of economic integration, member states first dismantled tariffs and established a free trade area in 1968. According to Carbaugh, this liberalisation of trade was accompanied by a five-fold increase in the value of industrial trade, and led to the EU becoming a full-fledged customs union in 1970, progressing after a long while to a common market in 1985. There were many frustrations before 1985, particularly in terms of investment restrictions, non-tariff trade barriers and low competitiveness, relative to other countries such as the US and Japan.

While the EU was becoming a common market, its Heads of Government agreed to pursue much deeper levels of integration. In this regard, the Maastricht treaty was signed in 1991 with target dates for an establishment of a European Central Bank and European Monetary Union. When the Maastricht Treaty was signed, economic conditions in the various EU members, then 15, differed substantially. The Treaty specified that in order to be considered to be ready for a monetary union, a country's economic performance would have to be similar to that of other member states (Carbaugh 2004). This meant that

member states could not pursue different rates of monetary growth, economic growth and inflation, with different currencies that did not move relative to each other. In this regard, members of the EU had to align their economic and monetary policies. In 1999, eleven of EU's fifteen members fulfilled the economic tests as mandated by the Maastricht Treaty.

According to the ECA (2004), in the EU, the importance of regional stabilisers to compensate for regional inequalities is supported, but implementing institutions have been criticised for engendering corruption. The structural funds used in European integration have also been criticised as being wasteful. However, in the midst of these negative aspects, European integration is still held up as an example of successful regional integration.

#### **4.4.1 Lessons for Africa**

The above description of the EU's integration does not imply that the EU Treaty and institutional framework should be copied as it is. In this regard, when comparing the Treaty establishing the EU and the Treaty establishing the African Economic Community, there are distinct features that can be identified. First of all, the Treaty of Rome of 1957 was created based on the establishment of the European Steel and Coal Community in 1952. Removal of barriers between Belgium, France, the Federation of Germany and Luxembourg, which separated steel plants and coal mines, was successful and resulted in a common market. What this indicates is that there was a common economic factor that motivated these countries to cooperate.

Secondly, the EU Treaty spells out the criteria that countries need to meet before they can become members of the Union. These are non-negotiable and ensure that member states harmonise their policies with those of the EU, before joining the EU. The situation is different with the AU, where all 53 member states are already members of the Union and no criteria can be forced upon them for implementation. Although the political and economic situations in Africa are different from those in Europe, there is still space to emulate the EU in this regard. For instance, RECs could formulate monetary zones and stipulate criteria for potential members of the REC to meet before becoming a member. The REC should also assist members who do not meet the criteria to move towards achieving

this. This will ensure that nobody is left behind, and that low-performing member states do not affect the region's performance.

Thirdly, the goals and objectives of the Abuja Treaty are supported by economic integration theory. This still gives hope that there are areas in which the European model can be emulated. The integration model of the EU is not necessarily the same. The two Unions might have the same goals which are theoretically sound, but their models are not the same. As indicated, the EU started off cooperating in the steel industry and continued onto other industries. The issue of achieving different stages of economic integration came much later on. One can safely say that their integration was programme-based.

In this regard, Africa might want to consider concentrating on regional sectoral programmes which might begin at sub-regional levels, involving three or four countries per programme but expanding to include other 'qualifying' member states. This is important because some African countries are, at this point in time, not ready to talk about economic integration. These member states do not have the mechanisms and architecture to implement this, for which they cannot really be blamed. This therefore affects the sequence and timing of the stages of economic integration. As indicated above, these member states could therefore be assisted to move towards participating in programmes which will ensure a move towards reaching a particular stage of regional economic integration.

Pursuing programme-based economic integration does not imply that Africa will disregard the stages of economic integration. On the contrary, these sectoral programmes are themselves steps towards each stage in the sequence negotiated by the Treaty. For example, harmonisation of customs policies could be seen as one of the moves to be made towards a customs union. Another programme could include harmonisation of investment laws, which will in no way affect or undermine WTO rules, and could be started by four member of a particular REC, with the aim of including all members upon qualifying. In this regard, Africa will develop its own sectors, even or especially in its poorest member states, by creating cross-border value chains.



Besides criteria for a European monetary union, the EU has criteria for EU membership, which countries applying to be members have to meet. According to Carbaugh (2004), the criteria require that the candidate should have achieved institutional stability, guarantee of democracy, rule of law, human rights, respect for and protection of minorities, the existence of a functioning market economy, as well as the capacity to cope with competitive pressures and market forces within the union. The ability to take on the obligations of membership, including commitment and adherence to the aims of a political, economic and monetary union, is also considered to be one of the criteria for EU membership.

#### **4.4.2 Theory Explaining the European Integration Model**

The foundation and early evolution of the European Community left a legacy that influenced the theory and practice of regional integration, particularly in the Third World (Axline 1994). It provided an example of several countries joining together in an economic union to bring about economic growth in the region. In addition, Axline indicated that the normative goal of political unification, which was pursued on the basis of the theory of security (functionalism), influenced the direction of theories designed to understand the process of regional integration in Africa, Asia and Latin America.

In the 1970s, neo-functionalism was perceived to be successful in explaining European integration. Neo-functionalism emerged as the analytical and probabilistic theoretical approach replaced the functional theory as the major perspective from which European integration was studied. Neo-functionalism was based on the perception that the main aim of European integration was political unification, which was pursued through cooperation in economic activities. Axline has indicated that, to a certain extent, this is the essence of neo-functional theory, whereby initial stages of regional economic integration such as removing barriers to trade can be perceived as non-controversial, and as providing an impetus to moving to a higher or more politicised economic co-operation for adopting a common external tariff, harmonising national policies and adopting regional policies.

The traditional neo-classical custom union theory presupposes a modern, industrialised economy, including full employment of factors of production. However, the reality is that in

developing countries, industrialisation, full employment and sustained economic growth are goals rather than underlying conditions of these countries. Be that as it may, approaches to understanding and establishing regional economic integration have evolved over time. Regional economic integration is now understood as part of a development strategy of the region, particularly in the developing world, where economic development is as important as economic growth.

It is clear that the impact of regional economic integration, based on the European model, will have a different impact in developing countries. For instance, at the centre of customs union theory is industrial production, which should be the focus of European development policy. However, Africa does not have the necessary industrial infrastructure in place. Before the issue of efficiency of industrial production can be addressed, Africa will first need to establish the necessary industrial infrastructure, and its protocols should be reflected according to this.

#### **4.5 What should the Review of the Abuja Treaty entail?**

In learning from other regional bodies such as the EU, Africa should recognise that the nature and magnitude of the benefits of regional economic integration depend on the type of integration agreement. They must clarify the expectations of integration, and specify the criteria that countries which want to become members should meet.

Furthermore, in order for regional economic integration to be effective in Africa, the treaty must also reflect integration as the overall development strategy. In this regard, regional economic integration will be able to better deal with African problems that other means have not succeeded in doing. As highlighted in section 4.3, the Abuja treaty should also have a provision for the establishment of a framework that will guide the convergence of different protocols of different RECs.

The Abuja Treaty anticipates the signing of a total of twenty-nine protocols by the African Union. It might not be realistic to expect member states to sign and enforce all these protocols before the different RECs have harmonised their protocols. It is in this regard that this study feels that the review of the Abuja treaty should address this issue. This

review will have to take into account the realities and current situation in Africa and its regions.

The relationship between the Abuja Treaty and the African Union is still ambiguous and needs to be clarified. The review of the Abuja Treaty needs to include this issue, as it is also imperative to the success of the integration process. RECs are described as the building blocks of the AEC, and are expected to form part of the African Union. RECs have been operating independently in terms of their integration, and their treaties appear to take precedence over the Abuja Treaty in formulating and implementing policy. Although this issue is briefly addressed in the MoU on relations between the AU and RECs, it is important for it to be explained in detail in the Abuja Treaty.

The Abuja Treaty makes mention of the establishment of financial institutions such as the African Central Bank, African Investment Bank and Monetary Union. The review of the Treaty should also focus on the timing and sequence of these institutions, so as to guide the continent in a detailed manner. Ensuring that all the provisions that are contradicted by the Constitutive Act are addressed accordingly is another area that the review of the Abuja Treaty needs to look at. This will deal with the clause that states that the Constitutive Act supersedes the Abuja Treaty in terms of any provision that contradicts it.

#### **4.6 Rationalisation: A New Institutional Framework**

Proliferation and multiplicity of overlapping memberships in RECs, which are also uncoordinated and poorly supported, is not a formula for creating or strengthening the building blocks of the African Union. It undermines collective efforts towards the African Economic Community. This issue has been on the agenda of recent meetings and conferences on the continent and its sub-regions. Given the state of the continent's integration, a review of the institutional framework will only be conceivable if rationalisation is embraced (ECA 2006).

As indicated in 4.3.1, the RECs are expected to be the building block and centre of the regional integration process in Africa. Among the responsibilities with which they have been tasked are conceiving the implementation of integration-related policies and

programmes, mobilising necessary resources to support such policies and programmes, periodic reporting on progress, and exchanging experiences and best practices. The overlapping of integration agreements is the manifestation of several points, but the most important in this regard is the lack of coherence in the integration process, something which was supposed to be championed by the African Union Commission.

The rationalisation of RECs offers hope that the new or rationalised institutional framework for Africa's integration can enable the continent to realise its integration. Thus, given the state of the continent's integration, a review of the institutional framework will only be conceivable if rationalisation is embraced (ECA 2006). In addition, it is also important to embark on the coordination and harmonisation of RECs' activities. This will assist in ensuring that those that are left behind strive to catch up with RECs that are more advanced in terms of regional integration. RECs have already started with this harmonisation and coordination, as will be shown in chapter five. Examples of this are COMESA and SADC, which have harmonised their rules of origin and are currently coordinating air transport liberalisation, information and communications technology policy, and road and safety programmes. These are also done in the EAC.

According to the ECA (2006), the challenges in rationalisation of RECs include the political will and commitment to push forward regional integration, fear of some member states of losing sovereignty and revenue, particularly those benefiting from multiple membership, poor infrastructure, which exacerbates the inability of member states to rationalise, and behind border barriers which, for instance, make trade facilitation costly. These challenges should be addressed by member states at a regional level, in order to guarantee significant progress in this regard. This is another case in which Africa can learn from the EU and institute a sanction regime. It has been reflected in the current debates on the issue of rationalisation that a lack of sanctions at the continental level has facilitated the multiplication of RECs. Sanctions as an integration coordination mechanism are essential, and should be supported by member states so as to have binding rules for enforcing the Abuja Treaty.

In Africa, a sound institutional framework for integration also implies a sound and active relationship between the AU and RECs. The responsibility in this regard does not lie solely with the continental body, AU, as the RECs also have to play a part. The status of the protocol on this relationship was mentioned above, as well as the weaknesses of protocols adopted by the RECs. It is hoped that the new protocol or Memorandum of Understanding between the AUC and RECs will clear up all existing problems on coordination, and create a path for greater achievements in terms of regional integration.

#### **4.7 Conclusion**

The blueprint for regional economic integration is important in guiding the process of integration in the region. The Abuja treaty has done a major job in Africa in this regard. Although some of its provisions need to be revisited, it has guided the regions in terms of integration. Its goals and objectives have proved to be inconsistent with theoretical explanations of successful integration. The profile and state of RECs was presented in this chapter, particularly with regard to the Abuja Treaty.

It has been indicated that most RECs are behind in terms of the six stages towards the African Economic Community, as set out in the Abuja Treaty. The fact that most national governments are not fully committed to pushing the regional agenda forward is also not helping. Harmonisation of programmes and activities will, however, assist in ensuring that the integration process is not stalled. The Abuja Treaty needs to be reviewed, taking into account the new developments on the continent and the current realities in different regions.

A more harmonised and streamlined regional integration architecture in Africa will no doubt contribute to the African Union's success. Furthermore, identifying priority focus areas in Africa can lead to successful results. Africa needs to adopt a more ambitious and robust agenda than is currently defined in terms of the Abuja Treaty, and the agenda at the REC level needs to be selective, hence the importance of reviewing the treaty.

