



Policy Brief

Meeting the Challenges of Regional Integration, Intra-African Trade and Economic Growth in Africa

INTRODUCTION

The Africa Economic Research Consortium (AERC) hosted the third in the series of Workshops between January 31 – February 1, 2007; in Nairobi, Kenya. The partners - Africa's Development Bank (AFDB), Joint Africa Institute (JAI), United Nations Economic Commission for Africa (UNECA), New Economic Partnership for African Development (NEPAD) and the World Bank provided assistance with logistical arrangements. The theme of the Nairobi Workshop, namely: "*Meeting the Challenges of Regional Integration, Intra-African Trade and Economic Growth in Africa,*" the contents of which were agreed upon by the partners, was motivated by the need to:

- discuss obstacles that impede the integration process in Africa;
- prioritize towards addressing economic reforms in order to achieve optimum results as well as take full advantage of existing opportunities;
- share experiences with other regions of the world;
- arrive at strategies that effectively address these obstacles.

During the opening ceremony the joint sponsors led by the Executive Director of the African Economic Research Consortium (AERC) Prof. William Lyakurwa welcomed delegates highlighting several challenges that discussions might wish to focus upon.

These included:

- Protectionist tendencies among some African countries;
- Conflict between national and regional interests;
- Lack of clear mandates for the RECs

- Lack of expertise in specialized or technical issues
- Infrastructure challenges facing coastal countries;
- Transit obstacles such as trucks spending too much time just crossing borders;
- Regional groupings should give way to those that promote regionalism;
- Shared interests should lead to collective action;
- Growth poles (for example Africa's four largest economies - South Africa, Algeria, Nigeria and Ethiopia) have a real potential for positive spill-over effects on other African countries.
- Need to balance the tension between the magnitude of regional integration and the solid bottom-up approaches;
- Need to balance regional interests with national ones – regional projects require that sometimes political leaders give up some sovereignty;
- Need to retool existing country-focus support instruments to accommodate regional development initiatives;
- Finance is a major challenge because demand outstrips supply;
- Africa needs to become more competitive in global markets; intra-African trade must grow;
- More trade among Africans will lead to more African trade with the rest of the world;
- In the world's most fully integrated region, ASEAN, economic integration preceded politics and money followed opportunity, and not the other way round;
- How might regional integration fit into Doha and what sort of relationships might develop between bilateral programs such as EPAs of the EU and Africa's regional groupings?;
- What institutional designs do we need, to move beyond current boundaries towards perhaps a Paris Agenda that incorporates regional integration initiatives?

In summary the stage was thus set for delegates to deliberate on what they think should be done in Africa's approach to regional integration, with Africa firmly in the driving seat. After the opening session set the objectives of the Workshop, discussions centred around the following themes:

1. *Challenges of Regional Integration and Trade in Sub-Sahara Africa and Lessons from Other Regions*
2. *How can Sub-Sahara Africa maximize the benefits of Economic Integration, Regional Infrastructure and Trade*
3. *What are the implications of bilateral trade agreements for Regional Integration and Intra-African trade? Complements or trade-offs*
4. *Meeting the Challenges of Financing Regional Integration Organizations and Projects*

CHALLENGES OF REGIONAL INTEGRATION AND TRADE IN SUB-SAHARA AFRICA

Presentations related to the main challenges and obstacles to Regional Integration and identified several key challenges including:

1. Behind-the-border challenges;
2. Lack of ownership of projects at grass-root levels;

3. Private - Public Sector conflicts
4. Convertability of currencies constraints;
5. Institutional architecture challenges;
6. RECs lack of authority and finance;
7. Donors' lack of co-ordination.

1. Behind - the - border issues.

Behind - the - border factors, it was argued, are the real cause of Africa's low intra-regional and subsequently global trade. However, opportunities exist. Africa's macroeconomies seem to be stable now, and investment climate and governance issues are improving. Nevertheless, regional organisations need more authority and financing.

2. Lack of ownership at grassroot levels.

Lack of ownership of regional projects at the grassroot levels, it was suggested, is a major challenge which explains the well documented lack of involvement and motivation among citizens. Convertability of currencies is another issue. Governments which play "power politics" with the private sector, it was agreed, create ***conflict between the public sector and the private sector.***

3. Institutional Architecture.

While political vision exists at national levels, strategies vary. Roles of institutional bodies that deal with regional integration, however, are not always clear. Institutions tend to deliver better when they have a keen sense of accountability.

