



**ECONOMIC RESEARCH PAPERS**

**N° 62**

**Policies for Regional Integration  
in Africa**

by

T. Ademola Oyejide  
University of Ibadan  
Ibadan, Nigeria

The views and interpretations in this paper are those of the author  
and not necessarily those of the African Development Bank

**ECONOMIC RESEARCH PAPERS**

**N° 62**

---

**Policies for Regional Integration in Africa**

by

T. Ademola Oyejide  
University of Ibadan  
Ibadan, Nigeria

Copyright © 2000  
The African Development Bank  
01 B.P. 1387  
Abidjan 01  
Côte d'Ivoire

## Abstract

The paper argues that experience and empirical evidence have shown that Africa's traditional trade-focused model of regional integration has failed not only in promoting intra-regional and African trade but also economic growth. However, regional integration remains a basic ingredient towards the attainment of high and sustainable economic growth in the continent. To realize this potential, there is therefore, the need to search for new modalities of regionalism that lean more towards co-operation, less rigidity and more pragmatism. The paper suggests that the principles of variable geometry and subsidiarity could be usefully applied in this more pragmatic modality for defining the functions and powers of the various layers of the new regional co-operation institutions. The principle of variable geometry permits integration to proceed on the basis of progressive steps, allowing smaller sub-groups to move faster than the whole group while providing that many decisions be made by the majority rather than by consensus. On the other hand, the subsidiarity principle provides a clearer basis for distributing powers and responsibilities across several layers (from national to regional) of the organizational structure of a regional integration scheme according to the comparative advantage of each in respect of the different functions. These new co-operation arrangements have important contributions to make in helping to develop African infrastructure and thus in reducing the region's unusually high transactions costs, which inhibit trade, investment, and economic growth. They could also play a major role by assisting African countries to establish a stable macroeconomic policy environment through regional co-ordination and harmonization of macroeconomic and sectoral policies, trade, and growth- and investment-enhancing institutions. In addition, in an era of globalization, the multilateral approach to the fuller integration of African countries into the global economy is a *sine qua non*. To derive the most benefit from this approach, African countries must not only participate more actively and effectively in the World Trade Organization (WTO) process, they also need to accept and implement appropriate tariff-binding obligations.

## Résumé

D'après ce document, l'expérience et les faits concrets démontrent que le modèle classique d'intégration régionale, axé sur le commerce, n'a réussi ni à promouvoir les échanges entre régions et entre pays africains ni à favoriser la croissance économique. Toutefois, l'intégration régionale reste un élément essentiel à la réalisation d'une croissance économique forte et durable sur le continent. Pour concrétiser ces potentialités, il importe donc de rechercher de nouvelles modalités de régionalisation davantage axées sur la coopération, moins rigides et plus pragmatiques. Le document suggère que les principes de géométrie variable et de subsidiarité pourraient être utilement appliqués dans cet exercice de définition des fonctions et pouvoirs des nouvelles institutions de coopération régionale. Avec le principe de la géométrie variable, l'intégration peut se réaliser par étapes progressives, le rythme de progression des sous-groupes de petite taille peut être plus rapide que celui de l'ensemble du groupe et nombre de décisions pourraient être prises à la majorité plutôt que par consensus. Quant au principe de la subsidiarité, il permet une répartition plus précise des pouvoirs et responsabilités entre divers niveaux (nationaux à régionaux) de la structure organique d'un dispositif d'intégration régionale, en fonction de l'avantage comparatif en ce qui concerne les différentes fonctions. Ces nouveaux arrangements de coopération peuvent contribuer grandement à aider l'Afrique à développer son infrastructure et, ainsi, à réduire le coût excessivement élevé des transactions, qui constitue une entrave au commerce, à l'investissement et à la croissance économique sur le continent. Ces dispositifs peuvent aussi jouer un rôle majeur dans la création d'un environnement macroéconomique stable dans les pays africains, grâce à la coordination régionale, à l'harmonisation des politiques macroéconomiques, sectorielles et commerciales ainsi qu'à la mise en place d'institutions favorisant la croissance et l'investissement. Par ailleurs, dans le contexte actuel de la mondialisation, l'approche multilatérale est une condition indispensable pour que les pays africains puissent totalement s'intégrer dans l'économie globale. Pour pouvoir tirer le maximum d'avantages de cette approche, les pays africains doivent non seulement participer plus activement et plus efficacement à l'Organisation mondiale du commerce (OMC) mais ils doivent aussi accepter et respecter les obligations en matière tarifaire.

# Policies for Regional Integration in Africa

by

**T. Ademola Oyejide**

## Introduction

African countries have had a fairly long history of repeated attempts to link themselves together, both in various sub-groups and even continent-wide, through several broad types of regional integration and cooperation arrangements. In virtually all cases, these attempts have reflected the desire to deal, in one way or another, with the perceived growth-retarding problems thought to be associated with a number of key elements of the structure of African countries. These include the small size of the typical African economy, the fact that many of them are landlocked and therefore need the cooperation of their coastal neighbors for a more effective integration with the global economy, and the relatively poor state of their infrastructure services (especially transportation and communication). These and other related features of the typical African economy have been identified as key factors that may hamper the rapid and sustained growth of many individual African countries. It is then argued that regional integration and cooperation are, perhaps, the most appropriate way of relaxing the constraints imposed by these factors.

Many of the more popular arguments for regional integration and cooperation rest largely on the possibilities of deriving substantial economies of scale with respect to various activities typically associated with the expansion of trade and overall economic growth in a country. If individual countries are small in economic size, it is reasonable to suggest that a combination of several such countries in the context of an appropriate regional integration scheme, would bring about a sufficiently large market size to generate lower production cost that might enable the integrated region to compete better with the rest of the world. Similarly, a combination of several small countries into a regional block would enable them negotiate more effectively with other trading blocs. The economies of scale argument for regional integration and cooperation applies also with respect to the joint provision of a range of infrastructural services where considerably lower per unit costs might be achieved than when each country attempts to provide the same set of services individually.

Research on and practical experience with respect to the implementation of regional integration arrangements in Africa and elsewhere suggest that success often demands more than the mere desire of small countries to link themselves together on the basis of these plausible arguments. There are important questions regarding what type of regional integration or cooperation would be appropriate for achieving specific objectives, how should the integration or cooperation scheme be designed, structured and implemented, as well as what would be its proper scope and coverage.

---

\*Background paper prepared for the *African Development Report 2000* (African Development Bank). The author is a Professor at the University of Ibadan, Nigeria.

In addition, the national, regional and international environments have undergone considerable changes during the last two decades or so. Many of these changes relate to increasing globalization of the world economy and a rapidly growing trend towards the liberalization of a wide range of economic and trade policies. These changes have important implications for the goals and design of regional integration and cooperation, the extent to which particular types of regional arrangements might be appropriate, and whether some of the goals of regionalism may not be better achieved through more multilateral arrangements.

An exploration of these issues, with particular reference to regional integration and cooperation arrangements in Africa, constitutes the primary focus of this paper. In what follows, the paper offers a brief assessment of the record of regional integration in Africa in section II, focusing specifically on the outcomes or results achieved in relation to the articulated objectives and broad expectations, and an analysis of the factors that shaped the outcomes. Section III examines the case for a new orientation for regional integration and cooperation in Africa based on the region's experience, lessons derivable from integration practices elsewhere and the evolving new environment shaped by the unfolding processes of liberalization and globalization.

The next two sections of the paper are devoted to an exploration of the implications of a new orientation for regional integration and cooperation in Africa first for the desire to link the region together and second for integrating Africa into the global economy. As suggested earlier, the desire to link African countries together through a series of regional integration and cooperation schemes has been and remains an enduring goal. Section IV takes this goal essentially as given and explores various alternative types of regional arrangements best suited for its achievement. Using the variable geometry concept in a rather broad sense, this section offers a wide range of possible arrangements that can be combined in different ways in the light of the initial conditions in various subregions of Africa. The analysis pays particular attention to two integration and cooperation modalities that are widely regarded as especially important for bringing African countries closer together. These are the harmonization of a range of macro-economic and sectoral policies as well as trade – facilitating institutions, arrangements and instruments; and the building of regional infrastructure that is closely related to the promotion of intra-regional trade and domestic and foreign investment. Section V starts from the premise that a new orientation for regional integration and cooperation arrangements in Africa should stress modalities which treat these arrangements essentially as important first steps towards fuller integration into the global economy. It, therefore, explores various alternative options, in the context of the new outward – oriented approach, for linking African countries to the world either as individuals or as integrated sub-regions. This section treats the specified options as a menu of alternatives from which different African countries and sub-regions may select; while acknowledging the fact that some of the choices have already been made and a few others are currently being negotiated.

Section VI concludes the paper by pulling together its main findings and conclusions. In particular, it identifies the important dimensions of a new orientation for regional integration and cooperation that may deserve special attention as African countries search for new ways of reviving their growth process through various forms of cooperation and collaboration. It finally suggests that certain aspects of some of the proposed mechanisms and arrangements for linking Africa with the world may require more careful analysis and consideration, including a more precise articulation of the relative benefits and costs of competing regional and multilateral approaches.

## The Record of Regional Integration in Africa

A rather robust consensus seems to have developed around the broad conclusion that African regional integration schemes have not succeeded in expanding intra-African trade, increasing Africa's total trade or enhancing the region's overall economic growth. The consensus regarding this outcome flows over into broad agreement, from the analytical and empirical literature, that the failure of the regional integration arrangements may be traced to several critical factors. First, it can be argued that the regional integration schemes employed are probably not the appropriate mechanisms for achieving the goals enumerated above. Second, the type and formal structure of the arrangements adopted are unsuitable.

Third, the initial conditions prevailing in Africa and the structural characteristics of many of the African countries involved in the various regional integration schemes could not have facilitated their successful implementation. Fourth, the schemes have, in any case, not been faithfully and fully implemented as designed nor in a timely manner. Thus, Africa's regional integration arrangements have suffered from both design and implementation problems which, in turn, probably reflect the failure to fully take into account the initial conditions and structural characteristics of African economies.

There is clear, abundant and well-documented evidence that the regional integration arrangements in Africa have, in general, not significantly improved intra-regional and intra-African trade. According to Fine and Yeo (1997, P. 433), "the performance of the regional entities has been well documented. .... In virtually all cases, the volume of intra-regional trade has stagnated or even declined slightly, and there have been no changes in the composition of trade that would suggest that integration has led to any significant structural change in the economies concerned". Empirical results based on gravity models suggest that Africa's intra-regional trade is not necessarily low because of factors that work differentially against it but rather that it is naturally low. In particular, some of these gravity – model based empirical studies (e.g. Foroutan and Prichett, 1993; Ogunkola, 1993) show that the low levels of intra-African trade are essentially explained by structural factors like low income and large intra-country distances rather than by a peculiar policy – induced bias against regional trade. Another gravity – model study (Elbadawi, 1997, P. 228) confirms these results "even after controlling for key policy variables (such as exchange rate variability and exchange rate overvaluation) in addition to the traditional trade flow determinants (such as economic size, distance, and so on)".