Although the political and economic situation in Europe is not similar to that in Africa, there are still lessons to be learned from the EU integration process. This indeed starts with

the provisions that need to be covered by the Treaty of the Union, and goes on to the policies or protocols that accompany it, as well as the implementation thereof by member states and RECs. The integration process of the EU was not without problems, but it is now a model for successful integration in the world. Although the blueprint (and its content) for regional integration and the institutional framework are important elements of the process, political willingness is equally important. All the policies and protocols created in this regard, as well as regional institutions, should get the support of and be accepted by all members, in order for them to be successful. And, the more comprehensive the policies, the more likely they are to create regional benefits that satisfy the needs and goals of member states. Furthermore, the other area in which Africa can learn from the EU's integration process is in terms of the functions of integrative institutions. Of most importance in this regard is the practice of and commitment to implementing what is captured in the treaties and protocols. A high level of institutional capacity and investment of human resources in research, negotiation and monitoring, has been important to the success of the EU, and the AU needs to learn from this, as this is one area that it is failing.

It is clear that if Africa can embrace the concept of rationalisation of RECs, it will be setting itself on the right path to reviewing and restructuring its institutional framework and aligning them in accordance with the original ideals and goals which were captured in the Abuja Treaty and reaffirmed by the Constitutive Act. The multiplicity and overlapping of these RECs undermines the goals of Africa's blueprint for integration. This process will also allow the regions' activities to be aligned with one another, and make continental integration simpler.

## CHAPTER FIVE

### PROGRESS IN REGIONAL ECONOMIC INTEGRATION IN AFRICA

#### **5.1 Introduction**

The challenges and constraints of consolidating regional economic integration in Africa, as outlined in chapter three, have shaped the response of African leaders on this issue. As such, leaders have recognised that this changing world requires greater collective action and have therefore embraced deeper regional integration with both hands. This is reflected, amongst others, in the decision they made in Sirte, Libya, at the AU Summit held in 1999, to transform the OAU into the AU, which has economic integration as one of its major areas of focus, as indicated in chapter four.

This chapter will move beyond the theory and institutional framework of regional economic integration to examine and discuss progress made in economic integration since the founding of the AEC. Regional economic integration progress in Africa will be examined by looking at the RECs that constitute the pillars for realisation of the envisaged objectives of the AEC and the AU.

In examining the road that Africa has taken thus far in terms of economic integration, an analysis of its economic performance, including trade performance, will be highlighted in this chapter. This specifically indicates the economic growth of Africa per region, the level of implementation of trade liberalisation programmes per region, looking only at AU approved RECs, as well as the general assessment of progress and challenges associated with growth performance and trade increase.

Furthermore, this chapter examines performance with regard to inter-Africa trade, and this includes examining intra-community trade as well. Macroeconomic convergence and trade reforms are other areas in which Africa is assessed in order to determine the extent to which Africa has progressed in regional economic integration. Assessment of progress in this regard has been based on performance, mostly at a regional level, but there is a section

dedicated to sectoral performance in Africa. The experience of the EU in this regard is also examined, and specific areas from which Africa should learn are identified.

## **5.2 Progress in Regional Economic Integration**

Africa's integration is facing numerous challenges and obstacles, as highlighted in chapter three. Some of these challenges are due to overly ambitious goals relative to limited resources and capacities (ECA 2004), particularly wide-ranging goals in terms of trade and macroeconomic integration. However, despite these challenges, Africa has realised for itself the importance and benefits of economic integration. The ECA (2006) has also indicated that African countries reported many benefits from regionally coordinated macroeconomic policies. The challenges and constraints to consolidating regional economic integration in Africa, as outlined in chapter three, have shaped the response of African leaders to this issue. These leaders have recognised that this changing world requires greater collective action and have therefore embraced deeper regional integration with greater conviction.

Since the transformation from the OAU to the AU in 2002, there has been progress as far as creating institutions of the AU is concerned. PAP was inaugurated in March 2004, and the Economic and Social Council (ECOSOC) was launched a year later, in March 2005. AU financial institutions have been allocated to specific member states of different regions. The African Investment Bank was allocated to the North African region, and will be hosted by Libya. The African Central Bank was allocated to the West African region, and will be hosted by Nigeria. The African Monetary Union has been allocated to the Central African region, and will be hosted by Cameroon.

In Africa, names given to regional groupings or RECs have tended to reflect the goal of a regional grouping such as the 'Community' or 'Common Market', as reflected in table 4.1 in chapter four. The common objective of liberalisation schemes proposed by these RECs is to establish a free trade area in each REC, followed by a customs union, and eventually by a common market and economic union. The implementation strategy for this objective should consist of plans aimed at stabilising and gradually eliminating tariff and non-tariff barriers, adopting a common external tariff with regard to trade relations with other countries, harmonising macroeconomic policies, and promoting the free movement of all



factors of production. Chapter four has indicated that the approved RECs in Africa include ECOWAS, EAC, ECCAS, SADC, COMESA, IGAD, AMU and CEN-SAD.

The African Union can serve as the primary anchor of regional integration and streamline the regional integration process across all regions on the continent (ECA 2006). It should provide the necessary continental policy guidance and framework, which will result in substantial harmonisation of policies and approaches to trade and market integration, macroeconomic parameters, and regional policies conducive to savings and investments in productive sectors, among others. A more harmonised and streamlined regional integration architecture in Africa will no doubt contribute to the African Union's success.

### **5.2.1 Economic Performance and Trade Increase in the Regions**

Economic performance on the continent has been influenced by a number of factors, and these include the volatility of commodities' prices, natural disasters such as drought, regional conflicts which have significant macroeconomic impacts, trade balances and many other factors, both internal and external. This is what causes economic performance to differ between regions and countries.

#### **i. Economic Performance**

According to the ECA (2006), Africa's economic performance improved in 2003 with a real GDP growth rate of 3.8 %, compared to 3.2% in 2002. This happened because the continent benefited from the recovery of the world economy in the second half of 2003, rising commodity prices and favourable weather conditions in many parts of the region. This stronger economic performance was led by North Africa, which grew by 4.8%, followed by Central and West Africa, which both grew by 4%, and East and Southern Africa, which both grew by 2.5%. Table 5.1 below indicates the average growth rates of the African region in recent years.

**Table 5.1: Average Growth Rates of African Regions**

<b>Region</b>	<b>1997-2003</b>	<b>2004</b>	<b>2005 (e)</b>	<b>2006(p)</b>	<b>2007(p)</b>
<b>Central Africa</b>	4.2	10.5	4.8	5.0	3.6
<b>East Africa</b>	3.5	7.0	5.6	5.3	5.6
<b>North Africa</b>	4.4	4.7	4.8	6.3	5.6
<b>Southern Africa</b>	2.8	4.6	5.0	6.0	5.7
<b>West Africa</b>	3.8	4.9	4.4	5.3	5.5
<b>TOTAL</b>	<b>3.7</b>	<b>5.3</b>	<b>4.9</b>	<b>5.8</b>	<b>5.5</b>

**Memorandum Items**

<b>Oil-exporting countries</b>	4.7	6.0	5.5	6.9	6.3
<b>Non oil-exporting countries</b>	2.9	4.7	4.4	4.9	4.8

Note: Owing to the lack of data, these aggregates do not include Liberia and Somali

(e): estimates (p): projections

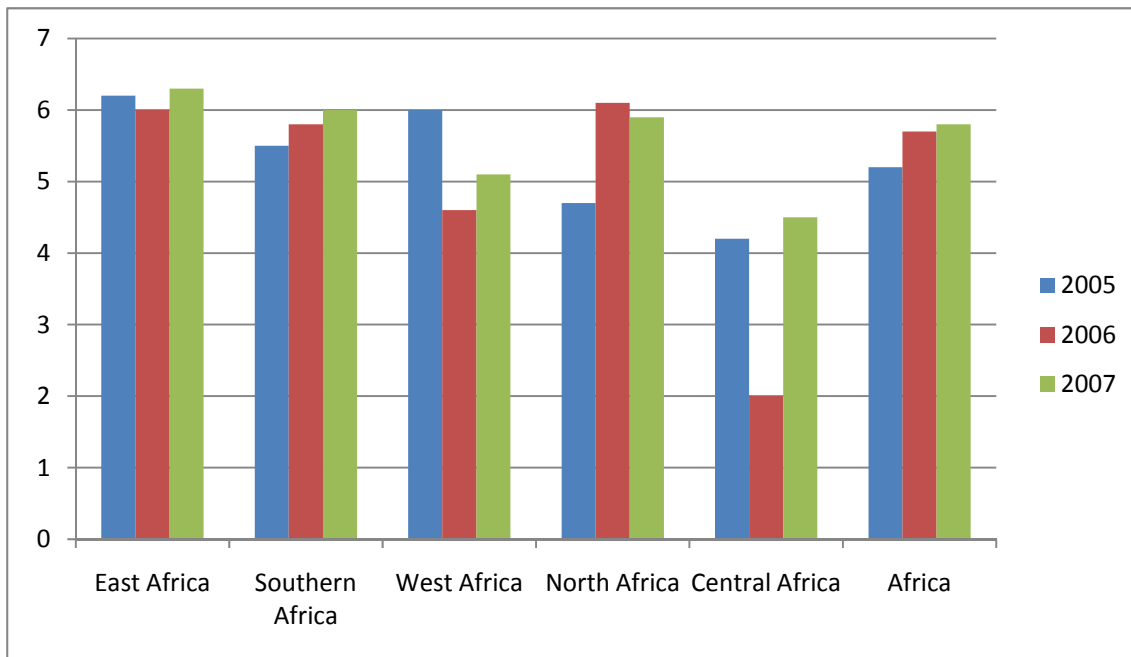
Source: OECD (2006)

Table 5.1 further indicates that Africa as a whole exhibited a real GDP growth of 4.9 percent in 2005. According to the OECD (2006), the main factors supporting this growth performance were strong external demand for oil and non-oil minerals, increased investments in these sectors, and recovery from drought in a few countries. The continuation of sound macroeconomic policies in most of the countries on the continent has also increased business confidence, leading to a general pick-up in private investment. Table 5.1 also indicates that growth was projected to accelerate somewhat on average in 2006 and 2007, notwithstanding the softening of commodity prices in 2005. GDP growth was also strong in 2005 at 5.5 percent, particularly in oil exporting countries, and due to increases in oil prices and production in some countries.

However, the main point is in terms of the significance of this improved economic performance for Africa's regional economic integration. As was indicated in chapter four, the impact of regional integration on growth in Africa has been difficult to assess. The ECA (2004) has, however, clarified this by indicating that regional economic integration can contribute to economic growth by magnifying the impact of three factors, which were

discussed in chapter three and include: technological spillovers, adhering to specific macroeconomic convergence criteria, and updating and improving legislative and regulatory frameworks.

**Figure 5.1: Regional Growth performance 2005-2007 (%)**



Source: ECA (2008)

Figure 5.1 gives more updated data compared to table 5.1. However, table 5.1 assist in analysing the trend of the growth over the years in the African regions and Africa at large. Figure 5.1 reflects that there has been growth in Africa since 2005 to 2007 and that this growth is shared across the regions except for North Africa which decelerated a bit. East Africa, which is not an oil producing region, lead the economic performance contrary to the estimates made in table 5.1 that showed that Southern Africa region will lead the economic performance. Figure 5.1 reflects that Central Africa continued to lag behind over the three year period and this proves the estimations and projections made in table 5.1 to be true in this regard. Despite this, real GDP increased from 2% to 4.5 % in Central Africa. Southern Africa's growth increased to 6.0 % in 2007 and was lead by Angola at 21 %. Countries like

Malawi and South Africa also managed to sustain real GDP growth. West African economic performance stayed at 5.1% in 2007 compared to 6.0% in 2005.

