

Regional and Global Integration, and Development: What is New?

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The conference provided a great opportunity to learn from past and ongoing research on macro-economic issues, regional integration, evaluation and development measurement. This is important to understand the big picture presented by the interaction between internal and external forces, which have an impact on project success and/or failure. Over 450 economists and social scientists, including the world's big thinkers, discussed the big issues arising from the present uncertain context.

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Regional and Global Integration: *Quo Vadis?*

11th Annual Global Development Conference
Organized by the Global Development Network (GND)
January 16-18, 2010
Prague (Czech Republic)

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(Based on conference documents and other sources)
Tunis, February 15, 2010

Conference discussions focused on globalization and regional integration in the context of the recent economic crisis. While the economic and political consequences of the crisis have undoubtedly cast a deep shadow on the economies of developing countries, they are also likely to hasten the structural shift in global economic power from Western countries to emerging markets. (www.gdnet.org)

I. Main Issues discussed

<i>Regional:</i>	<i>Is the EU regional integration sui generis? Fragility, state and regional integration in Africa</i>
<i>Global:</i>	<i>Financial crisis, climate change, markets/state/institutions</i>
<i>Evaluation:</i>	<i>Limits of participatory development</i>
<i>Development measurement:</i>	<i>Concerns with GDP measurement and development claims</i>

II. Conference Discussions: Outcomes and Proposed Solutions

1. Regional integration issues

What can Africa and the rest of the world learn from the European Union (EU) integration model? Conference discussions underscored that the EU integration model, which started in the early 1950s with the European Coal and Steel Community, was an economic tool with a security vision. Following the Second World War, countries had no other option but to look for ways to avoid what seemed inevitable – another dreadful war. Although the EU has successfully brought together diverse national political and economic traditions, it has not been anything but a seamless process. The EU is

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underpinned by a clear vision, and this has done a great deal to sustain the integration process. Member states were encouraged to give up sovereignty and pass powers to ever-stronger institutions, a state of play protected through the treaties and the European Court of Justice.

The conference underscored that four processes are at the heart of successful integration:

- (a) setting clear and shared objectives;
- (b) proceeding step-by-step, but taking great care over initial steps;
- (c) paying attention to costly external barriers; and
- (d) establishing a framework for handling shocks.

Furthermore, whatever form of integration a region embarks on, it is important that countries have a shared ambition and know clearly what degree of integration they want¹. Countries must also choose economic partners carefully and ensure that the number and diversity of countries involved is not likely to cause instability.

Although the EU can provide lessons for other regions, these regions must build processes that are based on their own histories and visions, and on careful step-by-step planning. The conference also highlighted that although the current economic crisis does not mirror the pain and suffering of war, it offers a new opportunity for nations and regions to come together and build economic stability².

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¹ A free trade area, a customs union, a common market, a monetary union and a full economic union, as defined by Balassa (1961), *The Theory of Economic Integration*, Homewood, IL: Richard Irwin, 1961.

² In the interview given the Guardian on Wednesday 11 March 2009, Professor Giddens recalled what said Sigmund Freud: that every crisis is potentially a stimulus to the positive side of the personality and an opportunity to start afresh, <http://www.guardian.co.uk/commentisfree/2009/mar/11/climate-change-carbon-emissions>.

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Fragile States and Regional Integration in Africa: The two papers presented on this topic are directly relevant to the African Development Bank's priorities with respect to fragile states and regional integration. These are the *European Report on Development*³ and *Civil conflicts and Regional Integration Outcomes*⁴. The European Union has set up a new initiative, "Mobilizing European research for development policies" which is responsible for the annual publication of the European Report on Development⁵. The report is an independent, knowledge-based, and forward looking review of development issues that reflects the European vision. The 2009 edition, the first, was prepared by the European University Institute (EUI) based in Florence. It examines the complex and multidimensional issue of fragility, with a special focus on Sub-Saharan Africa, where most fragile states are located. Africa's situation has been described as the "toughest challenge of our era"⁶.

