African Economic Integration
Time to Raise the Bar

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When I received the invitation to speak at this event, I had some difficulties juggling my schedule, which was already committed. However, your new Speaker has a highly honed capacity to convince. In Addis Ababa for the AU Summit, he came round to me and said: “I understand you are already committed, but you have to come to the Pan-African Parliament at the end of August to the Conference of Speakers and speak on intra-African trade and integration.”

This being a subject at the heart of what the African Development Bank was set up to do, my mind was already made up and I am glad to be here today.

I could not miss this opportunity to engage you on the challenges of how to unlock Africa’s enormous domestic possibilities, especially at this time – a time when the global economy is undergoing tectonic shifts. And to share with you what we are doing at the Bank in that respect and to seek your support.

My problem was I did not see what I could say which we do not know already. Mr. Speaker, you have asked me to talk about African trade and integration. Much has been said about this in many fora. I did not see myself adding value.

The case has been made long ago, it is the policy of our governments; a lot of implementation is underway and it would be amiss not to acknowledge how far we have come on integration and intra-African trade.

At the last two AU summits much has been said and agreed upon vis-à-vis intra-African trade. We know the problems, the diagnostics, even the cure and the medicine. Africa’s leaders have long recognized the importance of economic integration as a remedy for the continent’s fragmentation.

The story line of Africa’s 54 countries is that over half of them have a GDP under 10 billion dollars, a population of less than 10 million and 16 are landlocked with all the challenges associated with small size and small markets. That story is known.

The story is that most African countries struggle to achieve the economies of scale required to become competitive internationally. That is why, through successive agreements, African governments have committed themselves to the pursuit of greater integration. These commitments, however, have not always proved easy to implement. In practice, national priorities have often trumped regional needs – a phenomenon not unique to Africa, of course.

As a result, the opportunities of regional integration have not been fully exploited. Yet today, as yesterday, trade still holds tremendous unrealized potential as a driver of growth. Not only growth, but also for such things as improved food security, jobs and poverty reduction.
In short, while intra-African trade has more than doubled over the past five years, figures vary between 15 and 22% depending on how you count. It is far below potential. Most people would agree about four pervasive challenges.

First, Africa’s lack of adequate hard infrastructure, in particular transport, connectivity and energy.

Second, problems with the ‘soft’ infrastructure – the institutions and regulations to facilitate trade links – and this includes the overall business environment; and all the problems impeding free movement of goods, capital and talent.

Third, a myriad of firm-level challenges that affect our private sector, the emergence and sustainability of exports, such as quality, meeting standards.

Fourth, and final, access to finance, trade finance and the financial infrastructure that supports trade.

These are issues we know very well. Of emerging urgency are railways and maritime port capacities. Much of our railway network dates back to the colonial era and the costs of ageing systems with multiple gauges are now a real impediment. Few rails have been done since independence.

As for maritime ports, a key piece in the regional integration as well as international trade, capacity is now a major obstacle. The volume of freight that they handle has increased dramatically in recent years; most of these ports were not designed with a regional market in mind and many of them are rapidly running out of capacity, especially with increased mineral exports. As a result, they operate at well below international norms, resulting in higher costs and longer processing times.

We know what has to be done, including the financing gap. Today, we need to ask ourselves a different question and that is: since we all seem to agree on the principles and even the road map, what is it that impinges on faster progress? And, more important, how can our legislatures help in that the process?

**Golden jubilees**

Of late many African countries have celebrated their golden jubilees. There has been much celebration, indeed, but also much soul-searching. There has been acknowledgment of progress, as well as disappointments. However, like all celebrations, there is the “morning after”. Where did we go wrong, could we have charted a different path?
While we are all always the wiser in hindsight, there is no doubt we could have made better progress. And the new global environment definitely dictates we do better. In this context I would like to posit that, as Africa enters this new era, we really have only two options: a paradigm shift, or a new period of muddling through, pleading some sort of African exceptionalism. Our founders laid the basis: political liberation. They achieved much, including the epic struggle to free Africa of the last vestiges of colonialism and apartheid. Like all pioneers, they often made mistakes, sometimes costly ones, and you know the results, the history: military dictatorships, one-party states and economic experimentation.

In between, often economic meltdown, blood, mayhem, and even genocide in my own country where a sitting government decided to turn weapons of mass death on its own people.

As we enter this new era, there can be no question there is much unfinished business politically: building peace, security and rule of law. However, most people would now agree the colossal struggle in Africa must be that of economic liberation through integration. There is also now quasi unanimity that this outcome is not possible with 54 balkanized states, economically speaking.

Nations the world over, we all know, developed through trade and investment. Of course, not always: some developed by exploiting other nations’ wealth and labour and imposing on other nations economic policies which they themselves did not follow at earlier stages of their development.

Please do not misunderstand me. I am not by any stretch of imagination saying we Africans should also explore the second option. That would not only be absurd, but is not even an option.

What I want to suggest is different; it is an affirmation that many of the regions also grew by integration. By delaying economic integration in Africa, therefore, we are almost by default making it possible for others to continue exploiting our wealth and potential.