**Table 5.2: Factors that Contributed to Regional Economic Performance**

<b>Region</b>	<b>Factors</b>
East Africa	<p>East African lead in economic performance is attributed to: strong commodity demand, continued high prices, favourable rainfall, accelerated growth in most parts of East Africa, increased government investment in infrastructure, private sector development and rising FDI and tourism.</p> <p>Factors that are constraining growth include: civil conflict in Somalia, political instability in excessive control by the central government in Eritrea, low tourism and inadequate infrastructure in some parts of the region.</p>
Central Africa	<p>Factors that drove the economic growth in Central Africa include increased oil and gas production and revenue which further stimulated non-oil activity (e.g. Equatorial Guinea and Gabon); continued construction and tourism boom ( e.g. Sao Tome and Principe).</p> <p>Constraining factors include: Lower oil production in the Republic of Congo and Chad, weak business environment (Cameroon), and political instability (Central Africa Republic).</p>
West Africa	<p>Factors that contributed to the West African economic growth include: good rainfall, strong agricultural performance, and high commodity prices.</p> <p>Factors constraining growth include: political instability, depleted infrastructure, weak economic institutions (e.g. Cote d'Ivoire and Guinea); poor performances in agriculture, poor infrastructure and the burden of high oil prices in non-oil countries.</p>
Southern Africa	<p>Factors that drove growth in the Southern region include: improved performance of agricultural, mining and tourism sectors, expansion in manufacturing and construction, and increased investment in the corporate sector</p> <p>Constraining factors include: political instability in Zimbabwe, the impact of drought, and declining production in sectors such as textile in countries like Swaziland.</p>
North Africa	<p>Growth factors in North Africa include: increased oil and gas production and high oil prices, increased FDI flows (e.g. in Sudan),</p>

	<p>increased public investment, economic reforms, rebounding tourism sector in Egypt, and expansion in industry and services sector (Tunisia).</p> <p>Constraining factors include: adverse weather conditions and declining agricultural output (e.g. Morocco), contraction in oil production in Mauritania.</p>
--	---

Source: ECA (2008)

Table 5.2 is formulated by the author with information from ECA (2008). This reflects the areas that Africa needs to concentrate on to improve economic performance.

ii. Implementation of Trade Liberalisation Programmes of RECs

Regional Economic Communities have independently pursued their integration agendas, and their treaties appear to take precedence over continental blueprints. At this point in time, there is no legal instrument or provision binding RECs integration agendas to the continental framework. According to the ECA (2004), most of the RECs now have a protocol on trade (and some RECs such as COMESA decided to harmonise their trade protocols with that of other RECs to which some of their members belong, in this case SADC), which will eventually aid in adopting a continental trade agreement. However, priorities differ from one REC to the other, and this is making things difficult for those countries belonging to more than one REC, a problem which is now at the forefront of the integration debate in Africa. Trade protocols, just like other protocols, have taken time to conclude, due to a fear of prospective losses by member countries. Thus, many trade liberalisation schemes had to be rescheduled or not scheduled at all.

A number of RECs are implementing trade liberalisation programmes aimed at eliminating tariff and non-tariff barriers and other trade restrictions and facilitating the free movement of goods and services. The implementation of these trade liberalisation programmes varies from one sub-region to another in terms of characteristics, time-frames, modalities and pace, but there are a number of common features, such as mechanisms for the creation of free trade areas, customs unions and common markets within set time-frames.

### ECOWAS and UEMOA

The trade liberalisation programme of the Economic Community of West African States (ECOWAS) is based on both the free movement of unprocessed goods and traditional handicrafts, free from all duties and taxes, and also on the progressive elimination of duties and taxes on industrial products originating in the Community. Thus, tariff reduction should have been completed within a maximum time-frame of 10 years, as from 1st January 1990. Based on the evaluation exercise undertaken by the ECOWAS Secretariat on the measures taken by member states for internal tariff elimination, it is worth noting that the trade liberalisation programme had not been implemented in full by all ECOWAS countries, as at the specified date (ATPC 2005).

UEMOA is a West African regional grouping which aims for full economic union, and although it is not a recognised REC, it is currently operating as a customs union. Its member states have committed themselves to establishing a free trade area by gradually eliminating tariffs between themselves over the period 1994-2000. In this regard, a preferential trade tariff regime which applies to intra-UEMOA trade was instituted in 1996. To date, the trade preferential regime within UEMOA has been effective.

### CEMAC and ECCAS

Another African grouping operating as a customs union is CEMAC. According to the ATPC (2005), CEMAC's programme to reduce customs duties was implemented in conformity with the time-frame set, and all the requisite conditions for the establishment of a customs union have been fulfilled since 1994. There has been perfect synchronisation in the CEMAC area between observance of the timeframe and the stage that CEMAC has so far reached in terms of implementing the trade liberalisation programme. By 1994, all member states had eliminated tariff barriers, which means that they had fulfilled the conditions for the creation of a customs union.

For eight years following its establishment, the Economic Community of Central African States (ECCAS) pursued a step-by-step programme towards trade liberalisation. The Community intends, via a process of gradual reduction and eventual elimination of intra-Community barriers to trade, to become a customs union after the establishment of a

preferential trade agreement. ECCAS has been inactive for over 10 years, owing to socio-political instability in the region, but at present, there is a firm commitment on the part of the ECCAS member states to revitalise the Community through increased budgetary contributions and the adoption of a recovery programme. It is expected that this initiative will give new impetus to ECCAS. None of the objectives of the trade liberalisation programme have been achieved.

### SADC and SACU

The Southern African Development Community (SADC) committed itself to establishing a Free Trade Area by 2008, a Customs Union by 2010, and a Common Market by 2015. The basis for a trade liberalisation programme in the SADC is in terms of the implementation of the SADC Protocol on Trade. This was signed by 11 member states, and its implementation began in September 2000, with 85 percent of all intra-SADC trade scheduled to be duty-free by 2008. The remaining 15 percent consists of sensitive products to be liberalised by 2012.

The Southern African Customs Union (SACU) is the third regional grouping, and is not a recognised REC, but is the oldest customs union in Africa. Its member states that are also members of the SADC, particularly South Africa, are required to reduce tariffs on intra-SADC trade faster than other members. According to the ATPC (2005), SACU provides duty-free entry for 77 percent of non-SACU imports from SADC members by 2000, and 97 percent by 2008. South Africa will eliminate all tariffs by 2012. Because the SADC trade protocol is new, the tariff reduction programme has not yet been finalised. The Democratic Republic of Congo has not signed the protocol. Duties are distributed based on a formula that favours smaller members. After more than five years of negotiations, this formula was modified to make up for the shortfall in SACU customs' collections as the EU-South Africa trade area is being implemented. In addition, a new formula was developed to help Lesotho and Swaziland boost government revenue relative to Botswana and Namibia. Despite these improvements, authors such as Schiff et al (2003) have continued to describe the SACU as the most hegemonic customs union in Africa.

## UMA

The Arab Maghreb Union (UMA) had trade liberalization high on its agenda when the organisation was established in February 1989. In 1991, UMA countries signed a protocol under which goods originating in and traded among member states would benefit from the elimination of tariffs and non-tariff barriers. Tariff elimination has yet to be fully implemented. Members trade more through bilateral arrangements than through the UMA trade protocol (ECA 2004b).

## COMESA and EAC

Members of the Common Market for Eastern and Southern Africa (COMESA) began tariff reduction in 1984, and were expected to have eliminated all tariffs by 2000. By the target date of October 2000, nine out of 20 member states of COMESA had met this requirement, allowing the launch of the Free Trade Area in accordance with the provisions of the protocol that had been signed. Some countries fully liberalised intra-regional trade, while others did it partially. With the membership in 2004 of Burundi and Rwanda, COMESA's FTA currently comprises 11 members. During this time, Ethiopia had achieved a 10 per cent tariff reduction, while Seychelles and Swaziland had not. Namibia and Angola have pulled out of COMESA. By the virtue of the SACU, Swaziland cannot unilaterally extend preferences to COMESA members - hence it is given special treatment.

The objective of the East African Community was to establish among the three member states a customs union by 2004, then a common market, after that a monetary union, and ultimately a political federation. To this extent, the EAC countries established a customs union in 2005, and are working towards the establishment of a common market by 2010, a monetary union by 2012, and ultimately a political federation of East African states. It is a large regional economic bloc encompassing Burundi, Kenya, Rwanda, Tanzania and Uganda, with a combined population of 120 million, a land area of 1.85 million sq kilometres, and a combined gross domestic product of \$ 41 billion, which bears great strategic and geopolitical significance and prospects for a renewed and reinvigorated East African Community. The three member countries have initially undertaken a gradual tariff reduction, with a 90 percent tariff reduction for Kenya, and an 80 percent reduction for Tanzania and Uganda. Furthermore, they have coordinated and harmonised their trade



policies and programmes within the Community, much faster than under the framework of a free trade area. Negotiations towards the creation of a customs union led to the signing, in March 2002, of the Treaty establishing the union among the three countries. The EAC officially became a customs union in January 2005.

iii. General Assessment of Progress and its Challenges Associated with Growth Performance and Trade Increase

The total elimination of non-tariff barriers and other administrative obstacles to trade is still a challenge for almost all RECs. This is actually one of the weak points of the SADC's trade liberalisation process. In ECOWAS, the lack of clear national guidelines in some countries with regard to the implementation of the trade liberalisation scheme by the customs administration constitutes a hindrance to intra-community trade. By definition, countries that are members of a free trade area facilitate intra-trade expansion by removing all tariff and non-tariff barriers to trade with one another (ATPC 2005). Furthermore, many African states still apply a number of protectionist measures, which pose obstacles to the promotion of intra-Community and intra-REC trade. These measures include numerous roadblocks and customs posts between countries, despite the resolutions adopted with a view to ensuring the free movement of goods and people.

Chapter two of this study pointed out that in order to ensure that members do not cheat on each other and prevent non-members from enjoying the benefits of free trade within the Community, rules of origin are needed in order to identify goods that qualify for free trade treatment. In this regard, origin requirements for products in most African RECs are generally defined by a minimum share of domestic value added or a maximum share of imported inputs to total product value. However, the specific levels tend to differ among economic communities –even when they have overlapping memberships and originate from the same sub-region.

## Free Trade Agreement and Customs Union

Regional economic communities that are aspiring to become a customs union cannot avoid establishing common external tariffs, as explained in chapter two of this study. The common external tariff should, however, not be seen as a means of import restriction but as an industrial policy instrument for diversifying sub-regional production structures. It has been mentioned above that the UEMOA, CEMAC and SACU are already fully functioning customs unions, and that they are however not recognised as RECs. The UEMOA established a common external tariff in January 2000, while CEMAC introduced a new common external tariff structure in 1994, which is actually an improvement on the one introduced in 1992.

In addition, EAC is the only recognised REC that is a customs union. In this regard, COMESA, SADC, ECOWAS, ECCAS and UMA have to intensify their efforts in this area, in order to reach this stage. However, COMESA, SADC, ECOWAS and ECCAS will have to see how to harmonise or rationalise with the already existing customs unions in their regions. At the recently held Summit of COMESA, the leaders indicated that a customs union will be launched in 2008, i.e. without the countries that are not ready, such as Ethiopia.

Most African countries are hesitant to fully liberalise their economies, for reasons that have already been alluded to in chapter three. One major problem in establishing free trade areas and customs unions is that most African countries depend on foreign trade taxes as revenue for financial public expenditure. There is a fear of revenue loss, despite the conventional wisdom that free trade is good for growth and development, and that liberalisation of trade and integration of regional markets could have dynamic, long-term effects, which will benefit member states more as a means to offset the short-term losses they may incur. The RECs need to actively explore liberalising their markets to enable them to enhance intra-REC and intra-African trade.

Trade facilitation is also considered to be very important in ensuring that trade flows are enhanced among member countries. This mainly involves practical measures such as simplifying and harmonising documents and customs procedures, and adopting a common

instrument. A number of RECs have introduced measures to this end, and these include ECOWAS, CEMAC, SADC, COMESA and EAC (ECA 2004b). Among these RECs, COMESA has the most extensive programme for trade facilitation and promotion. Because two-thirds of EAC member countries also belong to COMESA, the EAC applies many of COMESA's trade facilitation and promotion measures.

To sum up the above, besides trade liberalisation schemes, few recognised RECs have integrated markets or established fully-fledged free trade areas (e.g. SADC launched a FTA in September 2000, and COMESA established a FTA in October 2000), let alone a customs union. Failure to rapidly unify sub-regional markets has slowed the investment growth associated with economies of scale (ECA 2004).

### **5.2.2 Progress in Intra-African Trade**

Despite an abundance of trade liberalisation schemes and changes to open markets, intra-community and inter-African trade remains low and undiversified. Table 5.3 below indicates the share of Africa's RECs in intra-community trade, based on the absolute values of exports and imports from 1994-2000, as provided by ECA (2004). This includes information from other intergovernmental institutions, which are not recognised as a regional economic community by the African Union.

Table 5.3 below clearly indicates that trade efforts to create free trade areas and customs unions have occupied a large part of RECs integration endeavours. The table shows that SADC accounts for the largest share of intra-community trade, with exports amounting to 31% and imports to 30% respectively. This performance partly reflects South Africa as the largest economy in the region. This is impressive performance, as the SADC only started implementing its trade protocol in September 2000.