Analysis based on a comparison of trade ratios also shows that, in virtually all the integrating regions, these ratios have actually declined or remained stagnant over time. It is important to note that overall intra-African trade is lower (typically around 10% or less) than that of any region in the rest of the world. Intra-group trade for the PTA/COMESA, CEAO/UEMOA, and SACU is typically higher than the intra-African trade ratio. But while generally higher than the average intra-African trade, intra-group trade of the PTA/COMESA has actually been lower in the 1990s than it was before the PTA started off in 1984. In spite of the fact that both enjoy a high degree of monetary integration, the intra-group trade ratios of CEAO and UDEAC are radically different; with CEAO having a much higher intra-group and UDEAC recording a slightly lower intra-group ratio rather than the overall African region. On the surface, the fact that intra-CEAO trade ratio is roughly twice that of intra-ECOWAS trade ratio might suggest a significant role in stimulating intra-regional trade flows of the former's strong form of monetary integration. However, this conclusion must be diluted by the recognition that the same degree of monetary integration does not appear to have facilitated intra-regional trade in UDEAC whose intra-group trade ratio turns

out to be much lower than that of ECOWAS. SACU stands out among Africa's regional integration schemes in terms of intra-group trade performance. This scheme has a long history of significant intra-regional trade which largely reflects the fact that most SACU imports are sourced from or through South Africa, the region's dominant economy. The other SACU member countries absorb about 25% of South Africa's manufactured exports while also providing 10% of its total imports.

Fine and Yeo (1997, p. 437) argue that this poor performance record of Africa's regional integration schemes "is not entirely surprising since many of the preconditions for success suggested by economic theory were not present at the outset". In the view of Elbadawi (1997, p. 229), "the failures of these schemes can be, at least partially, explained by their own characteristics and the constraints they face". The factors identified above are just some of the many that have been responsible for the failure of various African regional integration arrangements to live up to expectation. Analytical convenience suggests a three-way classification of these factors. Thus, the structural characteristics of the integrating economies and regions can be placed in one category of factors militating against successful regional integration. Design deficiencies belong to the second category; while implementation failure constitutes the third category. But the relevance and significance of these factors are, perhaps, more easily grasped against the background of the motivations, objectives and model of regional integration adopted in Africa. An articulation of these is therefore necessary at this point.

Africa's regional integration movement appears to have been driven by a key set of considerations. One of these emanates from the recognition that the small size of the typical African economy places considerable constraint on rapid and self-sustained economic development. In particular, the combination of a small population and low per capita income restricts the ability to benefit from lower unit costs that could arise from the exploitation of economies of scale and curtails allocative efficiency gains that could be generated by the increased competition associated with larger markets. In these circumstances, regional integration appears to be the logical way for producing at lower unit costs in a larger (regional) market. In principle, therefore, regional integration can be viewed as a means of widening the size of the market and utilizing this for the purpose of realizing the benefits of greater specialization and economies of scale.

There are, at least, two broad goals implied by this rationale for regional integration. One is to expand intra-regional trade and the other is to promote industrialization and overall growth. In this framework, the expansion of intra-regional trade is stimulated through the liberalization of trade barriers within the integrated region. The second goal requires that the regional integration be viewed, in its early phase, as an inward-looking instrument of industrialization. The infant industries that develop and grow under this regional import – substitution – industrialization environment could first learn to produce and "export" within the protected regional market and, eventually, become sufficiently efficient to face world competition without further assistance.

Basically, this simple model of regional integration presumes the complete elimination of all barriers to trade and factor movement within the integrated regions; it also presumes the reduction to the minimum of all intra-regional transactions costs. These presumptions are crucial for the promotion of intra-regional trade as a key objective of this model of regional integration. Trade expansion is, of course, primarily a means to an end; i.e. the accelerated economic growth of the integrated region. Viewed from this perspective, regional integration is expected to bring about both an expansion of intra-regional trade and accelerated growth of the integrated area essentially by liberalizing trade and associated activities within the region. In addition, since African regional integration schemes built on the basic model described above also explicitly favour balanced development of member countries, most of them include specific instruments and modalities for

promoting the growth of the poorer member states and for “compensating” particular member states where necessary.

For a regional integration scheme based on this model to succeed, some additional conditions need to be satisfied. Prior to regional integration, there should be high levels of trade between the member countries. There should also be substantial complementarities in goods and factors among the regional partners. Furthermore, intra-regional trade expansion will be facilitated by differences, among regional partners in per capita income and consumption patterns, that translate into significant potentials for product differentiation and, hence, trade.

Clearly, the “success conditions” for regional integration are many, varied and difficult to achieve. This difficulty has continued to constrain African efforts from the beginning of the region’s romance with regional integration. For instance, Yeats (1998) demonstrates that African countries lack the income levels and the structural complementarities that could be relied upon to generate appreciable gains from specialization based on regional integration, both within and across industries. In any case, individual African countries are so small, in economic terms, that even when they are combined in various regional integration schemes the enlarged regional markets are still quite small by international standards. These regional markets, even when fully liberalized and integrated, are typically not large enough to serve as a viable basis for achieving high levels of industrial growth and efficiency. In the absence of the discipline of competition, the structure and efficiency levels of industries that grow within the protected regional market are not generally adequate to enable them to compete effectively in the world market. In reality, most African regional integration schemes have not achieved full integration; and the domestic policy in individual member countries have also been generally at variance with the ideals of harmonized and coordinated pursuit of regional objectives.

More generally, a recent survey of African regional integration schemes (Oyejide, 1997) suggests that the design and implementation of many of the arrangements in effect actually constrain rather than promote intra-regional or overall trade. This counter-intuitive result seems to emanate from such prominent features as consensual decision-making arrangements, over-lapping and sometimes conflicting memberships, lack of regional level monitoring of the implementation of decisions, apparent unwillingness of governments of member countries to cede authority to the regional bodies, and the consequent lack of resources and power by the regional secretariats to take initiative and promote regional perspectives. In addition, non-compliance with and delayed implementation of agreed trade liberalization schedules have not enhanced intra-regional trade expansions; while in many cases, the chosen instruments of integration are virtually guaranteed to discourage rather than promote intra-regional trade. Finally, the absence of effective compensation mechanisms has further hindered the implementation of certain trade liberalization measures in particular regional integration schemes. Taken together, these problems show that Africa’s regional integration schemes have generally not been fully implemented as designed. This is clearly demonstrated by the observations that, in many of them, internal trade barriers have not been eliminated, free movement of factors remains a largely unrealized dream; while poor infrastructure and other constraints continue to ensure that intra-regional transactions costs remain very high.

This generally negative assessment should, of course, be qualified in some specific cases. In this context, it should be noted that the initial conditions and structural features of some of the regional integration schemes were more conducive to higher intra-regional trade flows than in others. For example, it can be argued that the seven countries of CEAU/UEMOA do have some complementary structures in the form of intersectoral division of labour between member countries such as Burkina Faso and Mali which are primarily agricultural exporters and Côte d’Ivoire and

Senegal which are relatively more industrialized. In addition, labour mobility appears to be high in the CEAO/UEMOA; and the existence of rail links between most of its member countries together with the common French language and common CFA currency suggest that transaction costs may well be lower than in several of the other African regional integration schemes.

SACU exhibits some of these advantages as well. Even more than in the case of CEAO/UEMOA, the presence of a dominant economy (South Africa) surrounded by four tiny ones, the region's relatively low transport costs, high factor mobility, common language and significant monetary integration appear to have been responsible for SACU's history of high intra-regional trade. Compared to both CEAO and SACU, UDEAC also has the advantage of a common language and currency. But, partly because intra-regional labour mobility is severely restricted, its intra-regional trade has performed much less well.

The regional integration schemes that have employed explicit integration instruments are limited in number. CEAO's key regional integration instrument is the regional cooperation tax (TCR) which replaces all duties and levies on imports of member states and thus serves as a common external tariff. But because it has been used to achieve two different objectives, it has ultimately hindered the expansion of intra-regional and overall trade. By favouring products from the less developed member countries over those from the more advanced ones, it has limited intra-regional competition. In the UDEAC, two different integration instruments are deployed. The common external tariff (CET) includes a "compensation" component which varies across member countries and thus generates substantial differential protection. The single tax (tax unique or TU) which was designed to foster regional industrial production and trade by reducing domestic and import taxes on regional goods relative to those from outside the integrated area has, in practice, turned into a very discriminatory instrument. Because it varies from firm to firm and across countries, it has failed to provide a coherent and consistent set of incentive signals to producers.

The problem of overlapping membership and the rivalry it generates are well illustrated by the relationship between ECOWAS and CEAO/UEMOA in West Africa and between PTA/COMESA and SADC in Eastern and Southern Africa. In both sub-regions, this problem is associated with lack of commitment due to divided loyalty and poor funding due to inadequate resources for the several organizations.

Different instruments have been used to promote more balanced development within these integrated regions and to provide compensation. While SACU relies solely on revenue sharing, some (such as PTA/COMESA and SADC) have leaned more heavily on donor-financed regional projects; while others (including CEAO/UEMOA, ECOWAS and UDEAC) combine an explicit contributory compensation fund with the allocation of regional projects, some of which are also donor-financed. SACU's arrangement seems to work better than the others. Because some of the others are funded through contributions from member countries, they generally work less well primarily because the required contributions are generally not regularly paid.

This assessment of the record of performance of African regional integration arrangements shows that they have not been as beneficial to the region as policymakers had hoped. In general, African countries have exhibited few of the features that are normally associated with successful trade-focused regional integration schemes. Even if increased intra-regional trade is viewed as a significant means of promoting overall African economic growth and development, it would appear reasonable to search for mechanisms other than the trade-focused regional integration arrangements that have been experimented with in Africa over the past four decades or so.

## **New Approaches to Regional Integration and Cooperation in Africa**

Both the idea and the ideals of regional integration and cooperation continue to be popular in African policy circles in spite of the widely documented failures of previous efforts and clear indications of current uncertainties (Oyejide, 1997). In fact, enthusiasm for some form of regional collaboration appears high or even rising, if not in direct action but certainly in terms of the rhetoric. This may, to some extent at least, constitute a reflection of or reaction to the poor trade and overall economic growth performance of many African countries, especially from the late 1970s to the mid-1990s. This poor performance has suggested the urgent need for funding new approaches to trade policy in Africa, including a review and reformulation of African regionalism.

Many still believe that the establishment of larger economic units (which results from different forms of collaboration between various African countries) would enhance the development process of the entire region. In this context, an influential voice in the African development debate (i.e. the European Commission) claims that it is “now widely recognized that regional cooperation and integration will have a crucial role to play in efforts to improve economic outlook in Africa” (EC, 1992, p.1). From this perspective, and in spite of the difficulties encountered so far with regional integration in Africa, it is affirmed that “regionalism is a must for African countries”. Not only is it expected that appropriately designed and implemented regionalism will make significant and positive contributions to African development, it is argued that in a world of increasing tendency towards the creation of regional trading blocs, African countries need to cooperate to enable the region to participate more fully in the merging new international relations that are increasingly structured along regional lines.