The authors of the report note that, today more than ever, with the succession of crises that have acted as magnifiers of fragility and vulnerability, overcoming fragility is an increasingly important priority in European development policies. It is also a key challenge for Europe's security strategy. Investing in Africa is investing in the future given the young age structure of the population compared to the European aging population. The report undertakes a critical analysis of current policy approaches to tackle fragility, identifies a number of priority areas, and makes a series of policy recommendations for the EU and other external actors to address complex situations linked to conflicts, weak governance, unsustainable exploitation of natural resources, and security threats that characterize states' fragility. Among the various policy recommendations, regional integration is presented as key to enhancing the resilience of fragile countries. The report reflects the long-run commitment of the European Union to be engaged in fragile states and human capital development and contains an interesting analytical framework explaining the relationships between

... regional integration is key to enhancing the resilience of fragile countries

³ http://ec.europa.eu/development/icenter/repository/ERD_report_advanced_copy_20091020.pdf

⁴ Adama Bah and S.Jules-Armand Tapsoba; CERDI-CNRS, Université d'Auvergne, France.

⁵ The [European Report on Development 2010](#), focuses on the issues of poverty, inequality and social protection, with a focus on Sub-Saharan Africa.

⁶ The human capital mobilized by the report is impressive: 10 economists prepared the report; François Bourguignon, former World Bank Chief Economist, was the scientific advisor; 8 experts formed a steering committee, 40 authors produced background papers, 14 experts contributed to bring fresh and new views into the report, 11 experts contributed to consultative process and 12 other participated to various stages of the report.

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states and societies. However, a key question remains: how can weak states be integrated with disintegrated societies?⁷

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The second paper, *Civil conflicts and Regional Integration Outcomes*, discusses civil conflicts as a major challenge to the economic development of a country, but also of neighboring countries. Econometric estimates indicate that civil conflicts affect the economic fate of regional economic communities through their negative impact on regional integration in terms of both business cycle synchronicity and regional trade intensity. The paper recommends that prevention and resolution of civil conflicts should be at the top of the political agenda of African Regional Economic Communities.

Conference participants discussed the importance of non-state actors in regional integration. This phenomenon is recognized under the concept of “New Regionalism”, which puts emphasis on governance rather than on government, as was the previous case, to ensure the future quality of life and competitiveness of a region, with this responsibility shared by all sectors: government, private sector, non-profit sectors. Whereas old regionalism focused on state-local relations, new regionalism emphasizes governance through the establishment of visions and goals, the setting of policies to achieve them, as well as clear benchmarks and indicators to monitor achievement. This requires that the shared powers and talents of different sectors work strategically to bring about change under a corps of leaders who are willing to be advocates and champions of regional issues⁸. This area merits further study to learn how to improve on regional integration design policies and projects. Training in regional leadership and issues may be a useful activity to carry out to develop regional capacities in Africa.

Economic Crises, Financial Cooperation, Economic Integration and Infrastructure in Asia and in Latin America: Discussions on this topic underscored that lessons learnt from the current crisis suggest that increased demand from regional markets—instead of from external ones—may reduce vulnerability to shocks from outside the region (namely US and European markets⁹).

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⁷ The report asserts the comparative advantages of European Union in developing human and social capital and institutions.

⁸ Allan Wallis The New Regionalism: http://www.munimall.net/eos/2002/wallis_regionalism.nclk.

⁹ The Oxford Analytica's Daily Brief of January 21, 2010 also asserts that: “While developing economies continue to be key for global recovery, they will need to rely more on domestic markets to keep momentum in the longer

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Economic integration in Asia is crucial for Asian economies to counter future shocks as well as to sustain their growth paths. Well-developed institutional as well as physical infrastructures are necessary for regional integration, as they provide smooth movement of labor, goods, money and information, while their development requires huge investments and international coordination. Cooperation through coordination, implementation, management and evaluation of cross border infrastructure networks may promote regional stability and peace. The direct and indirect effects on poverty reduction and how to maximize the effects and prevent negative environmental and social impacts are issues which need particular attention.

Discussions further underscored that the 1997/98 crisis, emanating from within the region, and the current sub-prime crisis, which started in the West, have created broad negative economic and social impacts. However, they have also provided strong impetus for countries in the region to pursue many important financial cooperation initiatives. These initiatives will facilitate the ability of countries in the region to shore up their economies in the short-term, shift their growth paths to be less dependent on exports as the main growth engine in the medium term, and strengthen the region's economic and financial resilience and protect it from future crises in the medium to long terms. Conference participants suggested various areas of financial cooperation, including the need to strengthen the region's financial architecture, in particular, by setting up a regional monetary organization as part of a new global financial architecture to fill gaps in global surveillance that exist under the current system.