Former President Julius Nyerere of Tanzania, one of the founding fathers of the OAU, had this to say in Accra at Ghana’s 40th independence anniversary and I seek your permission to quote this illustrious son of Africa in extenso. Referring to African unity, he said in his own words he had a confession to make:

_The confession is that we of the first generation leaders of independent Africa have not pursued the objective of African unity with the vigour, commitment and sincerity that it deserved…._
He goes on to say:

_If numbers were horses, Africa today would be riding high! Africa would be the strongest continent in the world, for it occupies more seats in the UN General Assembly than any other continent…._

Mwalimu Nyerere goes on:

_So this is my plea to the new generation of African leaders and African peoples: work for unity with the firm conviction that without unity, there is no future for Africa._

President Nyerere adds:

_I reject the glorification of the nation-state that we inherited from colonialism and the artificial nations we are trying to forge from that inheritance. At the heart of it we are all Africans but we are all Africans trying very hard to be Ghanaians or Tanzanians. Fortunately for Africa, we have not been completely successful. The outside world hardly recognizes our Ghanaian-ness or Tanzanian-ness. What the outside world recognizes about us is our African-ness._

_Reject the nonsense of dividing the African peoples into Anglophones, Francophones, and Lusophones._

_This attempt to divide our peoples according to the language of their former colonial masters must be rejected with the firmness and utter contempt that it richly deserves. The natural owners of those wonderful languages are busy building a united Europe._

President Nyerere concludes:

_My generation led Africa to political freedom. The current generation of leaders and peoples of Africa must pick up the flickering torch of African freedom, refuel it with their enthusiasm and determination, and carry forward Africa’s integration._

These are powerful words from Mwalimu. And if I quote him _in extenso_ it is because the case he makes was valid yesterday, today and is now more urgent than ever, given the development in the global economy, as is well known to you all.

When one takes a longer-term outlook beyond dealing with the current turbulence in the global economy, there are four new features of this landscape with large implications for Africa:
- A realignment and dispersion of economic power;
- A redefinition of the North-South relationship;
- The declining effectiveness of multilateral solutions; and
- A definite end to ideological economics.

On the first point, while North America and the euro zone still account for two thirds of the global output, that is shrinking; indeed, in the last few years much of the growth has come from emerging countries.

It is as if the global economy, after years of domination by a few countries, is beginning a long process of “economic democratization” – a process in which wealth is no longer concentrated in a few regions, but is now spread among the G8, non-G8, OECD countries, the BRICS, the Gulf region, and other emerging countries in the G20 and even some outside the G20.

You will agree with me that, dispersed as we are in 54 relatively small economies of varying endowments, our possibility to take advantage of this new momentum is very limited indeed. Limited to supplying raw materials such as oil, gas and minerals. It is a choice we can make or unmake but the choice we make has long-term implications.

An example: at this point, Africa’s total external reserves are equal to half-a-trillion dollars! But we continue to rely on the outside world for soft loans and grants. In so doing, our potential strength has actually translated into a weakness.

The second feature of the new global landscape is the redefinition of the North-South relationship. The past 50 years have shown us how the model of cooperation, as it is called, between North and South must now evolve. The current global realignment has provided Africa with an opportunity to break free, to diversify its partnerships, and to maximize its own internal potential, its resources and its talents for the continent’s own development.

Again, it is a choice we must make. If we did not do that we run the risk of making the same mistakes, not because we want to, but because we are divided, or breaking out on a new path, or staying stuck in disempowering relationships necessarily leads to that outcome.

The third feature of the current global system refers to ineffective multilateralism. For far too long Africa has put much reliance on multilateral solutions. From climate
change, the Doha trade round, reform of the UN, voice and representation and, of
course, increased ODA levels and even something called “mutual accountability”.

For better or worse, the current global crisis has pushed all nations back into a
search for national solutions. There is no global leadership to ensure a conclusion
of the Doha trade round, or a deal on climate change, the two things we need to
trade our way out of poverty. We cannot do much about climate change. We now
know that a Doha trade round, despite coming so close, is unlikely in the near
future.

In short, at a time when the fiscal positions in rich countries constrain aid flows and
multilateral solutions, free trading among Africans, free circulation of capital, of
goods, of skills and talents is not only now more urgent than ever, it is the only
solution. That is why the African Development Bank has put economic integration
at the heart of its activities, committed 11 billion dollars in the past five years to
build trade infrastructure across the five regions of Africa: roads; bridges; border
posts; optic fibres; power pools; rails; airports and ports. We are preparing to roll
out a trade finance program in response to the scarcity of financial resources for
trade, especially for small countries.

But we understand that integration is more than infrastructure. It is also about
institutions and facilitation and many other areas of focus, such as financial
integration, such as the capital market, as well as common services. These are
obstacles we must overcome. This is where our legislators have a major role –
from immigration laws, taxation, customs investment laws, etc. The impact of your
decisions can be far-reaching.

Most of us in this room agree that the kind of delays we see at our borders, the red
tape hampering movement of people and trade, are impeding the optimal use of
even the limited infrastructure we have. I have often heard it being said that we
don’t trade as much because we produce the same goods or that greater
integration will automatically result in losers and winners. These types of zero-sum
calculations are fallacies and a misunderstanding of what drives today’s modern
economies: the modern supply value chain, which we must analyze carefully.