But while some kind of consensus may be claimed in favour of the usefulness of promoting African growth and development, through regional integration no unanimity of view appears to have emerged regarding the specific form that this regionalism should take in Africa. What seems to be beyond debate is that new approaches to regionalism in Africa must explicitly recognize the difficulties that frustrated previous attempts and thus reflect appropriate lessons drawn from past experience both in Africa and elsewhere. One of the important lessons that demands recognition is that the new regionalism should not necessarily be concerned primarily with preferential trade arrangements among groups of African countries but more broadly with cooperation on a much wider range of economic issues (Oyejide, 1997; Helleiner, 1999). This is because no significant economic gains can be expected from access to larger African regional markets as a result of preferential trade liberalization within such markets. This conclusion has strong empirical support. An exhaustive analysis of African trade (see Yeats, 1998) confirms the key features of this trade which rob African regional integration schemes based primarily on preferential trade of any real significance. First, African exports are not significant imports in African countries. In other words, only a very small share of the regional import needs can be met from its export capacity. The resulting high degree of non-complementarity of the region’s exports and imports restricts the potential positive impact of trade-focused preferential trade arrangements among countries within the region. Such schemes could actually turn out to be counter-productive and thus retard Africa’s industrialization and overall economic growth if they divert regional imports of intermediate inputs from low (i.e. outside the region) to higher cost sources. It is important to reiterate that the argument presented above is not an argument against regional integration in Africa per se, but it does suggest that no significant gains may be expected from essentially trade-focused regional preferential arrangement, given the structures of African economics.

A second major lesson of experience suggests that regional integration schemes should constitute an extension of the domestic reforms of the member countries rather than act as a force to engineer them. In other words, prior to the establishment of a regional trade arrangement, each member “country should have its domestic house in order” (Hufbauer and Kotschwar, 1998, p. 333) where this means maintaining macroeconomic stability and a competitive domestic economy. This is consistent with the position that closer regional integration, in terms of freer flows of goods and services, is more likely to be achieved following an earlier phase of unilateral trade liberalization (Fine and Yeo, 1997). The point is further confirmed in the survey by Radelet (1997) which shows that, in general, regional integration arrangements that specifically focus on trade expansion tend to perform poorly when they are used as a substitute for trade liberalization while they seem to work best when they build upon previous liberalization efforts.

In general, therefore, the lessons of experience with respect to the design and implementation of regional integration schemes in Africa and elsewhere as well as the initial conditions and structural characteristics of African economies suggest that new approaches for establishing more successful regional integration and cooperation arrangements among groups of African countries should pay attention to certain key changes. These should include a change in the primary objective or focus of such arrangements, a change of their orientation and a re-definition of the basic strategy for their implementation.

Many regional integration schemes in Africa place primary emphasis on the expansion of intra-regional trade as a means of promoting regional growth and development. This can be plausibly interpreted to imply a reliance on the unidirectional hypothesis suggesting that trade (or more particularly, intra-regional trade) stimulates overall economic growth and development. It is clearly easier to see that trade and growth are correlated than to show that trade causes growth. In any case, even if the latter were empirically established there would still remain the problem of relative magnitudes: intra-regional trade in Africa would appear to be too small “a tail” to wag the much larger African overall economic growth and development “dog”. But in fact, the relationship between trade and growth is not unidirectional. According to Ndulu and Ndung’u (1997, p.21), an analysis of the African experience suggests that “trade and trade policies affect growth and growth in turn affects trade performance”, but “growth performance is key to successful link between export and growth”. This indicates, at the very least, that there are other factors which affect both trade and growth and strongly suggests that new approaches to regional integration and cooperation arrangements in Africa should shift the arrangements from the expansion of intra-regional trade per se to those factors that can be expected to stimulate growth more directly and probably enhance trade as well.

These factors turn out to be what may be described as growth “fundamentals”. In particular, it has been proposed that new approaches for regional integration and cooperation in Africa should directly target overall economic growth by focusing on the establishment and maintenance of macroeconomic stability, reduction of transactions costs, and rapid accumulation of human and physical capital (Fine and Yeo, 1997; Collier and Gunning, 1995; Collier, 1998). Human and physical capital accumulation plays a central role in modern growth models; a significant part of the explanation of the spectacular performance of the East Asian economies through the mid-1990s has also been ascribed to the rapid accumulation of human and physical capital. An approach to regional integration and cooperation that focuses on this “growth fundamental” should therefore excite the interest of African policymakers, given the low level of domestic investment in the region and its apparent inability to attract significant amounts of foreign direct investment. According to Fine and Yeo (1997, p.449) this approach to regional integration departs from the “traditional

approaches ... by suggesting that its virtues lie not in its ability to stimulate new trade, but rather in its ability to provide a framework for locking in sound and stable macroeconomic policies that will in turn induce faster accumulation, and more effective utilization of physical and human capital". This approach stands on two legs; the first and clearly the more important leg is the establishment of a stable macroeconomic environment whose perception as being credible induces or draws in the second leg in the form of rapid factor accumulation. In the context of this approach, the stable macroeconomic environment whose credibility is sustained through "lock-in" mechanism of a regional integration arrangement in turn serves as a magnet for drawing in foreign direct investment. In addition, by encouraging stronger linkages among the member countries it may encourage investments by firms interested in supplying the entire integrated region from a base in a single member country.

This last part of the approach comes from and is more fully developed in Baldwin (1997). Baldwin argues that the actual trade relations between African and the OECD countries can be described as a "hub-and-spoke" arrangement. In this scheme, the OECD countries constitute the hub while the individual African countries are the spokes Baldwin (1997, p.55) notes that "the key feature of the hub-and-spoke arrangement is that trade between the hub and each spoke is easier than trade among the spokes", and argues that "the hub-and-spoke trade arrangements exert a marginalizing effect on African countries". The obvious solution to this problem would be to devise a framework through which the trade costs between individual African (spokes) countries can be drastically reduced as a means of eliminating the policy-induced deterrent against investment in African countries inherent in the inherited hub-and-spoke arrangements. The Fine- Yeo regional integration approach offers this framework.

But Baldwin's idea of reducing trade costs among African countries as a means of facilitating investment and growth also feeds into another more comprehensive thesis. This is the transactions-cost thesis articulated in Collier (1998). This thesis ascribes a significant part of Africa's poor trade and growth performance to the region's unusually high transactions costs. Africa's high costs of transactions are traced to four different factors. First, transport costs are high because so many African countries are landlocked, the regions transport system is insufficiently competitive and transport is unreliable. Second, transactions costs are high because contract enforcement is made particularly difficult by judicial systems that don't work well. Third, the cost of information is high, due partly to the high cost, unreliability, and low density of Africa's telecommunications systems. The generally poor quality of the region's ancillary services provides the fourth and final reason while transaction costs are high in Africa. Collier (1998, p. 159) argues that "policymakers can, by reducing transactions costs to world levels, make Africa into the most competitive region in the world for labour-intensive manufactures because of Africa's low and relatively declining real incomes". This leads to the conclusion that radical reductions in Africa's transactions costs will generate increasing capital inflow to induce large manufactured exports from the region and its more rapid overall economic growth.

Much of what is implied by these approaches to regional integration can be captured by pulling back from the trade-focused integration posture of many of Africa's existing regional integration arrangements and shifting over to a more functional and thematic regional cooperation modality (Oyejide, 1997, McCarthy 1999). This modality could focus on two broad types of cooperation activities. One would aim at policy harmonization on such issues as cross-border investment, movement of persons, adoption of common standards, etc; while the second would include regional cooperation arrangements to implement joint infrastructure projects in such areas as transport and communication development, development of regional water resources, and

provision of educational and research facilities. Both forms of regional cooperation can claim some distinct advantages over the more traditional trade-focused regional integration arrangements. They would facilitate the rapid build-up of critical infrastructure requiring high-cost and indivisible investment, which should generate lower unit costs when provided on a regional rather than individual country basis. They are more flexible and pragmatic and can, therefore, side-step problems typically associated with the distribution of the costs and benefits of trade-focused regional integration arrangements. In any case, they may be better suited to dealing with a range of physical and technical barriers to trade that probably lie outside the direct purview of trade policy.

There is a downside to all this, however. While these forms of regional cooperation can address the issue of reducing transaction costs by building infrastructural facilities and harmonizing policies on a range of cross-boarder issues, they do not offer a strong mechanism for locking in domestic policy reforms of individual countries. Yet, this mechanism for ensuring policy credibility appears crucial in the new approaches for regional integration. It seems that this aspect requires a preferential trade arrangement to act as an anchor for government policy even though, as Schiff and Winter (1998) suggest, the effect of such an arrangement on policy credibility depends on how it punishes member countries in violation of the agreed codes of “good” policy and the cost of that punishment to the offenders. In particular, preferential trade arrangements among African countries are unlikely to provide effective credibility anchors for member countries simply because intra-African trade is so low and hence the maximum punishment that can be imposed, i.e. withdrawal of preferential trading privileges, is clearly negligible. Hence, a critical component of these new approaches seems to require that groups of African countries must first establish regional integration among themselves, and then enter into a preferential trade arrangement with a northern partner (such as the European Union), the access to whose market serves both as a carrot and a stick; it rewards them for good policies and its likely withdrawal constitute enough deterrent against unwise policy reversals (Collier and Gunning, 1995).

Any new approach to regional integration in Africa should involve a change in orientation. Many of the regional integration schemes in Africa had been established with the implicit or explicit objectives that they would promote intra-regional trade and industrialization through a process of import substitution within the integrated area. These objectives were often not achieved either because the necessary liberalization within the region did not, in fact occur, the individual member countries were not prepared to give up their own national level import-substitution industrialization strategy in favour of the regional programme, or the regional market was, in reality, much too small to provide a meaningful basis for the experiment.

The intellectual climate and the policy environment which nurtured this approach to regionalism have since changed quite markedly. The old style import-substitution-industrialization model has lost its appeal as a viable long-term development strategy at both the national and regional levels. The wave of liberalization and globalization sweeping through the world has generated substantial unilateral trade liberalization even in Africa. A new perspective on regionalism has swept aside the old. This “new regionalism” is grounded more on a general process of increased openness to trade and investment, and less on import substitution protection of national and regional markets and managed trade “ (Galal and Hoekman, 1997, p. 1). As a reflection of this change, most regional groupings are altering their strategic policy posture from the defensive and inward-looking to the more pro-active and outward-looking. This change in orientation involves viewing regionalism as a complement to, or even catalyst for, multilateral liberalization.

The suggested shift in orientation needs to be clearly understood. It is without prejudice to the desire to provide regional industries an opportunity to learn to cope with competition in the

larger regional market before being fully exposed to the more intensive competitive pressures in the world market place (Oyejide, 1997). In this context, the larger regional market is viewed primarily as an entry point into and conduit through which the global market would eventually be accessed. This outward-oriented regional integration model represents something like a half-way house consisting of two inter-related stages, the first is a preparatory phase while the second heralds full entry into the global economy. As Hufbauer and Kotschwar (1998, p. 328) succinctly express it, “for developing countries, regional arrangements can serve as means to further their economic liberation programs and to work toward greater outward orientation, in preparation for their integration into the global economy”. When faithfully implemented, this outward-orientated regional integration arrangement serves two key purposes. First it permits the economies of scale that cannot be achieved in the individual country-level domestic markets to be more fully exploited in the larger and integrated regional market. Second, it offers learning and benefits of competition, at the safer regional level, among generally high-cost producers. It is a form of regional integration scheme that “can be an important strategic and practical vehicle to help African countries to integrate themselves into the world economy” (Francois and Subramanian, 1998, p. 361).