**Table 5.3: Shares and Rankings of RECs in intra-community trade, 1994-2000**

<b>REC</b>	<b>Share of exports</b>	<b>Rank</b>	<b>Share imports</b>	<b>Rank</b>
<b>SADC</b>	31.1	1	30.2	1
<b>ECOWAS</b>	19.8	2	20.9	2
<b>CEN-SAD</b>	12.8	3	13.3	3
<b>COMESA</b>	9.3	4	9.5	4
<b>AMU</b>	8.6	5	8.8	5
<b>UEMOA</b>	5.9	6	5.6	6
<b>EAC</b>	4.7	7	4.2	8
<b>IGAD</b>	4.4	8	4.6	7
<b>ECCAS</b>	1.3	9	1.3	9
<b>CEMAC</b>	1.1	10	1.1	10
<b>IOC</b>	0.7	11	0.3	11
<b>CEPGL</b>	0.1	12	0.1	12
<b>MRU</b>	0.1	12	0.1	12
<b>Total</b>	100		100	

Source: Economic Commission for Africa, 2004.

Table 5.3 further indicates that the SADC is followed by ECOWAS, with 19.5% of exports and 21% of imports. ECOWAS has made progress in areas such as unprocessed and traditional goods, and more still needs to be done in terms of industrial goods. CENSAD's share of internal trade is reflected in the table as having a rank of three, which is very impressive given the fact that CENSAD has yet to develop a fully-fledged trade regime. Its imports are concentrated around UMA member countries. UMA produced the top five

performers, with 8.6% of exports and 8.8 % of imports. These variations in performance need to be viewed against the range of efforts and levels of progress by the RECs in trade and market integration, also bearing in mind that the Abuja treaty anticipated that the RECs would meet the requirements for a free trade area by 2017, as indicated above.

Insufficient progress in unifying the regional market has harmed trade creation and expansion, particularly intra-REC and intra-African trade flows. According to Olubomehin and Kwawonishe (2004), there are a number of factors that have contributed to the low volume of intra-African trade. Firstly, the fact that most African countries produce raw materials for which there is virtually no demand elsewhere in Africa. Secondly, often only a few commodities make up the bulk of exports to the rest of the continent. For instance, in Angola, petroleum and petroleum products account for 90% of its exports to other African countries, whereas Seychelles' fresh fish constitutes 98% of its exports to African countries. These are of course extreme cases, and do not in any way suggest the trading patterns of all African countries.

Thirdly, Olubomehin and Kwawonishe indicate that African countries are still grappling to undo a legacy dominated by trade with their former colonial rulers rather than each other. For instance, despite the fact that Senegal surrounds Gambia, trade between the two countries is reported to be negligible. Senegal's biggest trading partner is France, whereas Gambia trades extensively with the UK. As a result of these hindrances to trade within Africa, exports from Tunisia and Cameroon often find their way to French warehouses before being redirected to each other's market shelves. In other words, African integration has been relatively more outward-looking, at the expense of intra-regional trade. This is also reflected in Tables 5.4 and 5.5 below. These tables show that RECs are highly dependent on trade with the outside world.

**Table 5.4: Overall direction of export trade, 1994-2000 (average %)**

<b>REC</b>	<b>Intra-Community</b>	<b>Rest of Africa</b>	<b>European Union</b>	<b>United States</b>	<b>Other Countries</b>
<b>SADC</b>	12.8	4.6	26.6	14	42
<b>ECOWAS</b>	10.3	2.9	39	26.1	21.8
<b>CEN-SAD</b>	3.6	3.5	52.7	14.5	25.6
<b>COMESA</b>	6	8.2	39.3	20.8	25.7
<b>AMU</b>	3.1	1.3	71.1	6.3	18.2
<b>UEMOA</b>	11.2	12.2	45.9	4.9	25.8
<b>EAC</b>	18.1	12.4	40.5	3.6	25.4
<b>IGAD</b>	13.8	13	37.4	3.8	31.9
<b>ECCAS</b>	1.9	2.5	45.2	27.7	22.8
<b>CEMAC</b>	1.9	2.2	41.2	30.5	24.2
<b>IOC</b>	4	3.7	68.5	14.7	9.1
<b>CEPGL</b>	0.6	4.7	64.1	15.4	15.2
<b>MRU</b>	0.5	4.1	74.4	13.6	7.4
<b>African Average</b>	6.8	5.8	49.7	15.1	22.7

Source: Economic Commission for Africa, 2004.

**Table 5.5: Sources of imports to RECs, 1994–2000 (average %)**

<b>REC</b>	<b>Intra-Community</b>	<b>Rest of Africa</b>	<b>European Union</b>	<b>United States</b>	<b>Other Countries</b>
<b>SADC</b>	10.7	2.1	25.9	6.6	54.7
<b>ECOWAS</b>	11.5	2.1	45.8	6.9	33.8
<b>CEN-SAD</b>	3.2	2.9	51.2	8.5	34.3
<b>COMESA</b>	3.5	9.7	33.7	10	43.1
<b>AMU</b>	3.2	1.7	60.8	6.1	28.1
<b>UEMOA</b>	7.9	12	41.7	4	34.4
<b>EAC</b>	9.3	8.9	30.4	5.6	46
<b>IGAD</b>	7.6	7.3	32.2	5.4	47.5
<b>ECCAS</b>	3	16.1	53.1	7.7	19.8
<b>CEMAC</b>	3.8	9.8	60.2	8.1	18.1
<b>IOC</b>	1.4	16.4	41.1	3.8	37.3
<b>CEPGL</b>	0.7	33.9	34.9	6	24.5
<b>MRU</b>	0.4	6	49.2	4	40.4
<b>African average</b>	5.1	9.7	42	6.4	36.8

Source: Economic Commission for Africa, 2004.

The tables above clearly reflect that RECs exports to countries outside Africa averaged 87.5% of total exports, while sources from outside Africa amounted to 85.2 %. This indicates that, despite trade liberalisation schemes, RECs still depend heavily on the outside world for trade.

According to the UNCTAD Statistical Manual (UNCTAD 2004), the total volume of intra-regional trade among these RECs accounted for a relatively low share of total exports from these RECs, which translates into 10 percent or less in general, with the exception of UEMOA and SADC, whose relative share of intra-community exports was slightly above 10 percent and 22 percent respectively.

However, it is a fact that industrial co-operation in RECs has hardly boosted production or added value. The ECA (2004) supports Olubomehin and Kwawonishe regarding the fact that the main reasons for this include weak intersectoral links and a limited range of products in African countries. It is important for Africa to decide how to launch a process of industrialisation at this point in time. The manufacturing sector is not technologically advanced in Africa, and in most countries there is no Public-Private Partnerships (PPP), meaning that the private sector is playing a marginal role in the economic integration process. Intra-REC trade has remained very low (2-7%), and has even decreased in some cases. The ATPC (2005) has indicated that in general, trade structures across the continent are virtually the same. There has been little change over the past 40 years. However, in recognising these problems, all RECs have now initiated soft measures to galvanise growth in industry, supporting intra-industry trade mainly through trade liberalisation programmes.

### **5.2.3 Progress in Integration based on Sectoral Performance**

In its mission of measuring progress in integration in Africa, the ECA conducted research in 2004, which gauged the direction and momentum of regional integration in Africa. The research went beyond measuring integration based on trade creation and trade diversion, by incorporating sectors involved in regional integration. The study involved compiling indicators of integration in each sector, which were used to construct indices for each sector, REC and all of Africa. The indices helped to identify and explain the reasons for progress in terms of the stated goals of RECs, and assessed overall trends in regional integration in Africa. This study has shown that there is significant progress in regional integration in Africa, although it is proceeding very slowly. According to the results of the ECA study, regional integration has indeed proceeded weakly and unsteadily across sectors



until 2000. The fact is that the situation has not improved much since then. Therefore, the results of this study will be highlighted in order to show the plight of regional economic integration in Africa.

The study by the ECA concluded that there has been an uninspiring performance in terms of integration which resulted from divergent trends at regional and sectoral levels. The real increase in the regional integration index was only 1-2 % a year between 1995 and 1999. However, CEMAC, CEN-SAD, IGAD and ECCAS made good progress in integration from 1995 till 1997, although this momentum then slowed down. The study further observed growth for groups such as COMESA (and UEMOA) until 1998. Two other strong performers have been the SADC and ECOWAS, while the UMA shows stagnant performance. The best-performing RECS had well-developed integration programmes which were implemented steadily and effectively by member states. Performance was poor in RECs where activities were disrupted or programmes failed to take off.

On the basis of the integration indices constructed by the ECA (2004) for this study, Africa's RECs were placed into five different groups in terms of their performance, measured in terms of average growth in integration indices. These include the following (ECA 2004):

- Above average (6% and higher) – UEMOA, ECOWAS and SADC
- Average (between 4% and 6%) - CEMAC, CEN-SAD, and ECCAS
- Close to average (between 2% and 4%) - EAC, IGAD, and COMESA
- Stagnant (2% and lower) – UMA
- Volatile (erratic returns) – CEPLG, IOC and MRU

Annex 1 of this dissertation explains how these indices were compiled. The ECA study further indicates that strong trade expansion and above average performance in money and finance, transport and telecommunications sectors explain the faster integration of the abovementioned top three performers. These are some of the areas in which Africa experiences challenges.

The joint programmes and projects towards the development of infrastructure and other sectors constitute one of the pillars for integration, as spelt out in the Abuja Treaty. The Treaty includes numerous ancillary protocols on trade, customs, special treatment for certain countries, popular participation, dispute settlement and sectoral and infrastructure development, but none of these protocols have been ratified or finalised. There are areas of success in Africa, but the continent still has a long way to go before realising the full benefits of regional integration (Commission for Africa 2005; Ouattarra 1999).

The ECA study also assessed integration performance based on overall trends in the sectoral indices. It was observed that the sectoral objectives in the treaties of the RECs are integral to achieving regional integration and establishing the African Union. Moreover, the ECA study observed that integration moves faster when RECs harmonise their efforts, as in the cases of ECOWAS and UEMOA, and also COMESA, EAC and SADC, where broader consensus on regional integration has emerged. These differences in performance suggest a need to strengthen efforts to align the protocols of RECs with those of the Abuja Treaty. It is now a good opportunity, as the African Union intends to review the Abuja Treaty. This could be done in collaboration with RECs and in parallel with the process of rationalising the RECs and harmonising their policies.

The study shows that the fastest average growth in integration from 1994 to 1999 occurred in communications (9.7%) and trade (7.6%). In terms of communications, the ultimate aim is to create a network that connects all African countries and strengthens the continent's ICT in the quest to bridge the vast digital divide between Africa and the rest of the world. In this sector, the challenges have been overwhelming for Africa. For instance, the World Bank (2000) reported that Africa has the lowest telephone density in the world, and yet the highest telephone charges, and three times the rate of faults per line than in other developing regions. To be more specific, the report states that for every 100 people in Africa, there are 1.2 telephone lines and calls can be 50-100 times more expensive than they are in North America. With regard to transportation, the freight costs for imports to landlocked countries are still more than twice higher than in Asia.

The runner-up groups also display reasonable growth of intra-regional trade, with some (such as CEMAC) showing progressive macroeconomic convergence. The study found a strong correlation between the regional integration indices and economic policies of individual member countries. Regional integration was also found to be strongly correlated to robust economic growth, as reflected in the correlation between integration and per capita income.

#### **5.2.4 Macroeconomic Policy Convergence**

As far as macroeconomic convergence is concerned, not all RECs have established macroeconomic policy criteria on which to converge. For those RECs that have established macroeconomic policy criteria (such as ECOWAS, SADC, UEMOA and CEMAC), convergence has been very difficult because of differences in economic and political governance, and varying degrees of commitment, amongst others. Furthermore, regional financial and capital markets are underdeveloped, and the multiplicity of non-convertible national currencies in Africa makes cross-border trade and investment very difficult.

The ECA study reported that growth was moderate in money and finance (4.5%) sectors. Most RECs view macroeconomic stability and convergence as key instruments of regional integration and monetary, fiscal and financial integration are indeed among the most important areas of the RECs' integration efforts. African countries continue to pursue macroeconomic policies that limit the deepening of integration and create opportunities for arbitrage and smuggling, especially along the borders (ECA 2006). Their macroeconomic convergence differs among RECs, partly due to different development levels and partly due to historical reasons (ECA 2004).