The last feature of today’s global economy I want to refer to is the end of what I call
ideological economics. One of the things which hindered Africa’s development in
the first three decades of independence was that, among other things, Africa was
not only a battleground for the Cold War, but also for foreign ideas and ideologies
including economic doctrines.
We viewed our economic challenges through the prism of others. As a result, we had Liberal Capitalists, Marxists, Social Democrats and the rest – notions which have their origin in Europe’s Industrial Revolution and with limited relevance for Africa. We continued to cling to those ideologies, sometimes even when their original owners had discarded them. Yet if you look at the G20 today, you realize how countries have come up the ladder through different models of development. There was no blueprint. Some have made it through laissez-faire capitalism, others through different types of state capitalism and others by muddling through.

Africa, now freed of those straitjackets, has a chance to chart its own path. We now know that there is not one way to development. Each country must chart its own path and search for that which works for every country economy.

Like many of you, I am a realist and understand that integration is not easy. But why should it be? Liberation was not easy. It was a battle hard won and so must economic integration. That is where you MPs come in. I ask you: why is the free movement of Africans’ skills still so difficult? Of course our talents end up on Wall Street and we call it brain drain.

I also ask: why is it that some projects have difficulties taking off, even when financing is available? Believe me I have many examples of such projects, which suffer everything but finance.

**Mobilization of resources**

Let me now conclude on the issue of finance. We know the numbers, the volume of financial resources needed for our infrastructure:

- International organizations have played their part. For AfDB, about two billion dollars a year – 11 billion dollars in the past five years;

- Many African countries individually have made significant progress in funding infrastructure investment through domestic revenues and local capital markets;

- Others have successfully accessed international bond issues and syndicated loans; the price has, in some instances been high, and maturities too short, reflecting market perceptions of risk, but this is changing;

- We encourage more countries to seek credit ratings, obtain sound commercial advice and test the waters while, of course, putting in place debt-management strategies; and
- We must also continue to work together on innovative financing, especially how to attract surpluses in the emerging markets. That work is ongoing within the G20.

There are political and technical issues with innovative financing models, but they can be overcome. That approach is now urgent as traditional sources of development finance, such as donor funds, decline and, in any case, they were unlikely to the scale required to close the infrastructure gap. While those are valuable sources of finance, it is now more useful to look at them as leverage – an approach in which the AfDB has particular expertise.

The African Development Bank continues to explore new sources of finance to bolster Africa’s infrastructure needs, including sovereign wealth funds, remittances and Islamic finance.

But charity must begin at home, especially when it is profitable charity. Our Central Banks, collectively, now hold about half a trillion dollars in reserves, strictly around 510 billion dollars.

Today, these reserves are invested into secure but very low-return instruments, outside Africa. At the moment the benchmark US 10-Year Treasury bond yields just 1.4% per annum. Of course, Central Banks must adhere to very rigid investment guidelines for safety, liquidity, exit and a good return.

However, as a Triple A-rated institution, the African Development Bank is in a position to offer an alternative on all the four elements, designing an instrument that ensures both security and reasonable returns while channelling resources into high impact, good return investments with potentially dramatic impact on African growth.

The proposal I have put forward is only a modest one: let each Central Bank invest only 5% of its reserves in an Africa Infrastructure Bond managed by the African Development Bank that would in the first year total 22 billion dollars – sufficient to make a major impact on some of the key very profitable projects, prioritized by the Regional Economic Communities. We would then, within NEPAD and AU, identify those projects which fit into this high return category. We fully understand a number of projects would not qualify and these would always need public finance or grants. This proposal refers only to high return projects.

I also do appreciate that there is a whole range of technical obstacles to overcome to provide comfort. The African Development Bank staff is working on those issues.
Next month, we will have initial discussions of this proposal in its technical details with Finance Ministers and Central Bank Governors. I know we can count on African Parliaments to help in galvanizing support for this proposal.

Mr. Speaker, this weekend we will be laying to rest one of Africa’s distinguished sons – Meles Zenawi. He not only devoted his life to the political and economic transformation of his country, he was also Chair of NEPAD Heads of State Implementation Committee and spokesperson in many international fora, in the G20 and climate negotiations on infrastructure development. He used to tell us that in medicine there is a technical definition of madness: doing the same thing repeatedly and each time expecting a different outcome. It is time to do things differently and raise the bar. We have a window of opportunity.

There is little doubt our parliamentarians have a key role to play in this battle. As you anchor rule of law, you provide a basis for stability in our individual countries. In holding the executive branches of government, you ensure accountability. Your continental mission is now calling more than ever. Each time you pass a law, which is, of course, in the national interest, also ask whether it is good for regional integration and continental economic empowerment.

The citizens of Africa are looking up to you to turn their aspiration of integration into reality. To put an end to the balkanization of Africa! The African Development Bank has made this issue a central plank of its strategy over the past five years. You can always count us as a reliable partner on this journey.

Thank you.