New approaches for regional integration and cooperation in Africa should also involve a change of strategy. Although never (or not yet) fully implemented, the vision of regional integration that is articulated in the Lagos Plan of Action envisages a rather rigid structure in which regional economic cooperation (REC) agencies (one from each sub-region of Africa) will feed into the continent-wide African Economic Community (AEC) and should eventually fall away as the latter becomes fully operational. According to Onitiri (1997, p. 419), “the AECs Treaty provides that the RECs will serve as the building blocs for the new community”. This perspective has clearly been challenged by practical developments in various sub-regions of Africa. Except in the North where the Arab Maghreb Union (AMU) remains the sole sub-regional REC, all other African sub-regions have more than one sub-regional REC, there is considerable overlapping in membership of the various regional integration agencies and continuing conflicts among them; while efforts to rationalize these organizations have largely failed. Part of the tensions between the various sub-regional integration agencies derives from differences in the approach to integration, the degree, scope and speed of liberalization, and the ultimate objective of the integration process. These differences appear to be particularly sharp in West Africa where the uneasy co-existence of ECOWAS and UEMOA epitomizes sharp differences along these dimensions.

Borrowed from the European integration experience, the concept of variable geometry may be usefully applied as African countries increasingly move away from the straight jacket of the Lagos Plan of Action to more heterogeneous strategies in the design and implementation of regional integration arrangements. The strategy implied by variable geometry is essentially pragmatic and incremental; it permits integration to proceed on the basis of progressive steps, allows smaller sub-groups to move faster than the whole group and provides that many decisions can be made by majority rather than by consensus (EC, 1992). If the basic approach to and ultimate objectives of regional integration could be mutually agreed upon, the application of the principles of variable geometry could permit UEMOA to exist as a perfectly legitimate sub-group of ECOWAS. In the same way, the East African Cooperation (EAC) with its much faster and more comprehensive integration agenda could operate as a sub-group of COMESA. In other words, a diligent application of variable geometry principles could considerably ease some of the tensions among various sub-regional integration arrangements in Africa and enhance the prospects for closer and more fruitful regional cooperation in Africa.

The effective implementation of regional integration schemes in Africa is constrained by another set of problems. In broad terms, these difficulties revolve around the lack of clarity regarding the functions, responsibilities and powers of the different organs involved in various regional integration arrangements. In many cases, this lack of clarity results in virtual impotence of the entire arrangement since the central body often lacks authority and resources to act on its own initiative while there are often no focal points at the national level with responsibility to act. Borrowing again from the European integration experience, the principle of subsidiarity should provide a clearer basis for distributing powers and responsibilities across the several layers (from national to regional level) of the organizational structure of a regional integration scheme “according to the comparative advantage of each in respect of the different functions” (CEPR, 1993, p. 56). Although this principle favours decentralized allocation of powers, it can be used for allocating power upward as well as downward and it has the special advantage of explicitly mandating power distribution. The combined use of the principles of variable geometry and subsidiarity could be particularly helpful in delineating the functions and responsibilities of the “umbrella” regional integration scheme from those of the various sub-groups embedded under the larger regional group as well as those at the national level of the member countries. The change in strategy for the design and implementation of regional integration and cooperation initiatives implied by the adoption of the principles of subsidiarity and variable geometry could assist in significantly reducing the considerable waste associated with the co-existence of so many schemes and, perhaps, eliminating the paralysis that characterizes the central organs of several of the schemes.

## **Linking Africa Through New Approaches to Regionalism**

The acknowledged failure of trade-focused regional integration arrangements to provide a viable mechanism for linking African countries together for their mutual benefits has instigated the search for alternative modalities for accomplishing the same goal. The various new approaches to regionalism identified and discussed in section (III) above constitute some of the possible alternative mechanisms. This section relates these alternative modalities to recent and on-going developments in Africa and, more specifically, suggests how and the extent to which they may be used as viable vehicles for linking African countries together. Primary attention is focused on two broad types of linkage mechanisms. One works through the development of regional infrastructure in the broader context of a more general framework that seeks to reduce intra-African transactions costs. The other works through the stabilization and harmonization of key macroeconomic and sectoral policies, aimed at creating and sustaining an investment – inducing and growth-enhancing economic environment, and the endowment of these policies with as much credibility as possible.

### ***Regional Infrastructure Development***

As Collier (1998) argues, African countries are characterized by high transactions costs which inhibit both trade and economic growth. The high transactions costs are, in turn caused by high transport costs, difficulties associated with contract enforcement, high cost of information and poor quality of ancillary public services. A significant component of Africa’s high transactions costs may thus be explicable in terms of infrastructural deficiencies.

Infrastructural services are closely related to economic growth (Oyejide, 1999). These services are critically important for the productive activities of business enterprises as well as the economic and recreational pursuits of individuals. Thus, the adequacy, efficiency and cost of key infrastructural services, such as transport, communication and energy can have major implications for the ease or difficulty with which a country or region successfully integrates into the rapidly globalizing world economy. Infrastructure contributes to economic growth through two main channels (Kessides, 1993). First, it enhances the productivity of economic agents as more efficient provision of infrastructural services as intermediate inputs reduces their costs. Second, it raises the productivity of other factors by reducing transactions costs and facilitating improved access to information. When inadequate or unreliable infrastructural services reduce the international competitiveness of a country or region, its capacity for successfully engaging in international trade is reduced and its level of integration into the global economy is diminished. These two developments may substantially constrain its prospects for achieving higher rates of economic growth. This suggests that adequate and efficient provision of infrastructural services is a major challenge of economic growth and development strategy.

Oyejide (1999) argues that poor and inadequate infrastructure has been a major obstacle for economic growth in many African countries. In particular, inadequate and unreliable infrastructural services appear to be responsible, at least in part, for blunting supply response to the fairly widespread and intensive policy reforms implemented in these countries from the early 1980s. In addition, high transactions and information costs, due to an underdeveloped infrastructure have caused market segmentation which, in turn, limits the beneficial effects of liberalization. Finally, Africa's poor infrastructure is probably a major constraint militating against the region's industrial competitiveness and private sector development. In general, therefore, "poor infrastructure remains the single most important development challenge for Africa given its inter-linkages with economic growth ... global competitiveness and trade, and indeed regional integration" (ADB, 1999, p. 184).

In the context of regional integration, it is obvious that efficient and reliable cross-border transport and communication links are crucial for attracting investment and optimizing its allocation and use. These infrastructural services are thus of particular importance for enhancing regional economic growth. Intra-regional trade is inhibited by weak intra-regional infrastructural linkages. In particular, poor port facilities, weak telecommunication links, and underdeveloped road networks all limit the potential for expanding intra-regional trade. But this relationship between infrastructural and regional integration, trade and growth does not in and of itself explain why regional cooperation could be necessary for the development of African infrastructure. Rather, one must confront a prior question, i.e., how much of Africa's poor infrastructure can be improved only through regional cooperation compared to action at the individual country level. It is important, in this context, to identify which infrastructural services have externalities and regional spillovers and/or have characteristics by economies of scale. This identification would make it possible to associate particular types of infrastructural services to the benefits that can be claimed for regional cooperation in the area of infrastructure development.

In addition to the externalities/regional spillovers and economies of scale arguments for regional cooperation in infrastructure development, Rwegasira (1997) surveys the literature to enumerate several benefits of regional cooperation in this area. This modality can, for instance, help to improve reliability of supply and minimize uncertainties typically associated with long-term infrastructure investment. Since the required investment is often substantial, regional coordination and use could ensure greater efficiency and developmental impact. For the land-locked countries, the deepening

of regional cooperation for infrastructural development may be particularly crucial. Yet, regional collaboration of this sort tends to be less threatening than the trade-focused market integration variety. This is because it often provides clear gains for all concerned, imposes little or no loss of national sovereignty, and typically calls for no special compensation arrangements.

In designing and implementing regional cooperation arrangements for infrastructure development, the principles of variable geometry and subsidiarity become particularly important. There may, for example, be a need to establish different schemes involving different sets of countries for different types of infrastructure. The country stakeholders who combine and cooperate to develop a particular river basin do not necessarily have to be members of the same trade-focused regional integration arrangement. Neither does the exact same set of countries have to cooperate on a regional road or telecommunications project. For each regional cooperation arrangement therefore, there will be need to have clearly defined functions and responsibilities for the regional agency, the cooperating governments and, in many cases of infrastructural development, independent (local or foreign) private investors. In addition, a distinction often needs to be made between what may be grouped as “hard” infrastructure compared to the “soft” variety. The “hard” infrastructure category includes most transport and communication facilities, energy and water supply. The “soft” type includes trade, investment and financial infrastructures such as stock markets, clearing houses, commodity exchange, etc.

Focusing first on “hard” infrastructure, the generally poor state of this category in many African countries suggests the existence of considerable potential for regional cooperation in the more effective provision of infrastructural services. The potentials are particularly high in the areas of power supply, telecommunications and river basin development. These are areas where economies of scale and considerations of market size could induce significant foreign private investment financing and, possibly, joint management. In fact, some of these regional infrastructural projects are already been implemented.

A prime example is the Southern African Power Pool (SAPP) which is profiled in Cadot, de Melo, and Olarreaga (1999). The SAPP was established in 1995 as a regional cooperation project in the energy supply sector. The project pools power from three different sources, including hydroelectricity from Kariba Dam and Inga Reservoir as well as from coal in South Africa and then distributes the pooled power across the sub-region. A study of the project commissioned by SADC in 1990-92 estimated that the project would generate a savings of 20% (or \$785) million over the 1995-2010 period. Among the benefits ascribed to SAPP are: reductions in fuel costs; more efficient use of the available hydroelectric power; and reductions or postponements in new requirements for electricity generating capacity and reserves. Cadot et al (1999, p. 8) identify three key factors which, in their view “played a part in the development of this regional project”. These are the availability of complementary power sources located in deferent parts of the region; the existence of an active project-oriented regional cooperation agency, i.e. SADC; and political will of governments of member countries to support increased regional trade in electricity. Among other successful regional cooperation projects in the development of shared water resources is the Lesotho Highlands Development Project which supplies water to South Africa and electricity to Lesotho (Rwregasira, 1997).

To identify a few prominent examples of successful regional cooperation activities in the provision of infrastructural services is not to imply that this form of collaboration among groups of African countries has necessarily been quite easy to design and implement. Several other examples of potential regional cooperation projects in this area remain unexploited. A case in point is the potential for energy and water resources development in the Great Lakes region of Central Africa.

Continuing political instability and lack of an effective organization for regional integration and cooperation in this sub-region may be some of the key factors responsible for the inability to exploit the obvious potential.

Cross-border arrangements for the provision of infrastructural services often raise difficult problems of design, financing and management even when political instability does not stand in the way of progress. This typifies the situation with respect to regional cooperation for the development of the water resources associated with the Blue and White Nile. Cadot et al (1999, p. 8) suggest that “reaching an agreement is proving very difficult because the unidirectional nature of upstream-downstream externalities makes it necessary for multi-good cooperation (e.g. water and hydropower) as a way of concretizing this positive-sum gain”. In addition, the absence of a strong institutional framework for regional integration in the sub-region (in spite of COMESA, apparently) has left the potential benefits of cooperation untapped.