Progress in controlling inflation, harmonising fiscal policy stances, and reducing the ratio of tax revenue to GDP, has been reported by the ECA (2006) to be generally below expectation. The sectors that have been lagging behind are agriculture (0.2%), human resources and labour markets (-0.1%), and energy (-0.6%). The ECA (2006) has indicated that there has been no demonstrable progress in creating monetary unions. This is with the exception of UEMOA and CEMAC, which have been monetary unions for more than four

decades. SADC and COMESA adopted convergence more than two years ago, and UMA has not yet established convergence parameters, which includes reducing inflation, budget and fiscal deficits, and lowering external debt.

The ECA (2004b) indicated that as far as macroeconomic stability is concerned, Africa's inflation rates remained largely unchanged in 2003, with the regional rate rising slightly from 9.3% (in 2002) to 10.6%, reflecting lax fiscal policy in some countries and low agriculture production in others. In Zimbabwe, macroeconomic stability continues to deteriorate, with inflation rising to 420% in 2003 from 140% in 2002, and reached a high of 700% three years later. This is mainly as a result of shortages caused by the country's ongoing political and economic crisis. High inflation also remains of concern in Eritrea, Ghana, Mozambique, Nigeria and Zambia. Angola's inflation rate remained high, at over 90% in 2003, despite price growth reduction. The DRC and Cote d'Ivoire made considerable progress in reducing and maintaining respectively manageable inflation rates. Twelve out of fourteen countries in the CFA zone registered inflation at under 4% in 2003 (ECA 2004b).

Following the historically low inflation rate of 7.5 % in 2004, inflation in Africa increased slightly to 7.9 % in 2005, largely due to the impact of increasing energy prices and unfavourable weather conditions, especially in Southern and West Africa (OECD 2006). The number of countries that experienced inflation rates of above 20% in 2005 increased to four from three the previous year, as reflected in Table 5.6 below. These included Angola, DRC, Zimbabwe and Guinea-Bissau. The forecast made for 2006 and 2007 assume that monetary authorities in most African countries will be successful in resisting the recent increase in inflationary pressure. According to the OECD, if they succeed, the average inflation rate for the continent as a whole is expected to slowly decrease to 7.3 per- cent in 2006 and 6.5 percent in 2007.

**Table 5.6: Weighted Mean CPI Inflation of African Regions**

<b>Region</b>	<b>1997-200</b>	<b>2004</b>	<b>2005 (e]</b>	<b>2006(p)</b>	<b>2007(p)</b>
<b>Central Africa</b>	37.9	1.5	5.3	3.2	2.8
<b>East Africa</b>	5.7	8.4	7.6	6.0	5.5
<b>North Africa</b>	3.2	4.3	5.2	4.7	4.1
<b>Southern Africa</b>	18.1	10.7	9.2	11.5	10.4
<b>West Africa</b>	8.8	9.8	12.6	6.1	5.6
<b>TOTAL</b>	<b>10.2</b>	<b>7.5</b>	<b>7.9</b>	<b>7.3</b>	<b>6.6</b>

**Memorandum Items**

<b>Oil-exporting countries</b>	7.8	8.1	8.8	6.7	6.0
<b>Non oil-exporting countries</b>	12.6	6.9	7.1	7.9	7.1

Note: Owing to the lack of data, these aggregates do not include Liberia and Somali

(e): estimates (p): projections

Source: OECD (2006)

Furthermore, fifteen countries saw the appreciation of their currencies against the US dollar in 2003, with twenty-one weakening and one showing no change (ECA 2004b). The South African rand appreciated against the weak dollar in 2003 as a result of relatively high domestic interest rates. The CFA franc also continued to appreciate in 2003 because of its link to the Euro. However, the strengthening of the US dollar against the Euro during 2005 led to a modest depreciation of the effective exchange rate in the Franc Zone, the real effective exchange rate of UEMOA, and the South African rand and those countries whose currencies are pegged to it, such as Lesotho, Swaziland and Namibia (OECD 2006). These developments partly reversed the sharp appreciation of these same currencies which had occurred in 2003–2004, strengthening the competitiveness of non-traditional exports.

According to the ECA (2006), monetary unification, which is necessary for deepening regional integration, has been slowed by two factors in Africa. Firstly, there are too many competing local currencies, most of which are non-convertible within and across RECs. Secondly, there is a multiplicity of exchange rate regimes. There are, however, steps that

have been taken in this regard by other RECs. For instance, although the long awaited West African Monetary Zone comprising The Gambia, Guinea, Ghana and Nigeria is not yet operational, progress in this regard is evident. There is a definite date set for introducing a single currency for ECOWAS, which is called 'the eco'.

At present, the challenge is no longer how to voluntarily emulate the EU, a successful economic union, but how to adjust to new realities. In Africa, the integration process must be perceived as an instrument of development. In so far as development objectives of the AU member countries are concerned, they are more or less homogenous (Rosenthal 1987). However, there co-exist governments with dissimilar political objectives, particularly in relation to the role of the state in the economy.

### **5.2.5 Trade Reforms**

There is still the question of how far trade reforms, which African countries are engaged in as a result of their membership of different regional economic communities, can bring about development and integration. The study by the ATPC (2004) has indicated that there is some consensus that such reforms undertaken in the 1980s and 1990s have made the region relatively more open to market forces and private sector activity. It claims that exchange and price controls, as well as marketing boards, have been eliminated in several countries, and there has been a significant reduction in tariffs. According to the World Bank (2000), average trade weighted tariffs of several countries have been reduced to fifteen percent or less, and core no-tariff barriers in the twelve SSA countries included in a recent study fell from 26 percent in 1989 to 1994, to 10.4 percent in 1995 to 1998. However, these reforms have also left deeper and difficult legacies for African countries: hysteresis effects, which are difficult to reverse. This could be the reason why, besides progress that has been made, benefits from these reforms remain limited.

There is, to some degree in Africa, the need for joint efforts in order to enhance regional economic integration. The ECA (2004) indicates that African sectoral projects have showed that there has been progress in this regard. A large number of countries participate in these

different projects, mainly as sub-regions or RECs. This is one area of regional integration that indicates that Africans have realised the importance of regional economic integration.

Compared to the 1960s and 1970s, regional economic integration in Africa is now wider, with a degree of success involving more countries, and to some extent more complex industries. To a certain extent, although limited, the economic foundation for economic integration has been laid down in Africa. This is so, despite the conflicts and other problems experienced in other countries. One can therefore safely conclude that Africans appreciate the importance of regional economic integration, even if not fully. Progress has been significant, but there needs to be improvement in a number of areas.

In this regard, the issue of levels of development amongst African countries cannot be ignored. Although some states are developing, there are still those that are lagging behind. It is due to the latter that the concept is not fully appreciated, and is accepted with mixed feelings. Each state wants to protect its national interests, and these include the attainment of high rates of economic growth in national economies. If the benefits of regional integration are not adequately conceptualised so that everyone can understand, some countries, especially those that benefit from dual membership of RECs, might continue to derail the progress of regional economic integration in Africa. It is therefore imperative to ensure that all countries fully adjust to economic integration.

There is no doubt that Africa's existing customs unions are still facing many problems. Most of these problems are not new, and are mostly two-fold. Firstly, due to the high cost structure of most African industries, it is still advantageous for some countries to import goods from other countries. This is sometimes the case, regardless of whether or not the economies of scale have been fully exploited, largely due to technological factors, import content of raw material, and the organisation of the market structure. In the second place, there are difficulties stemming from the collection and distribution of customs revenues. Due to the lack of adequate and reliable statistics, and the difficulty encountered in the adoption of the formula for sharing revenues that would satisfy land-locked countries, it has often been difficult to determine the total revenue collected and to ensure its fair and equitable distribution. As a result, time and again inland countries have erected tariff walls

contrary to the customs union commitment, in order to protect their industries or for revenue purposes. It has been observed that Africa has now started to deal with such problems.

It is clear that there are efforts being made towards regional economic integration in Africa. However, the main problem is that the enabling environment for regional integration has been absent. The challenges have been outlined in the previous chapter and emphasised in this chapter, but the main stumbling block to successful regional integration in Africa is the great diversity in terms of African countries' sizes, national resources, levels of development and connections to the global market. For instance, Benin does not have the same economic interests as its giant, oil-rich neighbour, Nigeria, and South Africa and Malawi do also not experience the costs and benefits of a regional trade agreement in the same way (Olubomehin et al 2004).

### **5.3 Lessons from other Regions**

In spite of past experiences, which may have been quite negative in certain groups that integrated developing countries, new opportunities are still present. These opportunities have been prompted by at least four developments since the mid-1980s. First, the deepening and widening of integration in the European Union (EU) and North America Free Trade Area (NAFTA); second, economic transition in formerly centrally planned economies in central and eastern Europe, and the possibility of some kind of integration with the EU; third, a change in economic policies in developing countries towards more outward-looking models; and fourth, integration between developed countries (such as the United States and Canada) with a developing one (such as Mexico).

This clearly shows that Africa is not alone in the quest to integrate its economies. With increasing globalisation and the advent of the World Trade Organisation (WTO), other parts of the world have embraced the ideal. Besides EU and NAFTA, others include CARICOM in the Caribbean, CAEU in the Middle East, and CACM in Central America.

The degree of success in integration, however, has varied between regions. This section will examine the EU regional integration scheme, and highlight the lessons that African can



learn from its achievements and failures. Although this study does not focus on Africa's economic integration into the global economy, this section will touch on this issue.

### **5.3.1 European Union Integration Model**

The biggest achievements in integration have been among developed countries, in particular the European Union. The EU is hailed as an example of successful regional integration, mainly because its integration has both deepened and widened in that region. Africa, like other regions, is learning from and trying to emulate the integration of the EU. Africa views the EU as the model that has achieved the same ideals that African integration aspires to achieve. Policymakers of the EU had a favourable view of integration. They attempted to use economic integration as a means of securing access to a wider market and reinforcing growth, in order to attain a higher level of national welfare.

Following the elimination of tariffs and quotas in 1968 in the EU, a deepening of integration covered areas such as competition, public procurement and services, thus preceding multilateral negotiations and agreements on these issues (Jovanović 2001). Developing countries have altered their inward-looking integration strategies of the 1960s towards improved economic ties with the north in the 1990s. However, because of these changed aspirations, past experiences in integration in the developing world are not very useful guides for future integration policy. Nonetheless, economic integration has remained an attractive economic strategy for the developing world. This is also because integration can serve as a reliable 'insurance policy' against sudden changes in the trading behaviour of partner countries.

The ECA (2006) confirms that there are several things which Africa can learn from the EU model. For starters, it is important to adopt a strategic approach to regional integration by prioritising areas of action. The EU decided early to develop regional markets in agricultural products. Africa is far more dependent on agriculture than any other developing region, and could learn from the EU in this regard. However, this is not the only sectoral issue on which Africa can focus. Chapter three of this study has highlighted several other sectors which are lagging behind in Africa and are affecting its integration progress.

Prioritisation of integration programmes needs to take the centre stage of Africa's integration.

Another fundamental lesson from EU for Africa is on how institutions shape integration. This is another topic for research, and this study will not go into detail in this regard. However, the point is that Africa needs to identify focus areas and take them into account when reorganising. This could lead to good results, in that RECs can still move towards the objectives of the Abuja Treaty, as each region has its own comparative advantages. Prioritisation will further allow RECs to build competencies in relevant institutions in order to achieve their objectives. Put simply, Africa needs to adopt a more ambitious and robust agenda than is currently defined in the Abuja Treaty, and the agenda at REC level needs to be selective (ECA 2006).

Furthermore, lessons from the EU show that in order for macroeconomic convergence to work, there must be key determinants in place, such as: building consensus in developing convergence criteria and its implementation modalities, as well as commitment to agreed obligations; prioritisation in the design of policy objectives and strategies, as well as the setting up of relevant institutions and assigning of mandates at national and regional levels; equitable, objective and transparent mechanisms for determining and allocating costs, benefits and corrective measures that integration entails; an appropriate, independent supranational authority and requisite regional institutions (e.g. regional central bank), with a clear focus and realistic transaction framework towards integration (Maruping 2005).

The ECA (2004b) has indicated that African governments continue to be challenged by the tension between the need to increase spending on poverty-reducing areas and to preserve macroeconomic stability within the context of their limited domestic resources. However, amid such difficulties, six African countries showed fiscal surpluses and thirty-six countries had fiscal deficits, the same as in 2002.