Responses

Delegates generally agreed with the challenges and obstacles as highlighted; but cautioned against the prescriptive tone in some of the papers. It was observed that unlike Chinese goods, African goods are not competitive because of the high cost of doing business in Africa; a factor that also impedes countries to participate in intra-regional trade despite Africa's trade liberalization policies.

It was agreed that political vision exist. Heads of State in this Region have been very clear about their vision of intra-regional trade but, as delegates stressed, RECs need to build their capacities. Software issues such as the lifting of trade barriers, identification of control points, harmonizing joint controls and documentation were highlighted as being some of the key challenges. Efficiency, it was suggested, will come when capacity is strengthened at RECs.

It was also pointed out that, while accountability organs are present in the African Union, for example, conflicts and resource shortages remain major threats to intra-regional trade. Regional trade, it was argued, will not increase without increased regional production.

It was acknowledged that many African countries in the region face serious challenges with the private sector. What passes for private sector in some countries is in fact a mere collection of traders because investors lack access to affordable financing. It was also noted that while donors put too much emphasis on software issues, without affordable financing, efficient and cheap energy, good roads, and other hardware facilities, capacity building will not deliver.

KEY MESSAGES OF THIS SESSION?

- The private sector has a critical role to play in promoting regional integration as in the case of South Asia
- It is important to adopt a grassroots approach in order to promote the ownership of regional projects
- Increase capacity of RECs
- Need for a more participatory Institutional Architecture

OPTIONS FOR MAXIMIZING BENEFITS OF ECONOMIC INTERGRATION, REGIONAL INFRASTRUCTURE AND TRADE

The presentation identified a number of critical factors that could help maximize the benefits of economic integration, regional infrastructure and trade in Sub-Saharan Africa. These include:

- Upgrading the quality of technical and scientific education in primary and secondary schools;
- Filling the infrastructure gap;
- Taking charge of development agenda;
- Gaining access to global markets;
- Creating a stable, peaceful climate in Sub-Saharan Africa.

A key issue that emerged from the discussion was that integration matters and effective integration means bigger markets as well as regional markets.

Upgrading the quality of technical and scientific education in primary, and secondary school. Valuable lessons could be learnt from the experience in Asia where heavy and sustained investments in education have paid off handsomely by leading to economic growth.

Filling the infrastructure gap. There seems to be a direct relationship between infrastructure and economic growth

Taking charge of Africa's development agenda. Africa's development agenda has hitherto been driven from abroad. Donor cycles of typically three years are incompatible with Africa's political cycles.

Gaining access to global markets. Access to global markets is essential for Africa. The Doha, aid for trade bilateral agreements with EU need to be pursued vigorously so as to obtain access. Sub-Sahara Africa remains a victim of protectionist policies of the west.

RECs need re-structuring so as to move towards Customs Union. The status quo is undesirable and dangerous. *Creating a stable, peaceful climate in Sub-Sahara Africa* is of the utmost importance. Without a political climate of stability, security and a good business environment, there can be no productive private sector.

Discussion

The discussion that followed focused on rationalizing RECs, access to international finance and the importance of software and hardware issues.

Rationalizing RECs. Delegates generally agreed that countries and sub-regions should avoid inward-looking trade groupings. RECs should seriously consider ways of becoming more cohesive, innovative in mobilizing resources and in preparing projects. Rationalization is difficult, but it must be done or else we lose credibility.

Access to international finance. Delegates agreed that major re-tooling and skills building for RECs, governments, sub-regional institutions and donors needs to happen in order to effectively make available adequate financing for regional integration and economic growth.

Importance of software and hardware issues. It was generally agreed that software issues such as trade policies, barriers, documentation etc; should not be addressed in a vacuum. Investments in hardware such as roads, railways, electricity plants, telecommunications networks are essential.

Building and Upgrading Skills. In order to compete in global markets, countries need to upgrade their skills, higher education and science and technology systems. All the RECS stressed the importance of building skills for the knowledge economy so that countries can compete in the new production areas through networks of production.

In summary, delegates agreed that regional integration matters a great deal. For sub-Saharan Africa to maximize the benefits of economic integration, regional infrastructure, trade, peace, security and stability will be key prerequisites.

SECURING COMPLEMENTARITY AMONG BILATERAL TRADE AGREEMENTS, REGIONAL INTERGRATION AND INTRA-AFRICAN TRADE

Presenters identified major challenges to financing regional integration organizations and projects and suggested ways in which these challenges might be met. It was agreed that

challenges to financing regional integration organizations and projects exist at the donor, continental, national and REC levels.