Similar potentials exist for regional cooperation for the development of various elements of the “soft” type of infrastructure. In view of their great importance for facilitating trade, promoting investment and enhancing overall economic growth, regional cooperation activities aimed at developing stock markets, insurance and trade credit facilities, and efficient intra-African trade payments systems could yield substantial gains.

It is strongly believed that well-functioning financial markets enhance long-run economic growth. In particular, standard indicators of stock market development (e.g. liquidity, capitalization, and turnover) are positively correlated with capital accumulation, productivity improvements and economic growth (Levine, 1997). But, at only about sixteen, the number of stock markets in Africa remains quite limited. In addition, with the exception of the South African stock market, the stock exchanges in Africa are by far the smallest of any region in terms of such standard indicators as the number of listed companies, market capitalization and turnover (Aryeetey and Senbet, 1999). The economic growth impact of African stock markets are constrained by such problems as illiquidity, informational inefficiency, poor design of market microstructure and lack of adequate, skilled and experienced personnel. An important role appears to exist in this area for various forms of regional cooperation. Senbet (1998) suggests that the thinness and illiquidity of African stock exchanges can be addressed by pooling their resources through regional integration. In other words, the regionalization of these exchanges could assist them in enhancing their capacity to mobilize both domestic and global financial resources which would, in turn, enable them inject more liquidity into the markets by funding regional companies. But the development of regional capital markets needs to go beyond the regionalization of stock markets. A number of ancillary services are required to ensure a well-functioning and efficient stock exchange. Hence, regional stock exchanges should be complemented with corresponding regional cooperation arrangements on the regulatory side (e.g. regional securities and exchange commissions) as well as with respect to the legal framework and the provision of appropriate and timely financial information (i.e. accounting and auditing systems) on the companies that are listed on the regional stock exchanges.

The idea of regional cooperation with respect to capital market development in Africa is, of course, not new. The Abidjan Stock Exchange is a manifestation of regionalization of this type in the context of UEMOA. The second CFA zone in Central Africa is expected to create another regional stock exchange in the context of CEMAC; and it is not unlikely that these two will eventually establish close linkages. In Southern Africa, there is also a proposal to link the small stock exchanges in Botswana, Namibia, and Swaziland to the much bigger South African stock exchange. Ultimately, the Nairobi Stock Exchange could also serve Uganda and Tanzania, once the East African Cooperation (EAC) becomes fully effective. However, in the spirit of variable geometry, one

should think of regional cooperation in this area more broadly to include the possibility of cross listing of shares on different stock exchanges. This could be an important first step in regionalization, given that regionalizing the critical regulatory legal and accounting ancillary services may not necessarily be so easily achieved outside the framework of the more effective and deeper regional integration arrangements (e.g. UEMOA and SACU).

In view of the heavy reliance of many African countries on a few agricultural commodities and the inherent instability associated with these commodity markets, regional cooperation initiatives aimed at dealing with various dimensions of commodity market problems could yield significant dividends. The extensive withdrawal of state intervention in commodity pricing and marketing in many African countries is meant to remove a set of distortions (World Bank, 1994). But it also exposes individual, small scale African peasant farmers to other significant commodity market risks which, if not effectively and efficiently addressed could slow down the supply response of the agricultural sector to the increased incentives provided by the more liberalized pricing and marketing arrangements generated by recent reforms. An important mechanism for managing the market risks associated with commodity production and trade is the commodity exchange. Several African countries (e.g. Nigeria) are known to be seriously considering the establishment of commodity exchanges. The potential exists that the regionalization of these commodity exchanges or, at least, close cooperation between them, could assist in reducing commodity trade risks in Africa by reducing price fluctuation. But, as in the case of regionalized stock markets, a critical complementary (or even pre-requisite) requirement for effective and successful regionalized commodity exchanges is the appropriate infrastructure for providing efficient and reliable transportation and information links within and between the African countries and sub-regions.

A final area of “soft” infrastructure where considerable potential for regional cooperation exists and is not being fully tapped is the pooling of risks associated with investment in African countries both for the purposes of production and trade. Many African countries have, of course, signed bilateral investment treaties with their key development partners to ensure that investors from those countries are protected against various risks. Similarly, foreign investment in many African countries can be covered under the World Bank’s Multilateral Investment Guarantee Agency (MIGA). In addition and at the regional level, the African Export – Import Bank as well as the African Re-Insurance Corporation have been established to provide some risk potential cover, particularly in the area of trade. The latter two, in particular, demonstrate a significant degree of regional cooperation in the context of public-private collaboration. However, the existence of MIGA, Afrexim Bank and Africa-Re still leaves significant gaps in risk pooling which hampers African firms. These gaps emanate from two different sources. First, MIGA has certain disadvantages as far as African countries are concerned. Among these are its exclusion of domestic firms in its insurance guarantees, the high selectivity of businesses it accepts and the highly conservative capital requirements for its guaranties (Collier, 1998, p, 172). Second, both the Afrexim Bank and Africa-Re are too poorly capitalized to cover the entire spectrum of risk-pooling requirements of African firms and countries in the production and trade areas. Clearly, economies of scale are significant in risk-pooling and a strong case can, therefore, be made for creating a regional MIGA – type institution in Africa whose primary mandate would be to fill the gaps identified above.

### ***Regional Policy Harmonization***

Macroeconomic policy stability is, by general consensus, usually cited as an important pre-requisite for rapid and sustained economic growth at the individual country level. As a reflection of this critical importance of sound macroeconomic policy, it is affirmed that “growth and macro-financial instability are negatively correlated in any world sample of long-term country observations” (Elbadawi and Schmidt-Hebbel, 1996, p. 4). Macroeconomic policy stance is an aggregate indicator that broadly reflects developments in the areas of fiscal policy, monetary policy, exchange-rate policy, foreign payments, and domestic payments.

In spite of the region’s fairly vigorous policy reform efforts since the mid-1980s, African countries continue to perform worse than other developing-country regions in the area of macroeconomic policy stability (Elbadawi and Schmidt-Hebbel, 1996). In particular, a comprehensive study of this question (World Bank 1994) draws three important conclusions. First, it finds that, compared to the early 1980s, many adjusting countries in Africa had substantially improved their macroeconomic policies, increased their international competitiveness and reduced their inflation by the early 1990s. Second, it finds that this marked change notwithstanding, none of the countries in Africa has yet achieved a good macroeconomic stance. In support of this conclusion, the study finds that the fiscal balance remains fragile as it is typically maintained with foreign grants; inflation is above international levels, and the parallel market premium for foreign exchange has not been eliminated. Third and finally, the study finds that even the best performing countries in Africa do not come close to matching the good macroeconomic policies typified by countries such as Chile, Malaysia, Mexico and Thailand. Taking these findings together, the clear message is that further reform is needed before the macroeconomic policy stance in many African countries can be considered to be “growth friendly”.

There is an important distinction between macroeconomic policies and other sectoral and microeconomic policies that should be stressed. This distinction is particularly aptly captured by Elbadawi and Schmidt-Hebbel (1996, p. 20) as follows: to foster rapid and sustainable economic growth “macroeconomic stability and macroeconomic competitiveness should be secured and maintained on a sustained basis; however, other microeconomic and sectoral reforms constitute elements of development strategy, and hence could be applied with varying degrees of intensity, sequencing and policy mix, depending on the nature of institutions, policy and external environment”. In other words, while all countries that wish to foster their own economic growth should regard sound macroeconomic policy as a pre-requisite, one may expect to find wider variation across countries with respect to their sectoral and microeconomic policies which should reflect variations in their institutions and the external environment confronting them.

Virtually all the existing regional integration arrangements in Africa call for regional harmonization of broad macroeconomic and other more sectoral policies. These calls are, perhaps, taken more seriously in the deeper integration schemes (e.g. UEMOA) in which institutions have been established to bring about this harmonization. In several others (such as ECOWAS, and COMESA) the call for regional policy harmonization sounds hollow in the absence of effective mechanism for its actualization.

To say this is not necessarily to imply that there are no regional policy harmonization initiatives being pursued outside the deeper regional integration schemes such as UEMOA. In fact, some of the most effective initiatives are being implemented by an arrangement which is, itself, not a regional integration institution. Sponsored by the African Development Bank, the European Union, the IMF and the World Bank, the Cross Border Initiative (CBI) is designed to facilitate cross-border

trade, investment and payments in Eastern and Southern Africa and the Indian Ocean. While the CBI is not an integration institution, it constitutes a pragmatic tool of regional cooperation which works closely with all the regional integration schemes in its sub-regional areas of operation. CBI provides technical assistance and policy reform adjustment financing to facilitate regional harmonization of policies in the areas of trade, investment incentives, transit regulation, taxation, company law and customs administration. The demonstrated success of the regional cooperation modalities of the CBI suggests the need for the extension of its activities to the other sub-regions of Africa or the establishment of similar programmes in these sub-regions.

Attempts to facilitate intra-regional trade through the creation of regional institutions and other trade - liquidity instruments have also been made in Africa. In particular, various initiatives have been developed and experimented with to enhance intra-regional payments within different sub-regions of Africa (O'Connell, 1997). Two specific organizational forms have dominated intra-regional payments initiatives in Africa. First is the full monetary (or currency unions) in which members share a common currency and monetary authority or central bank. The two examples of this are the CFA zone arrangements in West Africa (CEAO/UEMOA) and Central Africa (UDEAC/CEMAC). Second is the clearing (payments) union which involves some cooperation between the central banks of member countries but imposes no restrictions on the monetary and exchange rate policies of their members.

The two such arrangements in Africa are the West African Clearing House (WACH) recently transformed into the West African Monetary Agency (WAMA) and the PTA/COMESA Clearing House. In between these two types of regional payments arrangements is the Common (formerly Rand) Monetary Area (CMA) which links the currencies of SACU members through central coordination of exchange rate policy within the region.

Both the West African and East African clearing house systems were established at a time when their member countries maintained strict exchange control regimes and these clearing houses represented the only way through which cross-border intra-regional trade could be transacted. Policy reforms undertaken by countries in both sub-regions have radically altered the *raison detre* of the clearing house system. Many of the members have now liberalized their current account transactions and repealed their rigid exchange control regulations. As these reforms have virtually eliminated the reason(s) for their existence, the clearing houses in the East and the West have been undergoing restructuring. The reform of the COMESA Clearing House may redefine its functions to include the provision of a fast payment facility, a regional political risk guarantee facility, and a regional centre for electronic funds transfers (COMESA, 1999). In West Africa, WACH was transformed to WAMA in 1993 and given the explicit objective of establishing a single monetary zone within ECOWAS. The agreement which established WAMA remains unclear regarding the processes through which this important objective is to be established, given the existence of the CFA monetary union within ECOWAS.

Experience in Africa suggests that monetary integration through either a common currency (e.g. UEMOA) or through exchange rate policy coordination (e.g. CMA) can enhance intra-regional trade. But as the experience of UDEAC shows, even a common currency does not generate high intra-regional trade ratios in the absence of enhanced intra-regional factor movements. In any case, enhancing trade through improved intra-regional payments systems can be much more easily achieved through the liberalization of current account transactions and the abolition of foreign exchange control. Unilateral country-level reforms along this line have progressed quite well in Africa. With only a few exceptions (most notable among which is Nigeria) most African countries have liberalized their current account transactions by accepting the obligations under Article VIII

of the IMF. Hence current account convertibility no longer constitutes a major hindrance to intra-regional trade in most parts of Africa. Doing this does not require regional cooperation. But taking the further steps required to achieve the coordination of exchange-rate policy or adopt a common currency implies a higher level of regional cooperation. The benefits and costs of these further steps remain controversial as they may not necessarily do much to enhance intra-regional trade in the absence of other supportive policies. In other words, for countries that do not constitute optimum currency areas and are not ready for deeper regional integration, current account convertibility – which does not require regional cooperation – may be all that is necessary for facilitating trade.