Convergence towards a monetary union can act as a regional agent of beneficial fiscal restraint, which instils a culture of discipline among member states. Maruping (2005) has

indicated that cost-reduction benefits include the removal of exchange rate risks, which sometimes cause uncertainty to investors and can court speculative attacks through reversals in capital flows and contagion effects. Other lessons from the EU experience include the need for a common central bank to focus on price stability as its primary objective, and thus encourage national fiscal compliance with this goal by all member states. The EU's Maastricht approach also showed that transition may need to be gradual if there is vast asymmetry among member states, such as in Africa. With time, there might be fast-tracking of the process when stability and prudence has already taken root within member states.

As far as WTO is concerned, regional economic integration does not pose an inherent threat to global integration. Nonetheless, the GATT (Article XXIV) constrains the level of common external tariff and other trade measures in customs unions (Jovanović, 2001). On the whole, these trade measures should not be higher or more restrictive than the ones of member countries prior to the integration agreement. Between 1947 and 1995, a total of 98 integration agreements had been made known to the GATT (Annex I) (World Trade Organization 1995). However, only six agreements were 'cleared' by the working party through the consensus principle. There is an urgent need for a coherent strategy to promote diversification and launch industrialisation in Africa, particularly given the current deadlock in WTO negotiations, improve its productivity, be self-sufficient and self-reliant, and improve intra-African trade. With the harmonisation of policies, this will ensure successful economic integration in Africa, and as a result increased growth and sustainable development levels.

#### **5.4 Conclusion**

This study has indicated that the political and economic situation in Africa is not similar to that of other regions. African economies have distinctive characteristics, and the political situation and conditions in some countries make the integration process complex, as they face challenges from some developed countries. It is therefore imperative for Africans to be clear and have consensus on what they understand by regional economic integration, and also to define or redefine it in a way that will best serve them. Regional economic integration anywhere in the world cannot be achieved by merely setting up frameworks

and signing treaties, nor can integration solve all the economic problems of Africa. It has to be supported by political willingness and commitment by countries to implement the agreed programmes.

From the above, it could be concluded that that there is significant progress in regional integration in Africa, although it is proceeding very slowly. On the whole, Africa's monetary and financial integration remains largely elusive, with a marked variation among individual sub-regions and their respective member states.

Although progress has been slow, it has been varied among the different RECs. There have been strides made in trade, transport, communications, energy, knowledge sharing, free movement of people, and peace and security. With regard to peace and security, although the number of countries in conflict has been significantly reduced, poverty levels remain high, as well as purchasing power in all the regions, except in Southern and North African regions. In regional economic integration, in order for countries to be able to compete and trade effectively, it is important for Africa to launch its industrialisation and strengthen the competitiveness of its non-traditional exports.

## CHAPTER SIX

### CONCLUSION AND RECOMMENDATIONS

#### **6.1 Introduction**

There is no doubt that regional economic integration is the best paradigm for responding to current global, regional and national economic challenges, and this view is based on a number of factors mentioned in previous chapters of this study. The issue of regional integration has indeed gained the interest of the world, and Africa has also recognised its importance and is now on board.

This study examined the theoretical basis of regional economic integration, and analysed the current status on the implementation of the Abuja Treaty as far as regional economic integration is concerned. It also identified the challenges and constraints of regional economic integration in Africa. It outlined the benefits of integration, and thus dealt with the rationale or motivation for Africa to embark on and enhance economic integration. A theoretical background, which was given in chapter two, has been a guideline for determining, highlighting and analysing the importance of regional economic integration in Africa.

Regional economic integration prospects in Africa are crucial to overcoming some of the problems experienced by Africa. Inter alia, regional economic integration can help African countries to overcome constraints arising from small domestic markets, allowing them to reap the benefits from economies of scale, competition and foreign and domestic investment. Such benefits can raise productivity and assist in diversifying production and exports. Furthermore, integration will result in enlarged markets and as a result, lower transaction costs.

Although some RECs in Africa have made inroads in so far as regional economic integration is concerned, overall progress has been painstakingly slow at the continental level. The efforts towards achieving deeper economic integration have been moving in the right direction, guided by the Abuja Treaty, Constitutive Act, REC treaties, developmental plans

and relevant protocols. However, these efforts seem inadequate because of a lack of significant progress achieved thus far.

This chapter will focus on recommendations that could be considered in accelerating regional economic integration in Africa as a viable development strategy. These recommendations will consider how regional economic integration operates theoretically, its challenges, benefits, constraints and opportunities, the rationale for enhancing regional economic integration, the framework for regional economic integration, and the progress made in this regard.

## **6.2 Conclusion**

Regional economic integration is one aspect of a wider strategy to promote growth and development in Africa. It has therefore led to several broad recommendations. Its success will improve competition, reduce transaction costs, allow economies of scale, attract foreign direct investment and make macroeconomic coordination easier.

This study has started off by looking at the structure and economics of different stages of regional integration in chapter two. These are the same stages with which the Abuja Treaty is aligned. There seems to be consensus in recently published literature that discriminatory trading agreements are fully justified if they are regionally based, and if members acting together can influence the terms of trade with the rest of the world. However, the benefits of integration are only somewhat accruable in the long-term, whereas its costs have to be met in the short-term by members. These benefits are important and more than necessary for Africa, as they are fundamental to the continent's development and growth.

Chapter three looked at the overall benefits of regional economic integration, which include benefits for all through synergy and symbiosis; having a strong bargaining bloc in international forums; having a viable market size that attracts foreign direct investment; as well as improved scope for diversification and its benefits in lowering risk.

Chapter three went on to show that the process of regional economic integration is not without challenges. These challenges have been fully discussed in chapter three of this study. It has been shown that whenever member countries of RIAs have difficulties of access to other countries due to artificial or natural barriers, unilateral tariff reduction by the country wishing to gain access to the prospective member countries' market is not better than creating a RIA which reorients trade in favour of intra-regional trade. Elimination of tariffs, non-tariff barriers, restrictions on factor mobility, as well as regional coordination of economic policies and integration, can be solutions to this problem.

Other challenges of regional economic integration were indicated to be institutional in nature, and have not been extensively covered in this study. African economies have distinctive characteristics, and the political situation and conditions in some countries makes the integration process complex, as they face challenges from some developed countries. It is therefore imperative for Africans to be clear about and have consensus regarding what they understand by regional economic integration, and also to define or redefine it in a way that will best serve them.

This study has further emphasised in chapter four that it is important for there to be a more harmonised and streamlined regional integration architecture in Africa, which will no doubt contribute to the African Union's success. Regional economic integration anywhere in the world cannot be achieved by merely setting up frameworks and signing treaties, nor can integration solve all the economic problems of Africa. It has to be supported by political willingness and commitment by countries to implement agreed programmes, as well as the ceding of some form of sovereignty to supra-national bodies.

The areas of focus in Africa, identified in the second section of this chapter, are critical in that they can achieve successful results. Africa needs to adopt a more ambitious and robust agenda than is currently defined in the Abuja Treaty and the agenda at REC level needs to be selective, hence the importance of reviewing the treaty.

These challenges and constraints of consolidating regional economic integration in Africa have shaped the responses of African leaders to this issue. As such, these leaders have

recognised that this changing world requires greater collective action and have therefore embraced deeper regional integration. This was examined in chapter five, which also acknowledges that there has been progress as far as regional economic integration is concerned, but that progress has been slow, and it has been varied among different RECs. There have been strides made in trade, transport, communications, energy, knowledge sharing, free movement of people, and peace and security, by different RECs.

This chapter has highlighted the areas in which Africa must make changes in order for trade as a tool of regional economic integration to take place effectively. These include improving infrastructure, reducing trade barriers, diversifying African economies away from current levels of dependency on primary commodities, industrialisation, promoting governance in Africa, improving and harmonising policies, addressing inadequate resources, among others.

It should be emphasised that although regional economic integration is seen to be an important strategy towards Africa's development and growth, it should be noted that it is only one aspect of such a strategy. Regional economic integration should be viewed as one aspect of a wider strategy to promote faster equitable growth and prosperity. However, the benefits of regional economic integration make it imperative for it to remain the central pillar of Africa's development agenda. Africa has realised that it is an essential instrument to create a larger economic market that would facilitate viable production capacities in industry and agriculture. This can be done through the collective exploitation of our enormous human and natural resources.

The next step, having realised the importance of regional economic integration, is for Africa to stop obsessing over insignificant issues such as loss of revenue, and to start working towards its goal. In doing so, Africa needs to ensure that it pulls its weight in order to maintain the right pace, so as to avoid being overtaken by events. Furthermore, in working towards its goal, Africa needs to identify key priorities in the area of regional economic integration. Africa further needs to strengthen its capacity to expedite implementation. In this regard, there is a need to strengthen and empower the institutions that implement and monitor regional economic integration programmes, both at regional and national levels.



## **6.3 Recommendations**

This study supports the notion that regional economic integration is an aspect of a wider strategy to promote robust, sustainable and equitable growth. In general terms, Africa has seen some progress as far as its agenda for regional economic integration is concerned. However, this progress is slow, insignificant, and not according to its aspirations. However, this does not mean that the continent is doomed. African countries are of course faced with numerous obstacles in their regional integration agenda, and among these are factors such as membership of more than one regional body, follow-up on regional decisions, production structures, fear of losing income or compensatory benefits, non-tariff barriers, security concerns and lack of popular commitment to the ideals of regional integration.

From all the challenges and constraints, successes and failures, and experiences of African countries in terms of regional economic integration, there is always something to be learned. In this regard, the lessons that are spelt out in chapter five of this study reflect how important regional economic integration is for the development and growth of Africa. The main issue is to identify priorities for Africa in this process, and ensure that implementation of such integration programmes is also given priority.

This section will concentrate on the recommendations that will help in taking regional economic integration forward and enhancing the pace of this process, given the challenges, opportunities and progress that Africa has already made in this regard. The recommendations that will be put forward will be classified according to the following: trade and market integration, monetary and financial integration and macroeconomic convergence, infrastructure development, mobility of factors of production, and other cross-cutting issues.

### **6.3.1 Trade and Market Integration**

As indicated in chapter two, in theory, economic efficiency can be fostered by a policy of free trade which stimulates competition. It rationalises the production of goods and

services, and provides for a higher average standard of living and greater welfare in the future. The adjustment to free trade, at least within the integrated group, should therefore not be traumatic at all.

In addition, large and developed countries may have a diversified economic structure which provides the opportunity for an autarchic economic policy, while such a policy for small countries, in the context of economies of scale and other externalities, does not have a long-term economic rationale. Without secure and free access to a wider market, a relatively limited domestic market and demand in small countries often prevents the employment of the most efficient technologies, even if trade barriers are prohibitive. If certain types of production take place, the consequences include short production runs, high prices and a lower standard of living.

The efficient operation of many modern technologies requires secure access to the widest market, which does not exist in small- and sometimes medium-sized countries, let alone skills to operate such technologies. Elimination of tariffs, non-tariff barriers (NTBs), restrictions on factor mobility, as well as regional coordination of economic policies and integration, can be solutions to the problem of country size. The goal and priority in this regard should be to increase, improve and secure access to markets of participating countries.

The theory of international economic integration is the analysis of a second-best situation, and it is not surprising that general principles cannot be found. What matters, however, is not only the prediction of theory, but rather what happens in real life. This study has shown that, despite the second-best character of economic integration in theory, in practice integration may, under certain conditions, be a workable and acceptable economic strategy. A policy recommendation for small and medium-sized countries is that in a world of continuous technological and market changes, integration may expand and secure markets for the greatest variety of a country's goods and services in the future and hence, mitigate the costs of adjustment.

Given that the same policies that are required for successful regional economic integration are those needed if African countries are to benefit from the more general process of globalisation and integration into the world economy, this will therefore be to Africa's advantage.

As indicated in previous chapters of this study, Africa's economic integration is further retarded by the fact that most African countries have few products, which are mainly raw materials, and they account for the largest percentage of exports. These countries also have weak industrial bases and inadequate infrastructure. Africa needs to give a lot of attention to development, and one area which was emphasised in this study as being crucial to Africa's growth and development is industrial cooperation. Industrialisation is an area that has been neglected in Africa, despite its importance.

**Recommendation:** It is recommended that an overall continental strategy be formulated, which will provide guidance to RECs and national industrial strategies. This will assist in dealing with weak inter-sectoral links in RECs and the issue of a limited range of products to enable countries to compete and trade effectively, and most important, strengthen the competitiveness of their non-traditional exports. If this is well-planned, it could also at some point lead to the introduction of new and modern technology within African countries' manufacturing sectors, and an improvement in intra-community trade in manufacturing.