These key challenges fall in several categories and include:

- Capacity and skills building;
- Conflict between national and regional mandates;
- Investment climate;
- Engaging the private sector.

Capacity and skills building. It was agreed generally that funding regional integration organizations and projects will require major retooling and skills building at the RECs, national, sub-regional, and donor levels. Basic skills such as project preparation are lacking in many RECs and national organizations. In discussing regional projects the reality that ultimately, implementation of such projects will be at country –level, must be recognized. Delivery of donor-led programs is not always aligned with regional integration. Donor instruments currently remain country-focused.

Conflict between national and regional interests. It was agreed that there is need to balance the tensions between national interests and political realities of survival as well as sovereignty issues. National governments need to mainstream integration into their development strategies by creating institutional instruments and the regulatory framework that makes it possible for other stakeholders to join the process, thereby recognizing that certain projects are perhaps better executed at regional rather than national level.

Investment climate. It was noted with regret that Africa’s investment climate is yet to become attractive even to its own citizens. It is estimated that between \$400bn - \$600bn of African funds are “invested” outside the continent. It is a real challenge to find ways of bringing that money back to Africa. If the promotion of Africa-owned and Africa-led development agenda is to earn credibility, the first call must be: How can Africa raise financing from her own resources to invest in infrastructure and other regional projects? The good performance among Africa’s development banks in moving towards infrastructure funding was noted and well appreciated. The establishment of a Pan- African Regional Investment Fund is likewise a welcome development.

Engaging the Private Sector. On the key challenge of Africa’s investment climate, it was agreed that Regional Integration will require large sums of financing if the example of the cost of German reunification (approximately \$150bn per annum) is anything to go by. To mobilize the funding necessary for regional integration initiatives, Africa needs to shape its regional integration approaches with industry oriented approaches. Africa needs to generate revenue and create employment thereby reducing poverty.

INNOVATIVE OPTIONS FOR FINANCING REGIONAL INTERGRATION ORGANISATIONS AND PROJECTS

Presentations and subsequent discussions focused on new and innovative ways of financing Africa's regional integration efforts. How to finance infrastructure was seen as a particular challenge to regional integration activities in Africa. Experience had repeatedly demonstrated that private markets are not able to provide adequate physical infrastructure and it was noted that the gap must be met by the public sector. Delegates however agreed that there is need to create new ways of making the private sector participate more effectively in specifically building infrastructure as well as in the general regional integration efforts. Several ideas were discussed which included:

- the African Diaspora;
- export credit guarantees bring comfort to the private sector;
- capacity building in RECs;
- learning from successful projects such as the West Africa Gas Pipeline (WAGP);

The African Diaspora. It was recognized that the Diaspora is important but they need guarantees and comfort that their investments are safe. Investment climate alone is not enough. Results of conferences on how to use remittances to work on infrastructure in Peru and in southern Mexico were briefly cited. The objective is how to mobilize different resources from the diaspora. It could be in the form of financial resources or knowledge

. The idea is to find innovative mechanisms on how to mobilize resources from the diaspora. These resources can be financial resources or investment and trade opportunities. Countries such as El Salvador, Brazil and Lebanon have used the securitization of remittances as a form of funding. In addition, other countries such as India, Israel and Philippines are mobilizing resources through "diaspora bonds". It would be important to learn from these experiences.

There are also some experiences in Latin America to use new forms of guarantees for public-private partnerships. The use of guarantees in Africa is one of the main constraints for infrastructure financing. Africa should try to tap in to guarantees that not only cover political risk..

Delegates noted the case of India and Pakistan, where most of FDI comes from expatriates, estimated at \$4bn every year. There is need for safe guarantees for these kinds of resources. The estimated \$600bn of Africa's money currently invested abroad could be brought back to the region provided sufficient comfort and guarantees are in place.

Guarantees and Comfort. Demand for private sector money globally is very high and outstrips supply. It was acknowledged that important as they are, multilaterals are running out of money. Financial markets must be brought to the table in a meaningful way; as management experts for example. It was however stressed that Africa's indigenous private sector must be actively involved. Nevertheless, existing guarantees such as MIGA guarantees are not enough. MDBs need to focus their energies in this important area of new and more substantive guarantees. Another area of focus might be to provide capacity to RECs in projects presentation. For example, the COMESA Fund, while capable of preparing projects, lacks capacity and more funds.