There remains at least one area where the potential benefit of regional policy harmonization has not been exploited. In spite of the widely acknowledged importance of establishing and maintaining a sound macroeconomy for rapid and sustained economic growth, there appears to have been no serious attempt (outside the UEMOA) to coordinate key macroeconomic policies either regionally or sub-regionally. To remedy this, Collier (1998, pp. 169-170) proposes “regional stability pacts” built on the model of the “convergence criteria” of the European Union. In this context, African governments could establish appropriate macroeconomic policy targets monitored by the ECA or ADB. As he argues “the principle should be that African governments would themselves agree on what constituted unacceptably bad economic policies. By delineating such policies and agreeing to avoid them, governments would build political penalties against their adoption and would reduce the perceived risk facing investors”. Moral suasion and peer pressure rather than actual enforceable penalties would, in this arrangement, be relied upon to ensure good behaviour.

## **Integrating Africa into the Global Economy; Regional and Multilateral Approaches**

The trade liberalization and regional integration efforts of African countries have not markedly altered the fact that they are heavily influenced by developments in the world economy as these are channeled through changes in commodity prices, changes in the prices of African imports, flows of foreign assistance and private investments and, more recently, the external debt overhang. In spite of this, African countries are more weakly integrated into the global economy than are countries in other regions of the developing world. Africa’s relatively low degree of integration into the global economy can be demonstrated by several indicators. For instance, African countries failed to participate in the virtually universal trend of increasing trade share between the late 1960s and the late 1990s; in Africa, these trade shares were lower in the mid-1990s than they were 30 years earlier. The decline in African trade ratios over this period was also accompanied by extremely low ratios of foreign direct investment to GDP and virtual exclusion of African countries from the global financial markets. In the light of this experience, it may not be far fetched to suggest that the region’s low integration into the global economy and its consequent lack of growth have led to its marginalization in the global market for goods and capital.

The literature suggests that deeper integration into the world economy matters because it is associated with economic growth in several ways (World Bank, 1996). First, integration tends to promote higher growth through such channels as improved resource allocation, greater competition, technology transfer and learning, and improved access to foreign capital. Second, trade and investment tend to increase more rapidly in countries that have opened themselves up to the world economy than in those that have not. Third, there is a reverse flow; growth itself trends to promote

integration. Fast-growing countries attract more foreign direct investment and secure better and cheaper access to the world's financial markets.

But deeper integration into the global economy is not without its own problems. It can, for instance, be associated with greater vulnerability of individual countries to external shocks which, in turn, tends to negatively affect overall economic performance. Thus, globalization does not necessarily offer the same potential opportunities to all countries and the costs may also be differentiated. This suggests that African countries should be conscious of the costs and benefits of global integration and hence carefully examine the terms and conditions under which they link themselves to the world.

As argued earlier, the establishment and maintenance of a sound macroeconomic policy stance is critical for rapid and sustained economic growth. Credibility and sustainability are important characteristics of effective macroeconomic policy. If key economic agents are not persuaded that an enabling macroeconomic environment will be sustained, they may not respond in the expected growth-oriented manner and the effects of policy reform may be blurred or even negated. The failure of private investment to recover in Africa in spite of considerable policy reform efforts may point to lack of credibility of the reforms. This provides a strong rationale for the search for appropriate mechanisms for locking in policy reforms through effective agencies that can restrain African governments. When it is effective, this restraint mechanism should help to eliminate capricious and frequent changes in policy (or policy reversal) that often undermine policy credibility. Various options for linking Africa with the world derive their value from their usefulness as external agencies of restraint that can assist in locking in African policy reform; thereby sustaining policy credibility and enhancing policy effectiveness.

These options can be classified into two broad categories. One category of options for linking Africa with the world consists of regional arrangements of the North-South type. In this category may be placed the free trade agreements between the European Union (EU) and several African countries, the proposed post-Lome IV linkage between groups of African countries and the EU, as well as the proposed United States- Africa free trade agreement(s). The second category of options for linking Africa with the world consists of the multilateral arrangement in which individual African countries relate to each other and the rest of the world in the context of the framework of the World Trade Organization (WTO). These two broad categories of options are examined, one after the other, in the rest of this section.

### *The Regional Options*

There are several regional options which share the same fundamental feature. They seek to link individual or groups of African countries to a northern partner (such as the EU or the US) in fully reciprocal free trade arrangements that would essentially replicate many of the key features of the North American Free Trade Agreement (NAFTA). Such a scheme could provide a powerful lock-in mechanism and help underpin the credibility of African policy reform since negotiated and reciprocal treaty commitments with this large and rich northern partner would be too costly (in terms of loss of market access and aid) to be repudiated by any African member of the regional scheme. In addition, the guarantee of access to this large market could also assist in attracting inward direct foreign investment aimed at producing for the African market and as an export platform for the northern partner's market.

A proposal which aspires to establish the NAFTA-type of North-South regional arrangement between the EU and groups of African countries has been generated by the discussions associated

with the future of the Lome Convention. This has defined the trade, investment and aid relations between Europe and the African, Caribbean and Pacific (ACP) countries since 1975. At the expiration of Lome IV in February 2000, the EU has suggested that the successor arrangement should include the following three key elements. First, the new trade relations should be based on reciprocity between the EU and groups of African (and other ACP) countries. Second, the arrangement would require the prior formation of regional integration schemes among African countries. Thus, the EU and these groups of countries would then establish Regional Economic Partnership Agreements (REPAs). These are preferential trading arrangements to be established during the 2005 – 2015 period, to remove mutual trade restrictions on 80% to 90% of bilateral trade, with the African countries allowed to “back load” their reforms such that the main tariff reductions are postponed to the end of this period (Lecomte, 1998). The African country groups that have been identified as REPA candidates in this proposal include UEMOA (with or without Ghana), UDEAC/CEMAC, SADC, and EAC.

From the perspective of more secure market access for African exports, enhanced inflow of foreign direct investment into the region, and enhancing the credibility of policy in African countries, this proposal appears to have certain advantages (Cadot et al, 1999). In particular, the scheme would give duty-free access to a larger market which may raise the return on investment. The arrangement could also bring multinationals to redirect investment to African REPA countries as the environment would be perceived as sufficiently stable and predictable to bring foreign investors to set up export platforms in Africa.

But the proposal also has several significant downsides for African REPA countries (Cadot et al, 1999; Lecomte, 1998; McQueen, 1999); and Winters, 1999). Since African countries are so heavily dependent on the EU for their external trade and given their fragile industrial sectors, the impact of the proposed scheme in terms of increased competitive pressures and lost fiscal revenues could be quite large. The scheme provides a one-way market access for EU exporters in African markets; since even in the absence of REPA, most African exports already enter the EU market virtually freely. Hence, the extra market access gains that can be derived from the scheme by African countries are likely to be negligible. Furthermore, granting free access only to the EU exporters would discriminate against Africa’s other trading partners and thus cause trade diversion. In addition, the “lock-in” or “policy-anchor” role of the REPA scheme may be weakened by the built-in safeguard clause which could have the effect of delaying sanctions by the EU against defaulting African countries. Finally, the “hub-and-spoke” approach to regionalism generally favoured by the EU will bias investment towards the hub (i.e. EU) rather than towards the spokes (i.e. African countries) even in the context of the REPA scheme.

These general defects of the REPA scheme are broadly confirmed by several impact studies (McQueen, 1999). For instance, these studies suggest that REPA would impose heavy adjustment costs on UEMOA in the form of loss of fiscal revenues and current account deficits. With respect to the former, it is estimated that the annual revenue loss of moving to the agreed common external tariff would be 0.23% of annual UEMOA GDP, while moving to the REPA by 2017 would impose an additional annual revenue loss of 0.5% of the region’s GDP. For the SADC, expected trade creation gains are very small, trade diversion losses are substantial, and estimated losses in government revenue range from 8% to 30% for some SADC countries. A REPA scheme covering the EAC sub-region is estimated to generate welfare losses for each of the three countries (Kenya, Tanzania and Uganda) while also imposing tariff revenue losses that are quite large.

The proposed REPA schemes are not the only mechanisms through which the EU has sought to establish more reciprocal trade relations between itself and African countries. The EU has in

fact concluded free-trade agreements with such African countries as Morocco, Tunisia and South Africa. The first two of these countries are covered in the “Euro-Med” agreements that were created in 1995 by the new Mediterranean policy which articulated a series of bilateral free-trade agreements between the EU and each Mediterranean country to be completed by 2010. The agreements with Morocco and Tunisia envisage that imports of industrial products from the EU will be fully liberalized within 12 years. As in the case of the proposed REPA schemes, the impact of Moroccan and Tunisian imports from the EU could be quite significant, putting in the balance of payments, domestic industrial firms and fiscal revenue at considerable risk. A detailed analysis (Brown et al, 1997) of the EU-Tunisia preferential trade agreement concludes that while Tunisia will experience significant adjustment problems in the short run, it will gain little or nothing from the agreement. The EU-South African agreement awaits detailed impact studies. It would not be surprising, however, if the results are similar to those indicated above for Morocco and Tunisia. Generally, in the context of this type of North-South regional trade agreements, as Fernandez (1997, p.5) argues “it is most often less developed, smaller or economically weaker countries that are making the largest reductions in their protection structures, this redistribution costs (i.e., losses in the form of tariff revenue) is most likely to be borne by them”. Yet, unlike in the context of the typical south-south regional trade agreement, no provision is made to offer compensation for these losses.

A third type of North-South regional integration proposal has been offered to African countries by the United States. As articulated in the “African Growth and Opportunity : The End of Dependency Act”, a series of free-trade agreements (FTA) between selected African countries and the U.S. will serve as a catalyst for increasing trade between the US and participating African countries and increasing private sector development in the region. It will also include the creation of an infrastructure fund aimed at attracting US investors to potentially profitable projects that could enhance Africa’s future competitiveness. While this proposal is still at its preliminary stage, it is possible to draw some tentative conclusions on it. If the FTA is fully reciprocal and thus permits duty-free entry of US imports into African countries, it will be discriminatory and strongly trade diverting. If participating African countries already have substantial preferential market access for their exports to the US (through GSP and/or least developed country preferences), the additional market access gains will be limited. In addition, African countries are likely to suffer some fiscal revenue losses for which no compensation will be provided.

In general, therefore, North-South type FTAs involving African countries may not be particularly beneficial to them, especially in the short run, unless the FTAs are sufficiently asymmetrical over a sufficiently long period of time to permit orderly adjustment or they include an appropriate compensation mechanism to take account of problems associated with fiscal revenue losses, de-industrialization and current account deficits.