Intra-community trade in African RECs has hardly been above 10 percent of the total exports from RECs, even though a number of institutional arrangements are in place to promote intra-regional trade. Regional trade agreements concluded in Africa are mainly faced with the problems of a lack of complementarity of their economies and a narrow local market.

**Recommendation:** Integration of markets or establishment of fully-fledged free trade areas and customs unions by RECs is highly recommended, and should be given priority. This will assist in taking Africa out of the slow and non-investment growth that is associated with larger markets and economies of scale.

Regional economic integration is very important for promoting interregional trade and accelerating development and growth. Without growth, Africa cannot make substantial progress in its development. Trade has been a key driver of economic growth in other developing and developed countries, and the economies of the regions are interdependent as a result. Developing countries, particularly in Asia, have used trade to break into new markets, and have changed the face of their economies.

Chapter four of this study indicated that the major stumbling block to successful regional integration in Africa is the great diversity in terms of country sizes, national resources, levels of development and connections to global markets. This has been attributed to the past failure of regional integration in Africa. The gains and setbacks were unevenly distributed between countries.

**Recommendation:** It is advisable for countries to note that benefits from regional economic integration are accruable in the long-term, and a large percentage of costs are in the short-term.

The situation of disparity in Africa could be used to its advantage, in that big countries such as South Africa, Egypt and Nigeria could be given opportunities to play a leading role in regional integration on the continent and in their regional bodies. Other countries might be able to learn from their experiences and benefit from their market sizes, natural resources and industrial bases.

**Recommendation:** In this regard, small countries should refrain from the use of combined efforts to counterbalance this initiative, mistaking it for excessive power or hegemony; but instead, should view this as a move towards further developing Africa's integration agenda. Relations between Africa's leading national economies and smaller countries are very important to the success of regional integration. The roles of these large economies in the integration agenda of Africa must therefore be clearly analysed and defined.

The similarities and differences between African countries could also benefit economic integration.

**Recommendation:** By pooling their resources and exploiting their comparative advantages, integrated countries can devise common solutions and use resources more efficiently in order to achieve better outcomes. In addition, regional integration can assist in providing a framework for coordinating policies and regulations. Regional initiatives can also foster a variety of non-economic objectives, such as promoting regional security and political contact among members (Carbaugh 2004).

Adopting intra-regional trade promotion measures or boosting competitiveness will not bear fruit for African countries, unless they adopt the core framework that such a programme of trade expansion demands. Two dimensions that are indispensable to such a framework are macroeconomic stability and private-sector promotion.

**Recommendation:** African countries will also have to commit themselves to defining a set of strategic objectives leading to a development programme for their trade sector. These objectives will, of course, be determined by each country, taking into account its resource potential.

Diversification of an economy is necessary in order to minimise the impact of trade shocks on an economy and increase the benefits from trade reforms. Diversifying African economies away from current levels of dependency on primary commodities is an area in which Africa must make changes, in order for trade as a tool of regional economic integration to expand effectively.

### **6.3.2 Lessons from other regions**

In summary, and in reflecting on the lessons that can be learnt from the failures and successes of other regions around the world, particularly in the EU in the area of trade and markets, the following overall recommendations can be made for Africa:

- Trade policy coherence and integration is important to allow member countries to derive more benefits. This point has been emphasised all through the study and is also supported by theory. This is one area on which African RECs should concentrate. Chapter five indicated that there are those RECs that are already doing this, e.g. EAC, COMESA and SADC. This needs to be encouraged and expanded to all RECs, and will be in accordance with the original ideals and goals which were captured in the Abuja Treaty and reaffirmed by the Constitutive Act.
- Trade reforms should be accompanied by other economic measures such as a good macroeconomic policy environment and appropriate laws, infrastructure and institutions. Chapter four of this study covered the issue of an institutional framework and blueprint for regional integration in Africa. The blueprint for regional integration is important in guiding the process of integration, and the Abuja treaty has played a major role in Africa in this regard. However, it needs to be reviewed, taking into account the new developments on the continent and the current realities in different regions. The current multiplicity and overlapping of these RECs undermines the goals of Africa's blueprint for integration. The most important part of the functions of an integrative institution is to ensure implementation of what is captured in the treaties and protocols. A high level of institutional capacity and investment of human resources in research, negotiation and monitoring are also crucial.
- In expanding on the above recommendation, trade reforms need not only focus on imports. They need to promote exports if reform is to have a substantial positive impact on an economy. However, of most importance in this regard is to ensure that intra-community and intra-African trade are promoted. This is because statistics show that a large percentage of African exports and imports are to and from countries outside the continent.
- Diversification of an economy is necessary in order to minimise the impact of trade shocks on an economy, and to increase the benefits of trade reforms.

- In addition to implementing what is captured in the treaties and protocols, it is also important to ensure that the implementation of integration programmes is given a high priority. Programmes are in their own right steps towards deeper integration. In Africa, because regions' priorities are different, each protocol emphasise different issues. RECs therefore implement programmes that vary in intensity, schedule and effect on national policies. Furthermore, targets for completing free trade and customs unions need to be prioritised and fully met, as highlighted in the previous section.
- Industrial policies should also be taken seriously by RECs. RECs should urgently put in place industrial policies that would expand the industrial bases in different countries and improve production capacities in order to enhance competitiveness.
- Cross-border private investment in industry, agriculture and infrastructure should be encouraged through investment-friendly policies. African countries and RECs will first need to harmonise business law in order to open up markets for cross- border investments.

### **6.3.3 Financial and Monetary Integration and Macroeconomic Convergence**

Macroeconomic policy convergence, monetary cooperation and unification, and financial and capital market development are essential for effective regional economic integration. It is recommended that all RECs establish macroeconomic policy criteria on which to converge, as not all of them have done so. Without a common currency and faced with risks from various floating exchange rates for currencies that are not convertible, many African regional blocs may require clearing houses, such as the one existing between ECOWAS and COMESA, and within COMESA, since 1984. This has so far assisted in facilitating payments and promoting intra- and inter-regional trade.

Integration of financial markets was identified as another important source of economic benefits for Africa. A lack of financial integration creates serious difficulties in economic integration, mainly because underdeveloped financial systems limit growth prospects by distorting the mobilisation and efficient allocation of resources for profitable projects.

Overall, it could be recommended that Africa should focus on the development, harmonisation and integration of national and regional financial markets which will, among other things, reduce risks of differences in the impact of monetary policy measures that are taken by the monetary union. Establishing regional markets, removing barriers to cross-border investments (including multiplicity of non-convertible national currencies in Africa), and forming regional financial institutions, will assist in overcoming constraints experienced at a national level.

As conflicts among countries and regions are likely to arise over policy objectives and responses, they are also likely to arise due to the allocation of revenues and equitable costs and benefits among participating countries. The prospect of a loss of customs' revenue has been a major setback for the successful implementation of trade liberalisation programmes within RECs.

Another approach which has been advocated by some economists argues that a system of compensation that is effective, sustainable and properly funded can address issues arising from trade liberalisation, such as loss of income, injustice and disparities (ATPC 2005). Although it might seem that such a mechanism would induce states to respect sub-regional and regional programmes, it may at the same time make countries dependable on compensation monies and cause them to not make a proper effort. Encouraging companies to be competitive is a more positive approach, in which countries view a loss of revenue as a short-term inconvenience. It could further be recommended that Africa starts by building technical capacity for conducting informative and reliable benefit analysis, which will ensure a fair and equitable distribution of costs and benefits of regional economic integration.

The success of regional integration also hinges significantly on member countries pursuing convergent macroeconomic policies. Misalignment of tariffs, inflation, exchange rates, debt-to-GDP ratios, rate of money growth and other vital macroeconomic variables between member countries are disruptive to the regional integration process. In addition, these misalignments could lead to rent-seeking activities by government and private individuals, which could stifle legitimate investment opportunities. This could contribute to the demise



of the economy of a member country, weakening the whole integration process. It is therefore imperative and highly recommended that the process of strengthening regional integration includes guidelines for the convergence of macroeconomic and trade policies of the entire regional space, so as to strengthen the overall regional integration agenda.

#### **6.3.4 Infrastructure Development**

The obstacles to regional economic integration in Africa take different forms. For instance, there are physical obstacles that are caused by the low level of development of transport networks, coupled with impediments to the full implementation of inter-state transport facilitation agreements. At this point in time, it is believed that regional economic integration is part of the strategy to deal with these issues by making it possible for Africa to collectively build an integrative infrastructure in transport, communications, energy, and so on. The projects in these areas are too expensive to be embarked on by individual countries. In order to enhance progress in these areas of integration and to achieve unhindered intra-Africa trade, investment in infrastructure is critical.

Strengthening and deepening of Africa's financial markets and institutions is also essential for mobilising the financial resources needed to finance integration projects such as infrastructure.

**Recommendation:** It has been emphasised in this study that in order to achieve regional economic integration and intra-African trade, investment in infrastructure is a must. This includes investment in roads, railways, power lines, air services and telecommunications. Effective pooling of resources and expertise to deal with projects in these areas should be seriously considered by Africa countries. It will also assist in reducing the average costs of delivery and in harmonising and raising standards, hence the importance of using 'heavyweights' or big countries of Africa.

Although there has been substantial progress in some of the regional infrastructural projects in Africa, implementation in others is lagging behind.

**Recommendation:** Elements that are constraining implementation of these projects needs to be addressed, in order to ensure that implementation of regional infrastructural projects is accelerated.

### 6.3.5 Mobility of Factors of Production

The mobility of inputs such as labour and capital is also subject to restrictions which impact on the integration process. In recent years, however, measures have been taken to lessen the impact of these obstacles. Most notable among these are perhaps the efforts by many of the economic groupings to harmonise the macroeconomic policies of their member states. This new approach to integration has its weaknesses, but a common denominator of the lack of will to make economic groups more homogeneous is reflected in the regional economic performances of such groups.

However, much remains to be done, particularly given the fact that most of the economic groups have yet to put in place comprehensive multi-sectoral integration programmes. In fact, most sectoral programmes are conducted in parallel, although, as we have seen, the harmonisation of macroeconomic policies has brought about some degree of coherence. The end result of this new approach, if it is effectively maintained, should be a set of credible common policies which are the keystone to the emergence of homogeneous regional economic groupings. In addition, harmonising investment codes across the sub-regional space will liberalise markets enough to stimulate a response in domestic and foreign investment, boosting manufacturing and trade.

**Recommendation:** It is recommended that these restrictions be removed, starting within RECs, in order to promote cross-border investments and economic activities, and increase movement of skills across the border in order to help integrate the labour market. Of course, this will be preceded by the convergence of relevant economic policies.

### **6.3.6 Cross-Cutting Issues and General Recommendations**

Regional economic integration is not simply a matter of potential gains and balancing benefits and costs. It involves national economic strategies that have domestic ramifications. It is also concerned with structural transformation, with a particular impact on the adjustment of the labour market and survival of weak industries. With the difficult economic and political situations in most African countries, the integration agenda has progressed slowly and fallen short of Africa's aspirations.

Economic nationalism, as opposed to coordination and integration, has always been quite an appealing economic strategy. This is because the mechanisms for the protection against unfavourable effects of integration and trade liberalisation, which essentially have a short-term nature, are not fully developed. The preceding chapters of this study argued that regional economic integration is a desirable strategy for faster and collective growth and development for the people and countries of Africa, that there are guaranteed long-term benefits of integration, and that these long-term benefits are greater than possible short-term costs. Africa needs to realise that the capacity to exploit opportunities that come about as a result of such integration is a major element in achieving maximum benefits of cooperation.

African leaders need to begin to realise that clinging to power and being territorial, tensions in the political sphere, etc are secondary to the establishment, improvement and strengthening of the region's internal market. Based on the difficult economic and political situations in Africa, the prospects for regional economic integration and interaction depend on improving the enabling economic environment and overcoming the considerable political hurdles. In this regard, it should be emphasised that political willingness is critical if integration is to succeed in Africa.

Related to the issue of political willingness are the issues of national sovereignty and its importance in order to advance to higher stages of integration. African leaders will further need to realise and/or agree that integration cannot succeed without some element of sovereignty being sacrificed to the supranational body. This is one argument often put

forward to justify some governments' reluctance to implement RECs treaties, protocols and developmental plans, as manifested by their unwillingness to sacrifice immediate national political and economic interests to long-term regional objectives.

**Recommendation:** In this case, there is a need to create follow-up mechanisms to ensure respect for agreed Community timetables on issues such as reductions in tariff and non-tariff barriers and the achievement of more difficult objectives, such as macroeconomic stabilisation. For instance, RECs should be able to sanction indifferent performance or failures in order to fulfil commitments to protocols and treaties.