Learning from successful projects within Africa. The West African Gas Pipeline (WAGP) was cited as a project worthy of study to determine what was done, how and what could be learnt from it.

SUMMARY OF KEY ISSUES AND TAKE AWAYS

Before the Workshop came to a close, delegates heard a summary of key issues and takeaways that had emerged from the entire workshop around which a considerable consensus was built.

Regional Integration matters more in Africa...

Regional integration matters more for Africa, where 40% of the population and one-third of the economies are trapped in landlocked countries whose trade and development depend almost entirely on events that happen beyond their own borders. It also matters in Africa more than elsewhere because the region has this “spaghetti bowl” of RECs whose missions overlap, and for the most part, are yet to achieve the most important objectives they were set up to accomplish. Globally, only 4% of the world’s population lives in landlocked countries and for them regional integration couldn’t be as important as for Africa.

Growth poles would help regional integration

Regional integration would be helped by the identification and promotion of growth poles. These should not be limited to big countries growing fast and yielding positive spill over effects to neighbours, but could also be driven by the creation of zones within countries or sub-regions where specialized production units could be based. Agriculture was identified as a major growth pole given that Africa currently imports 50% of its food, translating into 18 billion dollars or just a little less than all the financing Overseas Development Assistance brings to the continent, and representing a considerable loss of valuable foreign exchange.

Financing for Regional Integration

Funding regional integration programs requires major retooling and skills building for RECs, governments, sub-regional organizations and donors. However it is the responsibility of Africans more than others to ensure that this happens, including through developing new and innovative ways of mobilizing local and international capital for this purpose. The regional integration agenda must be Africa-driven and Africa-led, and multilateral and development partners, though important, should do more to bring what they have in a more coordinated and harmonized manner. Africans must stay in the driver’s seat. Also on financing from the private sector, emphasis is on private sector involvement, engagement and comfort rather than merely funding. The AU has a major role to play in this regard and should work hard to operationalize initiatives such as the planned African Investment Bank and African Monetary Fund.

National interests in conflict with regional interests

National interests seem to be in conflict with the regional interests, and governments are hurting the cause of regional integration by hanging on too jealously to sovereignty. They seem to be more concerned about delivering locally over the short-term in order to win

elections and stay in power. This situation is exacerbated by the fact that donors still seem uncomfortable and lack the instruments to move away from country-focused programs.

Rationalization

There is need for rationalization although the caution is for Africa's reality and history to be taken into account. Political forces at play should not be neglected. African countries and sub-regions should avoid inward-looking trade groupings and RECS should seriously consider ways in which their proliferation could be addressed, and how they could become more innovative in mobilizing resources, in preparing projects and in providing guarantees or serving as host to special purpose vehicles for infrastructure projects. While rationalization was recommended, the consensus was also that it should not be done at the expense of hitherto neglected regional areas; especially those linked to inland waterways, river and lake basins.

Paris Agenda for Regional Integration

There was consensus that a Paris Agenda-type agreement could be worked out and agreed upon in order to ensure harmonization, alignment and focus on regional integration. Also consideration could be given to the development of regional assistance strategies and region-wide poverty reduction strategies. Inevitably this would require a platform to discuss harmonization among the various donors.

The crucial role of honest brokers like World Bank

Region-wide deals such as the one being negotiated under the EPAs with the European Union would benefit enormously if neutral donors such as the World Bank and others in this category could consider formulating a strategy for getting more involved in the process.

Africa competitive at factory gate

Macroeconomic stability matters and although Africa seems to have solved her macroeconomic problem and has become just as competitive at the factory gate level as the best economic performers in developing countries such as China, India or Vietnam; indirect costs linked to lack of infrastructure (energy and transport especially) make it impossible for Africa to compete more effectively on the global market. Africa continues to see its share of global trade fall because of her high costs of doing business. Many behind-the-border issues that cripple Africa's competitiveness would be better dealt with on a regional rather than on a national basis.

Encouraging donor making timid debut

Donors and development partners still making a timid debut in regional integration programming, were encouraged to broaden and deepen their work in this area, including through re-tooling their funding mechanisms, increasing them so as to provide more resources on both concessional and non-concessional terms.

Retooling needed for all stakeholders

Effective regional integration will require new skills within member states, RECs and Donors. RECs need to learn from best practice and to be inspired by good examples from other sub-regions. RECs that conduct studies ought to share their findings.