### ***The Multilateral Option***

Winters (1999) argues that the benefits that can be obtained by participating African countries from various forms of North-South FTAs are far from clear while they are quite likely to have economically harmful impact on these countries at least in the short run. Since these benefits are no less likely to be achieved at lower costs under multilateral agreements, it would seem reasonable to adopt the multilateral option where feasible. An effective use of this option could enhance Africa’s integration into the global trading and investment system. This could, in turn, facilitate more rapid investment and economic growth in Africa by providing more favourable and secure

market access for the region's exports and by fostering the expansion and diversification of these exports multilaterally. However, the achievement of fuller and more beneficial integration into the global economy requires a more active and effective participation of African countries in the design and enforcement of the rules as well as the institutional mechanisms that shape the global economy.

The World Trade Organization (WTO) has emerged as a key organ of the governance and management of the globalizing world economy. Its establishment as a forum for continuous negotiations on an expanding range of trade and trade – related issues is imposing new and challenging demands on African countries with respect to various dimensions of participation. In spite of the increasing importance of the WTO and its processes for the trade and overall development prospects of African countries, the WTO remains the international institution in which the African voice is, perhaps, least heard.

Africa's past and current experience reveals that this region has not taken the WTO as seriously as it probably should. Full fledged integration of African countries into the global trading system will require the building up of the requisite capacity that will enable them to contribute to shaping and designing the rules and regulations for its management by maintaining continuous presence at trade negotiations in Geneva, enhancing the capacity of policy makers based in (home) capitals to support and guide their negotiators, and ensuring systematic preparation by African countries in advance of WTO meetings and negotiations.

There are several dimensions to participation in the WTO process (Blackhurst, Lyakurwa and Oyejide, 1999). Active involvement in designing the rules of multilateral trade-related interactions constitute one of the dimensions of participation but is by no means the only one. Another critically important dimension relates to the give-and-take involved in the process of multilateral trade negotiations in which countries seek favourable and secure access for their exports in exchange for granting similar "concessions" in their own markets to their trading partners. But after having designed the underlying trade rules and after capping the negotiations with specific agreements, a third dimension of participation kicks in. This involves effectively using the established rules and institutional mechanisms to ensure that each country's rights are enforced and its obligations met.

The various dimensions of participation in the WTO process are interwoven as they together pose significant challenges for the small and poor members of the WTO such as those in Africa. On the one hand, current development thinking suggests that on-going globalization trends and the rapidly expanding mandate of the WTO present African countries with opportunities for linking into and benefiting from their growth-inducing effects. On the other hand, these countries are confronted with significant challenges in at least two directions. First, is in terms of ensuring that their integration into the global trade and investment system occurs on as favourable and developments –oriented terms as possible. Second, in terms of having the capacity to take full and effective advantage of the opportunities provided by the process of integration into the global economy.

Effective participation in the WTO process can generate several beneficial outcomes. The first and, perhaps, most obvious is the gain in market access. Negotiation can bring about substantial reduction in the external barriers facing a country's exports. Secondly, reciprocally bargained multilateral agreements can provide a basis for resisting undesirable protectionist measures; and thus help to maintain a more rational trade regime. This beneficial outcome of effective participation could be of tremendous significance for Africa, given its traditionally weak policy commitment mechanisms (Collier and Gunning, 1998). The well documented incidence of frequent policy reversals in many African countries (Oyejide, 1997) has generated credibility problems which

are, in turn, probably associated with the less than full effectiveness of African policy reforms due to muted and inadequate private sector response. The weakness of the domestic “agencies of restraint” in the typical African country is traceable to weak administrative structure, poor political legitimacy of ruling regimes, frequent changes in governments and political regimes, and lack of autonomous, independent, fair-minded and competent judiciary. The vacuum created by the absence of effective domestic agencies of restraint suggests a possible role for the WTO as the ultimate guarantor of stable and rational trade policy regimes in Africa. In this context, the WTO’s programme of trade policy reviews has the potential of playing a significant role in making trade policies more transparent in Africa and making more explicit the true costs and benefits of specific trade policy initiatives.

The extent and quality of a country’s participation in the WTO process may be evaluated in terms of a series of competencies (UNCTAD, 1996). One set of competencies relates to the capacity to fully understand and internalize the contents, implications (i.e. benefits and costs) and constraints of various WTO agreements; to identify and take advantage of trade and trade-related opportunities made available under these agreements; and to fulfil the obligations that they impose. A second set of competencies involves a country’s capacity to articulate trade objectives and effectively pursue them in the context of multilateral negotiations and to formulate and pursue trade and development strategies that are consistent with the country’s WTO obligations. A final set of competencies is associated with the capacity of a country to assert and defend its acquired trade and trade-related rights against potential and actual infringement and other challenges.

The three core sets of competencies required for effective participation in the WTO process are typically channeled through three mechanisms (Blackhurst, 1999). A country’s resident delegation in Geneva, skilled in negotiation and diplomacy, serves as the arrowhead as the country seeks to pursue its national interests in the WTO framework. Key staff in home capitals, with analytical and policy-making skills, provide direct operational support and guidance to the resident delegation. Finally, the more general personnel requirement, in the form of technical, legal, political and legislative skills, which are distributed among the various trade policy institutions in the country contribute to effective participation in the WTO process by implementing the country’s commitments. Because the WTO is “member-driven” and it has a wide and growing mandate, the WTO process involves an unusually large number of meetings and consultations in Geneva (Blackhurst, 1998). This places considerable premium on a country’s capacity to maintain in Geneva a large, skilled and versatile delegation which can engage in the daily meetings and consultations that ultimately move the WTO process. It also pinpoints the significance of “learning-by-doing” and the development of institutional memory; attributes that are considerably diluted by inadequately sized delegations that also undergo frequent changes in staff composition.

There exists yet another important consideration which justifies the premium placed on maintaining an appropriate resident delegation in Geneva. Decision-making in the key organs of the WTO is essentially by consensus in the framework of equality of members. This should, in principle, protect the interest of the smaller and poorer members from arbitrary actions of the large and richer countries. But, in reality, consensus decision-making occurs when no decision is formally objected to by any member present at the meeting in which the decision is taken. Clearly, this procedure ascribes considerable importance to permanent presence or, perhaps more accurately, active, knowledgeable presence.

In assessing the constraints against effective African participation in previous multilateral trade negotiations, up to and including the Uruguay Round, Oyejide (1990, 1997), Ohiorhenuan (1998) and Yeo (1998) have identified a number of factors. There is, first, the perception that the processes

and mechanisms associated with these negotiations were “unbalanced” and weighted against developing and least-developed countries. There are several elements to this charge. One is that the developed countries have usually packed the negotiating agenda with issues of interest to them and have kept introducing new issues before the developing and least-developed countries have managed to acquire sufficient information and knowledge on the emerging “new issues” as a basis for engaging in meaningful negotiation. Another is that the decision-making mechanisms associated with these negotiations have typically been less than fully transparent; the developed and larger countries invariably settle the most crucial issues in “closed” meetings and consultations among themselves.

Over and beyond these in-built biases of the WTO process are the inherent inadequacies of African participants. Studies suggest that many African countries have generally been overwhelmed by the complexity of the negotiations and the technical nature of many issues being discussed and/or negotiated. This was, in turn, due to the lack of technical expertise and negotiating experience by many African negotiators. These largely inexperienced negotiators were further handicapped by the dearth of in-depth analysis of the implications of various proposals from the perspectives of their specific national interests and their inability to receive appropriate and timely support and guidance from their home based principals. Yeo (1998) suggests that the strengthening, during the Uruguay Round, of the rule-based multilateral trading system favoured developing the and least-developed countries by offering them recourse to the “rule of law” as a partial substitute for their lack of political and economic muscle in the WTO process.

But this “favour” is more nominal than real in the case of many African countries whose lack of familiarity with and knowledge of the legal intricacies of the underlying “rule-of-law” WTO mechanisms and their lack of resources to initiate, persecute or defend cases in pursuit of their interests, empty the “favour” of any real content.

African participation in multilateral trade negotiations and other related WTO activities has witnessed a gradual and evolutionary build-up (Oyejide, 1990, 1997, and 1999). It is generally agreed that African countries participated more actively in the Uruguay Round than in any of the previous negotiations. During the Uruguay Round, there was a substantial increase in the number of African countries (almost a third of the total WTO membership). However, this measure of participation is more nominal than real. In fact, less than 15 African countries actually maintained any regular presence in Geneva. There has, however, emerged a clear change in the broad modality of African participation in the WTO process. In the previous rounds, African countries more or less subsumed their interests under those of the broader group of developing countries and, hence, took no real direct and active interest in the negotiating process (Oyejide, 1990). This stance appeared to have changed. A few African countries are now more actively involved in various aspects of the WTO process. In addition, a more active African Group has emerged which has been trying to develop a set of common African negotiating positions. It remains unclear, however, the extent to which the on-going attempts by African countries to unite and act in a coordinated fashion will be fully operationalized, prove effective and yield desirable results.

The case for regional coordination of African trade policy, particularly in the WTO process has been made in several studies (Kennes, 1998; Michalopoulos, 1998; Yeo, 1998; Oyejide, 1999). The key elements of this case revolve around the smallness and low income of many African countries which adversely affect their ability to harness the human, material and institutional capacity required for effective participation in the WTO process on an individual basis. The larger and richer countries can generally find the resources to build such capacity, both in the public and private sector. But for the small and poorer countries, Michalopoulos (1998) argues that it may

not necessarily be an optimal use of their scarce resources to seek individual representation in the context of the WTO process. These countries should, instead establish a process of consultation with “like-minded” countries in the context of which their interests can be reflected in the WTO. Along similar lines, Kennes (1998) points to the growing recognition of the role of open regional economic integration in promoting multilateral liberalization and suggests that regional organizations could play an important role in enhancing African capacity to participate effectively in the WTO process. In particular, these organizations can, through pooling resources, provide services to their member states in a more cost effective way than when the member states act on their own.

It seems clear that the lack of human and institutional capacity by individual African countries for fuller and more effective participation in the WTO process poses a significant problem that does not appear to be amenable to “quick-fix” solutions. The necessary capacity cannot, obviously, be developed overnight.

Human and institutional capacity building does, by its very nature, take time. In these circumstances, it is important to explore alternative mechanisms and arrangements for achieving the goal of more effective participation even before the long-term fruits of capacity building become available. The alternative offered by regional coordination of African trade policy consists of more efficient utilization of existing capacity through some forms of joint action by groups of African countries. These could range from cooperation in information gathering and policy analysis to joint representation in key WTO committees and other meetings. Joint actions could ensure that issues of importance are studied and understood, brought to the attention of individual countries and appropriate decisions taken. In addition, joint actions could extend to coordinated negotiating activities (i.e. the harmonization and coordination of negotiating strategies and agenda) which could enhance the status and bargaining position of African countries. Finally, the various forms of joint action could provide a more cost effective and quicker way of building the human and institutional capacity required to enable African countries substantially enhance their participation in the WTO process.

Several analysts (Oyejide, 1997; Yeo, 1998) suggest that African countries failed to unite and act in a coordinated fashion during the Uruguay Round negotiations and that their general lack of success can be attributed, at least in part, to the failure to harmonize their negotiating agenda and strategies. But this view has not gone unchallenged. According to Wang and Winters (1997), greater African unity during the negotiations may not have improved the outcome for Africa since, acting as a group, African countries probably had little more clout than when they act individually. There is further related evidence associated with the ineffectiveness of regional trade policy coordination in Africa. In a study of the trade liberalization experiences of ten African countries from the early 1970s to the mid – 1990s, it was found that “the least significant stimulus for trade liberalization among the case study countries is membership of a regional integration arrangement” (Oyejide, 1997, p.27).