The issue of Africa shortening the period for reaching deeper economic integration or establishing the African Economic Community is supported by this study, although it does not change the substance of Africa's integration agenda. Africa needs to redirect its focus to developing a detailed programme of action that will assist in addressing thorny issues such as common policies. With regard to the relevance of the framework for regional integration in Africa, the Abuja Treaty constitutes and remains the ideal framework for the continent's economic integration, as it provides a vision. Although the treaty can be revisited and improved in light of new developments, the core issue is the leadership that guides the implementation of this framework.

The biggest achievements in regional integration have been among the developed countries, in particular the European Union (EU), mainly because integration has both deepened and widened in that region. From its beginnings as the European Coal and Steel Community in 1951, it has evolved to become the European Union, achieving economic and monetary union across the greater part of the continent. Countries in other areas of the world have also tried to copy some of the EU's integration achievements.

Africa needs to learn, adapt and incorporate the lessons of trade reforms in industrial countries, as well as other developing countries, if they are to derive substantial benefits from the integration and liberalisation process. However, this in no way means that Africa has to adopt one model as a copy. Although the EU has been described in this study and other literature as the best example of a successful regional integration model, it is

recommended that Africa should not duplicate it. Regional integration in Africa is an integration of economies with weak industrial bases, whereas EU countries are more developed than African ones.

Africa should take the initiative to set priorities for its economic agenda. These key priorities also need to address Africa's backlog in removing tariff and non-tariff barriers and harmonising markets. These priorities will assist in focusing Africa on concrete, limited and achievable outcomes.

## Bibliography

Abdoulahi, M. 2005. Progress Report on Regional Integration Efforts in Africa Towards the Promotion of Intra-Africa Trade. Work in progress no. 5. African Trade Policy Centre (ATPC). Addis Ababa.

African Union Commission. 2005. Commission Paper on General Framework of Rationalisation of RECs. African Union, Addis Ababa.

African Union Department of Economic Affairs. 2006. Declaration of the 1<sup>st</sup> Conference of African Ministers in charge of Integration. Ouagadougou, Burkina Faso, 31 March 2006. African Union, Addis Ababa.

African Union Department of Trade and Industry. 2006. Resolution on Rationalisation and Harmonisation of Regional Economic Communities of Conference of African Ministers of Trade and Industry. Nairobi, Kenya 14 April 2006. African Union, Addis Ababa.

African Trade Policy Centre (ATPC). August 2004. Trade Liberalisation under the Doha Development Agenda: Options and Consequences for Africa, Work in Progress. Addis Ababa. United Nations Economic Commission for Africa (ECA).

Aryeetey, E. 1998. The prospects and Priorities of Regional Integration in Sub-Saharan Africa. In: Regional Integration and Multilateral Cooperation in the Global Economy, page 137-154. Edited by Teunissen, JJ. 1998. The Hague. Forum on the Debt and Development (FONDAD).

Axline, WA. 1994. *The Political Economy of regional Co-operation: Comparative Case Studies*. London. Pinter Publishers.

Balassa, B. 1961. *The theory of economic integration*. London. George Allen and Unwin.

Biswaro, J.M. 2003. *Perspectives on Africa's integration and cooperation from OAU to AU: an old wine in a new bottle*. WIU. Washington

Bretschger, L. and Steger, T.M. 2004. *The dynamics of Economic Integration: Theory and Policy*. Zurich. Institute of Economic Research.

Brodzicki, T. 16 November 2005. *Relative Centrality of Peripherality and the Growth Effects of Economic Integration within the European Union*. Poland. Economic Faculty of University of Gdansk.

Carbaugh, R.J. 2004. *International Economics*, 9<sup>th</sup> edition. Australia. Thomson South-Western.

Cheru, F. 2002. *African Renaissance: Roadmaps to the Challenge of Globalisation*. Cape Town. New Africa Books/ David Phillip.

Commission for Africa. March 2005. *Our Common Interest*. Report of the Commission for Africa. London.

DeRosa, DA. 1998. *Regional Integration Arrangements: Static Economic Theory, Qualitative Findings, and Policy Guidelines*. USA. World Bank Policy Research Report.

Economic Commission for Africa (ECA). 2004. Assessing Regional Integration in Africa I (ARIA I). United Nations Economic Commission for Africa, Addis Ababa.

Economic Commission for Africa (ECA). 2004b. Economic Report on Africa 2004: Unlocking Africa's Trade Potential. United Nations Economic Commission for Africa, Addis Ababa

Economic Commission for Africa (ECA). 2006. Assessing Regional Integration in Africa II (ARIA II). Rationalizing Regional Economic Communities. United Nations Economic Commission for Africa, Addis Ababa

Economic Commission for Africa (ECA). 2008. Economic Report on Africa: 2008. United Nations Economic Commission for Africa, Addis Ababa

Ercoli C. 31 August 2006. Neo-liberalism, Universal Integration and free Market. Serial 5. Available at <http://www.markacademy.net>.

Gomes, L. 1990. Neoclassical International Economics. London, MacMillan Press.

Hodgson, J.S. and Herander, M.G. 1983. International Economic Relations. New Jersey, Prentice Hall International Inc.

Imbriani C. & Reganati F. 1994. International production and economic integration: Toward economic convergence. *Economia Internazionale*, 47 (4): 333-349.

Inotai A. April 1991. Regional Integration Among Developing Countries Revisited. Washington. World Bank, Country Economics Department.



Jebuni CD. 1997. Trade Liberalisation and Regional Integration in Africa. In: Oyelide, A. 1997. Regional Integration and Liberalisation in Sub-Saharan Africa, Vol. 1, Framework Issues and Methodological Perspective. New York. Macmillan Press, Basingstoke and St. Martins Press.

Jovanović, M.N. 2001. International Economic Integration, 2<sup>nd</sup> edition. New York. Routledge.

Legrenzi, M. 2003. The Long Road Ahead: Economic Integration in the Gulf States. In Cooperation South, Convergence: Movements for Regional Integration. UNDP, New York.

Markussen, J.R., Melvin, J.R., Kaempfer, W.H. & Maskus, K.E. 1995. International Trade: Theory and Evidence. New York. McGraw-Hill, Inc.

Maruping, M. 2005. Challenges for Regional Integration in Sub-Saharan Africa: Macroeconomic Convergence and Monetary Coordination. From Africa in the World Economy – The National Regional and International Challenges. The Hague. Fondad.

Meade, J.E. 1955. The theory of Customs Unions. Amsterdam. North-Holland.

Mongelli, F.P. 2005. What is European Monetary Union Telling Us about the Properties of Optimum Currency Areas? JCMS Volume 43 No.3. United Kingdom. Blackwell Publishing Ltd.

Mutharika, B.W.T. 1972. Towards Multinational Economic Cooperation in Africa. New York. Praeger Publishers.

Niemann, M. 2000. A Spatial Approach to Regionalisms in the Global Economy. Great Britain. MacMillan Press Ltd.

Olubomehin D. and Kwawonishie D. 2004. The African Union and the Challenges of Regional Integration in Africa. Nigeria. Department of History and Diplomatic Studies, Olabisi Onabanjo University, Ago-Iwoye.

Organisation for Economic Co-operation and Development (OECD). 2006. African Economic Outlook: 2005/2006. Paris. OECD Development Centre and African Development Bank.

Organisation of African Unity (OAU). 1991. Treaty Establishing the African Economic Community. Abuja. Secretariat of the OAU, Addis Ababa.

Outattarria AD. 14 April 1999. Regional Integration in Africa. An important step towards global integration. IMF Speeches.

Pearce, I. 1970. International Trade vol. 1. MacMillan. London

Pelkmans, J. 1987. The Community's Vivid Core: Integration Process in Industrial Product Markets. In Dunning, J.H. and Usui, M. ed, Structural Change, Economic Interdependence and World Development. Proceedings of the Seventh World Congress of the International Economic Association. Volume 4. Madrid, Spain.

People's Daily on-line (no author). 17 August 2006. Available at [www.english.people.com](http://www.english.people.com)

Rosenthal, G. 1987. Some Lessons of Economic Integration in Latin America: the Case of Central America. In Dunning, J.H. and Usui, M. ed, Structural Change, Economic Interdependence and World Development. Proceedings of the Seventh World Congress of the International Economic Association. Volume 4. Madrid, Spain.

Schiff M. 2002. Regional Integration and Development in Small States. Washington DC. World Bank, Development Research Group Trade.

Schiff M. and Winters LA. 2003. Regional Integration and Development. Washington D.C. The International Bank for Reconstruction and Development/ World Bank and Oxford University Press.

The Times of Zambia. 2006. Harmonise Banking Laws for Regional Integration. Zambia. All Africa Global Media. 30 August. Available at <http://www.thetimesonline.com>

Tovias A. 1992. The theory of Economic Integration: Past and Future. Available at <http://www.ecsanet.org/conferences/ecsaworld2/tovias.htm>.

UNCTAD. 2003. The Least Developed Countries Report 2002: Escaping the Poverty Trap. Geneva.

UNCTAD. 2004. Statistical Manual. Geneva.

Viner J. 1950. The Customs Union Issue. Carnegie Endowment for International Peace. New York.

Woolcock S. 2003. A framework for Assessing Regional Trade Agreements: WTO plus. In Regionalism, Multilateralism and Economic Integration: the Recent Experience. Edited by Sampson G.P. and Woolcock S. Hong Kong. The United Nations University Press. Available at <http://www.unu.edu>.

World Bank. 2000. Can Africa claim the 21<sup>st</sup> century? World Bank. Washington D.C

World Bank. 2000b. Trade Blocs. Policy Research Report. New York : Oxford University Press

Zu KK. & Corpus C. 2000. The effects of International Economic Integration on FDI Determinants: Japanese and US FDI in Europe. Texas, USA.

## Annex 1

### Calculating indices of integration

This assessment of Africa's integration measures progress after the Abuja Treaty establishing the African Economic Community went into effect in 1994. Progress by regional economic communities in the main areas of cooperation and integration is measured on both an annual basis and on average. Communities are ranked by performance on both criteria, though the emphasis is on overall progress.

The indices of integration are based on data collected from member states, secretariats of all 14 regional economic communities, and regional and international organizations. Detailed questionnaires covered integration in eight sectors: trade, money and finance, transport, communications, energy, agriculture, manufacturing, and human development and labour markets. Attention was also paid to water, mining, and cross-cutting issues (such as peace and security, HIV/AIDS, and gender). The questionnaires requested quantitative and qualitative information, including institutional, policy, and process dimensions of integration. In addition, missions on sectoral issues and subregional concerns were mounted to these countries and communities. Significant data gaps in responses had to be filled from other sources, such as the United Nations Conference on Trade and Development and other international organization. Because the qualitative information was incomplete and not comparable across countries, the analysis focused only on the quantitative data. Future refinements of the indicators will address the qualitative dimension.

Sectoral integration indices were calculated as weighted composites of sectoral indicators chosen to reflect the intensity or impact of regional integration in each sector. The indicators and subindicators for each sector are in the attachment to this annex. The eight sectoral indices were used to obtain composite integration indices for the regional economic communities and for all of Africa.

Progress by the regional communities during 1994-99 was estimated as a weighted measure of performance in the eight sectors using standard statistical techniques. The weights were the result of intuitive though fairly objective judgements about the relative importance of indicators to Africa's integration agenda. Where a sectoral indicator was constructed from several other indicators, the trend in that sector was calculated as a weighted average of the subindicators. For example, the money and finance indicator is a weighted average of inflation rate, external debt, investment, and budget deficit. In this way a single weighted composite index for the communities is developed as a single time series, with the base year value taken to be 100.

The composite index for Africa is an average, weighted by GDP, of the integration indices for the regional economic communities. It measures the continent's total integration effort, assessing progress towards the integration goals of the regional communities, the Abuja Treaty and other regional, subregional, and national integration initiatives and policies.

In some cases the base year levels and scores appear low (in trade, for example), which tends to amplify progress in the following years. Thus the indices often show an initial spurt in performance but this does not affect the rankings. Annual changes in the index measure progress or retrogression and permit comparison among the communities.

An insistence on robust indicators meant that the exercise had to rely on fewer indicators than was desirable. But the indices are a start and they will be refined as better databases permit more sophisticated analysis. Limited as data may be, every effort was made to validate the information.

**Source: Economic Commission for Africa, (ECA 2004).**