On Latin America, Santiago Levy, Vice-President for Sectors and Knowledge at the Inter-American Development Bank, underscored how the fundamentals put in place by Latin American countries contributed to their "better than expected" performance during the crisis. In addition, resources were made available "very fast, in very large amounts, without conditions and before the crisis spread". This played an important part in limiting the crisis. Swap Lines were set up, and the G20 increased credit lines to the international system soon after. Mexico received an estimated \$80bn in flexible credit.

term, as sluggishness in OECD countries augurs only modest growth in demand from developed nations for their products and services."

2. Global issues

Financial Crisis: Participants agreed on the fact that the world faces two main threats: the financial crises and climate change. Both constitute obstacles to economic growth and poverty reduction. In addition, with the intensification of globalization and interdependence, small events, limited in principle, can spread around the world with significant impact. As a result, there is need to set up better financial regulations, smoothing insurance, and coordination mechanisms beyond the limited present capacity of the IMF and the G20— which is only a consultative body that cannot impose uniform policy decisions on individual actors at a time of global crisis.

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On **Climate Change**, Professor Anthony Giddens, the author of a recent authoritative book, *The Politics of Climate Change* (March 2009), pointed out that, in the wake of the financial crisis and climate change, it is time to start a new deal on climate change; one that is underpinned by dramatic social, political and economic transformation. This transformation should begin with a re-evaluation of the indicators of economic growth, and the measures by which these are achieved. Professor Giddens contended that economic deregulation must end, resonating with the way in which economic integration will take place in the future. He called for markets to be better regulated by bringing back the state, although the value of financial instruments that underpin global capitalism are still considered the means for long-term investment and financial security. Thus, market-based mechanisms need to be re-formulated: we need a new political consensus.

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Markets/State/Institutions: What model? The financial crisis has shaken the irresistible force of capitalism led by free markets—the so-called *Washington Consensus*—and has paved the way for alternative forms of capitalism. However, there is no *Beijing Consensus* on 21st century capitalism since there is no relationship between authoritarianism, economic growth, and conditions of life. Three models were discussed during the conference, and none proved to be satisfactory: India, China and the Scandinavian Models. China and India have achieved very high growth with different degrees of state intervention.

No economic model is fully satisfactory ...

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- In China, the state co-ordinates market economies and employs highly skilled workers on long term contracts. The state is operating in a non-transparent way and is relentless to meet its goals, whatever the costs.
- In contrast, India has adopted a much more democratic form of capitalism but has not been able to build a just society. Overall, democratic India has performed less well than authoritarian China on growth, poverty and human capital development.
- *The Scandinavian model* is also unsatisfactory as everyone does not benefit from it. For instance, the wages of skilled workers are highly compressed, creating lack of motivation on the part of employees and employers as a result of extremely high taxation levels. The model is different from other welfare states with similar goals because of its emphasis on maximizing labour force participation, promoting gender equality, egalitarianism and extensive benefit levels, large magnitude of redistribution, and liberal use of expansionary fiscal policy¹⁰.

Professor Robinson of the Harvard University emphasized that economic institutions as well as economic growth are the outcomes of collective choices and reflect the distribution of power in society; therefore, power relationships in society need to be changed to have better institutions. Any reform should be based on identification and understanding of political imbalances/equilibrium in society. Conference attendees emphasized that the focus should be on poverty reduction. According to the most recent World Bank estimates, 1.4 billion people in the world are living in poverty.

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3. Evaluation

Evaluation: Three presentations (based on a World Bank report, *Localizing Development: Challenges of Policy and Practice*) sought to demystify knowledge-claiming in development. The presentations were articulated around three questions:

1. **Does a participatory approach work?** Not always. Most carefully done studies find little impact on poverty, particularly after project disbursement periods. However, many find significant impacts on nutrition and diet quality; some

¹⁰ See for instance Martin De Vlieghere, Paul Vreyman and Willy De Wit, 'The Myth of the Scandinavian Model' *The Brussels Journal*, 2005, <http://www.brusselsjournal.com/node/510/print>.

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impact on savings and physical assets during project cycle—mainly where microfinance is important. Most studies find larger benefits accrue to wealthier households, but a few studies do indicate larger benefits for the poor. Evidence supports larger gains for the poor and other marginalized groups under democratic decentralization relative to participatory programs implemented by independent agencies.

