REGIONAL INTEGRATION IN AFRICA

Paris, 26–27 March 2001

SUMMARY
Objectives

The need to establish a regular mechanism for analysis and dialogue on the growth prospects and policy challenges facing Africa led the OECD Development Centre and the African Development Bank (ADB) to launch in 2000 the first International Forum on African Perspectives. The theme chosen for the second Forum, “Regional Integration in Africa”, refers to the idea that regionalism can create a springboard for the process of economic liberalisation and progressive insertion into the global economy. In a world where, in addition to goods, human and financial capital are increasingly flowing across national borders, Africa needs to find mechanisms to overcome its difficulties by implementing co–operative solutions. The Forum provided a platform for the participants to debate if current efforts aimed at revamping the process of regional integration in Africa are succeeding in three key areas: i) overcoming bottlenecks to growth; ii) addressing distortions in the functioning of regional markets; and iii) promoting export diversification and quality integration into the world economy.

Participation

The first day’s experts meeting was held at OECD Headquarters and was attended by some 100 participants, including high–level experts from leading African and OECD Member country universities and think tanks, as well as the African Development Institute, the African Economic Research Consortium, the West Africa Regional Stock Exchange, the IMF, the WTO, the European Commission, OECD Member countries development administrations, the Trade and Development Co–operation Directorates of the OECD, and the Club du Sahel. The second day’s policy dialogue meeting was hosted by the French Ministry of the Economy, Finance and Industry at the Bercy Conference Centre and was attended by some 300 participants. Speakers included the French Minister of Co–operation, the Tanzanian Minister of Foreign Affairs, the Moroccan Ambassador to France, the Director General for Development at the European Commission, the Executive Secretary of the Economic Community of West African States, a Vice–President of the European Investment Bank, the Chief Executive Officer of the South African National Roads Authority, and the Director of the French Treasury. There was strong representation from the African diplomatic corps in Paris with 26 countries represented, as well as from OECD Delegations. Senior officials from the Agence Internationale de la Francophonie and the Commonwealth Secretariat also participated.

Main Conclusions

Participants agreed on the importance of creating a more positive and coherent interaction between domestic reform, regional initiatives, and structural adjustment policies. Nevertheless, they cautioned against the view that social policies alone can reduce poverty, while macro–economic policies are set to foster economic growth. Moreover, African’s image is worse than its reality: there is a need to present a balanced view of achievements and difficulties in African economies, and to differentiate between countries. This balanced view could improve the negative image of Africa in the media. Opening global markets to African countries — by removing both trade impediments and all forms of subsidies, in textile and agriculture in particular — must proceed in parallel with efforts at improving the working of African markets. Regional integration is moving away from intra–regional trade liberalisation to becoming a vehicle for attracting foreign direct investment through confidence building. However, this gradual change has not yet impressed potential investors.

The Proceedings of the Forum will be published jointly by the Development Centre and the African Development Bank in summer 2001. The attached Annex presents a more in–depth account of the discussions and papers presented.
Relaunching African Regionalism

1. While Africa has a long track record in regional integration initiatives, the results have been by and large rather disappointing. Over the last decade, as an increasing number of countries timidly began opening up their economies and removing the most egregious barriers to investment and entrepreneurship, regional agreements have been revived. In the spirit of the Abuja treaty, regional integration is seen as a strategy to face up to globalisation, while specific policy instruments have to be used to increase domestic capacity and further the national interest. While participation of the private sector is seen as key in this new phase, there is also a perception that the public sector must take the helm in creating an auspicious environment for regional initiatives to flourish and become sustainable.

2. Various participants, however, cautioned against placing too high expectations on regionalism, noting that, in small countries, small changes will give small numbers. Moreover, while Africa has to integrate to increase her chances of surviving external competition, the need to find a development path based on across-the-board opening to other regions and continents was also underlined. The continent does indeed still compare unfavourably to other developing regions in terms of its unilateral liberalisation effort, partly because general tax collection remains weak and makes it difficult to reduce trade taxes. Moreover, since many countries have been reluctant reformers and poor performers in terms of growth, the weakest countries have often defined the agenda of regional negotiations. The possibility of using a variable geometry approach as a way to break the deadlock was cited, as were the potential benefits deriving from multilateral surveillance in regional groupings.