But while regional joint actions may not always enhance the negotiating power of African countries, or did not, in the past, promote trade liberalization in individual countries, it may still be advantageous for them to cooperate with each other in the WTO framework as a means of relaxing some of the human and institutional capacity constraints that currently render their participation in the WTO process largely inadequate and ineffective.

It is one thing of course to recognize the usefulness of joint actions by African countries within the WTO framework, but it is quite another matter to sort out the appropriate modalities, mechanisms and institutional arrangements for operationalizing them. This latter question has been receiving considerable attention recently. Following the formal inauguration of the African Economic

Community (AEC) during the Summit Meeting of the Organization of African Unity (OAU) in June 1997, the urgent need for permanent institutional mechanism to coordinate, support, back-stop and prepare African governments for negotiations within the WTO framework was affirmed. In this context, Article 94(1) and (2) of the Abuja Treaty Establishing the African Economic Community mandates Member States to “adopt common positions within the Community on issues relating to international negotiations in order to promote and safeguard the interests of Africa. To this end, the Community shall prepare studies and reports designed to help Member States to better harmonize their positions on the said issues”. Mindful of the fact that other regions of the world have been coordinating their positions in multilateral negotiations, African Trade Ministers have mandated the General Secretariat of the OAU/AEC to utilize existing inter-governmental machinery for the purpose of helping African governments to harmonize and coordinate their negotiating positions in the WTO framework. In response, the OAU/AEC General Secretariat has activated the Technical Committee on Trade, Customs and Immigration of the AEC (provided for in Articles 25, 26, 27 of the Abuja Treaty) which has, in turn, established a subsidiary body called the Standing Conference on International Trade and International Trade Negotiations.

The first meeting of the African Ministers of Trade under the auspices of the AEC was held in April 1998 (OAU/AEC, 1998) to articulate “a road map for engaging in the negotiations that are expected in 1999/2000 and some elements of a positive agenda of issues that are of interest to Africa to take forward to future negotiations”. At this meeting, the Ministers agreed that the AEC Technical Committee on Trade, Customs and Immigration would serve as the main forum for the discussion and coordination of trade policy in Africa and serve as the central body to which all African institutions would report on trade-related matters.

They also directed that the OAU/AEC General Secretariat should take steps to facilitate coordination between African groups in Geneva, Brussels, and New York/Washington; strengthen its mission in Geneva to enable it carry out its responsibilities of backstopping and coordination of member states by hiring a minimum of three economists and a legal expert; and secure observer status for the mission at the WTO.

At the sub-regional level, a similar process is under way to harmonize and coordinate African trade policy. The most active among the sub-regional groupings, in this respect, appears to be the Southern African Development Cooperation (SADC). This group has been holding periodic meetings at the ministerial level. The fourth special meeting of the SADC Industry and Trade Committee of Ministers was held in April 1998 to “draw up a SADC common position” as an input into the common African position in preparation for the second WTO Ministerial Conference of May 1998. This meeting explicitly recognized that, in the past, African participation in the WTO process was marginal because they were involved individually and without a coordinated common position; with the consequence that they could not pursue and defend their interest adequately. It affirmed that the new focus on harmonization and coordination of African position constitutes a strategic approach for strengthening participation of member countries in the WTO process and that the common African position would be based on national and regional considerations.

The multilateral option for integrating African countries into the global economy involves active participation in the WTO process. In this context, the WTO can serve as an external but participatory agency of restraint through which participating African countries can enhance the credibility of their trade and trade-related policies. Countries would do this by accepting WTO provisions, the most important of which is the binding of tariff rates. Bound tariffs cannot be changed unilaterally or capriciously and hence are more credible and so reduce investor risk. Because many African tariffs are not WTO-bound or are bound at levels that are several multiples

of the applied rates, African countries are not making use of the credibility – enhancing facility provided by the WTO. To take full advantage of the multilateral option, African countries should participate more actively in the WTO process and use this process more effectively to establish a more rational and transparent trade regime which is then sustained by binding tariffs at levels that are close to the applied rates.

## Conclusion

Several features of the typical African economy, such as small population and low income, suggest that regional integration might provide a suitable mechanism for promoting economic growth through the expansion of intra – regional trade. But other features of their economies, such as lack of complementarity in goods and factors and poor infrastructural services, have shown that trade –focussed preferential trade agreements could not provide a viable means of achieving the articulated objectives. Yet, the potential for regional cooperation on a wide range of issues continue to exist in Africa. To realize this potential, however, there is need to search for new modalities of regionalism that lean more towards cooperation, less rigidity and more pragmatism.

The principles of various geometry and subsidiarity could be usefully applied in this more pragmatic modalilty for defining the functions and powers of the various layers of the new regional cooperation institutions. These new cooperation arrangements have important contribution to make in helping to develop African infrastructure and thus in reducing the region’s unusually high transactions that inhibit trade, investment and economic growth. They could also play a major role by assisting African countries to establish a stable macroeconomic policy environment through regional coordination and harmonization of wide range of policies, trade and investment enhancement - institutions.

African countries are being drawn increasingly into North –South type of differential trade agreements. In the absence of sufficient asymmetry of obligations and compensation packages, it is likely that these agreements will have substantial harmful impacts on the participating African countries, at least in the short run. In particular, these arrangements are likely to be strongly trade-diverting; and to have sharp negative impact in terms of fiscal revenue losses, de- industrialization and currents accounts deficits . In these circumstances, the multilateral approach to the fuller integration of African countries into the global economy would appear to be more beneficial. But to derive the most benefit from this approach, African countries must not only learn to participate more actively and effectively in the WTO process, they also need to accept appropriate tariff binding obligations.

---

## References

- African Development Bank (1999), African Development Report 1999, Oxford University Press, Oxford.
- Aryeetey, E. and L. Senbet (1999), "Essential Financial Market Reforms", paper Prepared for AERC / AFDB / GCA / UNECA/ WORLD BANK collaboration Project.
- Baldwin, R.E (1997) "Review of Theoretical Developments on Regional Integration" in Oyejide, et al (eds) , Regional Integration and Trade Liberalization in Sub – Saharan Africa, Vol I, Macmillan, London.
- Blackhurst, R. (1998), "The capacity of the WTO to fulfill its Mandate", in A.O Krueter (ed.), The WTO As An International Organization, University of Chicago Press.
- Blackhurst, R. (1999), "Capacity Building in Africa for Enhanced Participation in the WTO" Paper Prepared for the Dissemination Conference of the AERC Yaounde April 17 - 18.
- Blackhurst, R. and W. Lyakurwa (1998), "Markets and Market Access for African Exports : Past, Present and Future Directions", Paper prepared for the AERC collaborative research project on Africa and the World Trading System, mimeo, AERC, Nairobi.
- Blackhurst, R. and W.Lyakurwa and A. Oyejide (1999), "Improving Africa Participation in the WTO", paper prepared for the WTO World Bank Conference on Developing Countries in a Millennium Round, Geneva, 20 – 21 September.
- Brown, D.k, A.V. Deardorff, and R.M. Stern (1997), "Some Economic Effects of the Free Trade Agreement Between Tunisia and the European Union", in A Galal and B. Hoekman (eds), Regional Partners in Global Markets, CEPR and ECES, London.
- Cadot, O, J.De Melo, and M.Olarreaga (1999), "Asymmetric Regionalism in Sub-Saharan Africa: Where do we stand?", Paper prepared for ABCDE Conference, Paris, June.
- CEPR (1993), Making Sense of Subsidiarity. How Much Centralization for Europe ?, CEPR, London
- Collier, P. (1998), "Globalization : Implications for Africa ," in Z. Igbal and M. S Khan (ed), Trade Reform and Regional Integration in Africa, IMF, Washington, D.C
- Collier, P. and J.W. Gunning (1995), "Trade Policy and Regional Integration : Implications for the Relationship between Europe and Africa," The World Economy , Vol 18, pp 387 - 410
- European Commission (1992), " Promoting Regional Cooperation and Integration in Sub – Saharan African" , Paper prepared for Global Coalition for Africa Advisory Committee Meeting , Kampala, Uganda, May 8-9
- Elbadawi, I. (1997), " The impact of Regional Trade and Monetary Schemes on Intra- Sub – Saharan African Trade" , in Oyejide A. et al (eds), Regional Integration and Trade Liberalization in Sub – Saharan Africa , Vol I, I Macmillan London
- Elbadawi, I.and K. Schmidt- Hebbel (1996), "Macroeconomic Policies, Instability and Growth in the World", Paper for plenary Session of the AERC workshop, Dec 1, Nairobi
- Fine, J and S. Yeo (1997), "Regional Integration in Sub –Saharan Africa : Dead End or a Fresh Start ?" , in Oyejide, A. et al (eds)
- Francois, C.A. and A. Subramaniam (1998) , "Beyond Trade : Regional Arrangements as a Window on Globalization ," in Z. Igbal and M.S.Khan (eds)

Helleiner, G.K. (1999), " Linking Africa with the World : A Survey of Options", in A. Oyejide et al (eds), *Regional Integration and Trade Liberalization in Sub – Saharan Africa*, Vol IV, Macmillan, London

Ohiorhenuan, J.F.E (1998), *Capacity Building Implications of Enhanced African Participation in Global Trades Rules – Making and Arrangements*," Paper Prepared for the AERC collaborative research project on Africa and the World Trading System, mimeo, AERC , Nairobi.

Oyejide, T.A. (1990), *The Participation of Developing Countries in the Uruguay Round : The World Economy* Vol . 13, No.3 pp. 427 – 444..

Oyejide, T.A. (1997), " Regional Integration and trade Liberalization in Sub – Saharan Africa : An AERC Collaboration Research Project Summary Report", AERC Special Paper, No 28, AERC, Nairobi.

Oyejide, T.A. (1997) , "Africa's Participation in the Post-Uruguay Round World Trading System, PSIO Occasional Paper WTO Series No. 6, Graduate Institute of International Studies, Geneva.

Oyejide, T.A. (1998), "Global Economic Through Multilateral Negotiations: Africa in the World Trade Organisation" Draft Research Project Proposal, mimeo, AERC, Nairobi.

Oyejide, T.A. (1999) "Perspectives and Modalities of African participation in the WTO Process", Paper prepared for the Dissemination Workshop of the AERC collaborative research project on Africa and the World System, Yaounde, April 17 – 18.

UNCTAD (1996), "Strengthening the Participation of Developing Countries in World Trade and the Multilateral Trading System", TD/INF.33, UNCTAD, Geneva.

UNCTAD (1998), "Strengthening Capacities for Participating in the Multilateral Trading System", Note for Course on Commercial Diplomacy, mimeo UNCTAD, Geneva.

Wang, Z. K. and L. A. Winters (1997), "Africa's Role in Multilateral Trade Negotiations", Policy Research Working Paper No, 1846, World Bank, Washington D.C.

World Bank (1994), *Adjustment in Africa*, World Bank, Washington, D.C .

Yeo, S. (1998), "Trade Policy in sub-Saharan Africa: Lessons from the Uruguay Round Experience", mimeo, AERC, Nairobi.