- 2. Does better research lead to better policies that foster development?** According to the presentation, different 'epistemic communities' make different types of knowledge claims, each with their own criteria for what counts as a question and what counts as an answer. The ensuing recommendation was that as researchers, we should help counterparts solve problems instead of selling solutions.

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- 3. Information distortion in participatory development?** The presentation discussed the question of relevance of projects and programs. In some instances, relevance may be defined by the elites or/and donors and does not necessarily reflect the priorities of the poor. "When communities are certain about the preference of donors, they are strongly induced to make a declaration close to what these are." In addition, if donor preferences are fuzzy, communities are more likely to think more clearly about community needs, despite the tendency of elites to dominate this process. In conclusion, Professor, Platteau outlined the key role played by donors, the need for them to show tolerance, avoid being over prescriptive, and put aside any uncertainty regarding the ability of communities to identify their own needs. Hence, the idea that limited competition among donors may be good for the poor. It was pointed out to the author that this runs against the idea of coordination within the Paris Declaration. However, one would expect that competition in terms of situation analysis and policy formulation should take place before coordination.

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4. Development Measurement

Participants discussed the rising concern with the inadequate measurement of development performance. Current measures for assessing development, such as the Gross National Product and the Human Development Index (HDI), do not adequately reflect a person's social and

Attention should be given to human capital, environment, poverty, governance indicators, and even happiness indicators.

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welfare progress as well as its sustainability. But finding alternatives is not easy and the road to more nuanced measurement is paved with complexity and methodological challenges. Special attention should thus be given to health, education, environment, poverty, and governance indicators, as well as to the increasingly popular subjective indicators of happiness¹¹.

The presentation raised several questions on methodological levels and on the usefulness of more complicated social progress indices. Participants wanted to know whether these indices would be comparable across societies and over time, and whether, beyond producing the report, there were political decisions made to improve prevailing indices, including reinforcing data collection in Africa. The initiative is very new and discussion is ongoing.

5. Take away messages

Era of models turbulence: We have entered a challenging era where no model seems to be optimal to solve economic, social, and environmental problems. It is a fructuous era where economists, social scientists and environmentalists have to think hard about alternative solutions. Our current claims about development may be right or wrong. They need strong research activities to back them up and they need to be evaluated.

New Regionalism: On regional integration, the *New Regionalism* suggests that it is important to go beyond the narrow focus of inter-state regional frameworks—traditional regionalism to integrate non-state actors, private and nonprofit, so that all actors operate to tackle challenges requiring acting regionally to attain long-term development¹².

... go beyond the narrow focus of inter-state regional frameworks... to integrate non-state actors

¹¹ The recent Stiglitz Report written at the request of President Sarkozy from France, as well as the forthcoming UNDP annual report devoted to an examination of the HDI, attests to the growing uneasiness with currently used indicators. The *Report by the Commission on the Measurement of Economic Performance and Social Progress* is available here: http://www.stiglitz-sen-fitoussi.fr/documents/rapport_anglais.pdf. It was presented to the conference by Professor François Bourguignon.

¹² For a good understanding of the relationships between the proliferation of informal networks and African states in the accelerated globalization, see Clapham Christopher, *Africa and the International System. The Politics of State Survival*, Cambridge: Cambridge University Press, 1996. See also, Fredrik Söderbaum, "Competing Perspectives on AU and African Integration", Chapter for ECDPM/NAI workshop volume, *Building the African Union institutional Architecture: Progress Achieved, New Perspectives and Possible Support by the E, November 2009*.

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Poverty Reduction: the biggest problem facing poor societies is that they are marred by inefficient institutions in which people cannot be free and thrive. Getting institutions right is the key, but how? This is the most challenging question poor countries, including those in Africa, have to address¹³. Paul Romer, the father of the new growth theory, recently coined an original idea: create “*charter cities* where developed countries frame the rules and hundreds of millions of poor families could become residents¹⁴”. Food for thought.

Getting institutions right is the key; but how?

¹³ Garenne and Gakusi, Cf. “Deeper into the institutions debate”, *Finance and Development*, December 2003, <http://imf.org/external/pubs/ft/fandd/2003/12/pdf/letterto.pdf>.

¹⁴ The paper available here: <http://www.prospectmagazine.co.uk/2010/01/for-richer-for-poorer/>