Implications for Africa from Regional Integration in Latin America

3. In view of some of the failures of the reform process in Africa, including in the area of regional integration, there is a growing perception on the part of policy-makers that a careful analysis of the experiences elsewhere in the developing world may potentially improve the quality of policies. So far, most of the attention has been on the European integration model, where of course, starting conditions were greatly different and institutions were built top-down. Latin America on the other hand has adopted a different approach to regionalism, implementing policy changes in a relatively rapid manner and accompanying trade opening with a host of deep reforms in domestic economic policies. Another point that has characterised the Latin American experience in the 1990s has been the clarity of the goals assigned to regional integration, especially in the case of Mercosur, and the resulting lightness of the institutional framework governing it. These stand in stark contrast with Africa, where often-unrealistic objectives have combined with a rather baroque structure of official bodies. Integration is more of a process than a goal in itself and political will is crucial, as proven in Mercosur by the fact that Brazil has served as the power engine — while no country seems capable of doing so in any of the major regional initiatives in Africa. Participants also highlighted that regional bodies such as the Inter-American Development Bank and the UN Economic Commission for Latin America and the Caribbean have played a crucial role in articulating a coherent doctrine of open regionalism. The public and the private sectors in the EU, in Mercosur, and Nafta have been complementary, but in none of these cases has there been an exclusive lead of either the public or the private sector.
4. However, the point in making the comparison between these two experiences is not to erect Latin America rather than Europe as a model for Africa. The point is rather to draw African policy makers’ attention at an early stage to the challenges that the most advanced groupings are facing now and which Africa will also encounter in the near future as it hopefully catches up. In particular, insofar as the recent measures implemented in Argentina may jeopardise the very existence of Mercosur, various participants observed that African countries have to find mechanisms to co–ordinate economic policies and to reduce vulnerability to external shock. Despite much talk, moreover, Latin America has so far met with limited success in improving the quality of physical infrastructure so as to remove barriers to trade. Reforms and open regionalism have not been able to deliver sufficiently high growth rates to curb the brain drain, a phenomenon which is common to Africa and Latin America. At the same time it must also be borne in mind that conflict and famine are not as rife in Latin America as they are in Africa, so that crisis prevention and resolution is a matter of lower priority in the former.

Investing in Infrastructure and Strengthening Capital Markets

5. Many African countries remain highly dependent on a single export product and complementarities are few and far between. The recognition that regional integration is a concept that extends beyond trade and production and that it must include a solid financial system and an efficient network of infrastructure has therefore gained ground in the 1990s. With non–existent or poor infrastructure, agglomeration economies cannot be created. Examples of infrastructure projects that explicitly take the regional dimensions into account are the “economic corridors” in the Southern African Development Community, the West African Regional Stock Exchange in Abidjan, or Air Afrique (currently being restructured with World Bank assistance). But for all such initiatives to function it is crucial for concepts such as governance and transparency to be given a real meaning and not to simply remain as wishful thinking. It is also important to use infrastructure development to help the informal sector participate in and benefit from the process of globalisation and liberalisation.

6. In all these areas, there are some rather formidable hurdles to overcome. While capital is key in promoting integration, Africa is already financially linked to the world economy through a number of negative channels, including indebtedness, money laundering, and capital flights. Solving the debt crisis through innovative strategies such as the Highly Indebted Poor Countries (HIPC) Initiative is therefore a priority, also in view of creating bond markets for financing long–term infrastructure projects. Secondly, growing global integration of financial markets reduces the need for national market places, especially in countries that are too small and poor to reach a minimum efficient scale in terms of turnover and liquidity. And yet the home bias of investors’ risks excluding from major OECD financial markets all but a few “blue chip” African corporations. Regional markets may therefore carve a niche for themselves if they increase competition between different forms of financial intermediation, which is an important vector of market development. Moreover raising funds at the domestic level remains necessary for companies to issue shares in OECD stock exchanges. Another major problem derives from the lack of skills in many African countries. Heavy reliance on foreign consultants, technicians, and contractors weakens the sense of ownership of the projects and may perpetuate aid dependency. On a more positive note, it was noted that strong political will may create at least some prerequisites for deeper regional integration even before all necessary structural reforms are implemented in individual countries. One participant did indeed suggest to use pension reform in Africa as a tool to deepen its capital markets in the way this has happened in some countries in Latin America.