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REPORT

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ADDRESSES AND PLENARIES

OPENING ADDRESSES

Nkosazana Dlamini-Zuma, Chair, African Union Commission

Pravin Gordhan, Minister of Finance, South Africa

Abdalla Hamdok, Deputy Executive Secretary, UN Economic Commission for Africa

Donald Kaberuka, President, African Development Bank

Daniel Makokera, Pamuzinda Productions, South Africa (*moderator*)

Nkosazana Dlamini-Zuma reviewed the African Union's 1991 Abuja Treaty designed to promote regional economic integration. She argued that the building blocks of wider economic integration – the eight Regional Economic Communities – have made great progress in strengthening themselves and promoting growth. Five have created customs unions eliminating internal trade barriers. Some lag behind, but all are moving in the right direction.

Donald Kaberuka emphasized first that the changing structure of the global economy requires Africa to integrate to survive and, second, that to integrate it needs to invest in regional infrastructure. He highlighted recent positive economic performance, with a third of African countries averaging 6.5% growth per year, and the others – except for eight fragile states – averaging 5%. But Africa needs regional integration in order to compete in the global economy.

Abdalla Hamdok first saluted the young researchers who were 57% of those presenting papers at this year's AEC. Pointing out that regional integration is not a choice but rather an imperative for Africa, he highlighted the need for Africans to take charge of their development, to learn from past mistakes and move forward, capitalizing on the current strong economic performance.

Pravin Gordhan focused on what Africa needs in order to achieve growth: leadership based on the interests of the people to develop alternative development models and implement a common agenda uniting national and wider interests.

Discussion and Recommendations

Nkosazana Dlamini-Zuma discussed hindrances to regional integration in Africa:

- The eight Regional Economic Communities (RECs) have increasingly focused on resolution of political conflicts – as has the African Union – distracting them from regional integration and “soft issues” such as harmonization of border controls to speed up transit of goods.
- Overlapping RECs – with smaller ones having the same agenda as larger ones – have led to inefficient efforts. RECs must coordinate better.
- Policy discord among States and RECs on regional frameworks. Again, RECs must coordinate better to reach the implementation stage.

Donald Kaberuka emphasized that integrating Africa's 54 countries through infrastructure development and reformed policies is the best way to maintain Africa's recent economic growth and help it attain its potential.

- National utility companies lack the financial resources to adequately manage power plants, so regional cooperation in the infrastructure and energy sectors is essential.
- Better border policies can facilitate trade, while reformed aviation policies can make travel cheaper and easier (the Yamoussoukro Air Liberalization Agreement is a step in the right direction).

Abdalla Hamdok emphasized that Africa's continued reliance on agricultural exports has led to great inequality – while manufacturing is neglected and shrinks – in turn leading to social fragmentation due to poverty, which is Africa's biggest development challenge.

Pravin Gordhan argued that – despite Africa's recent strong economic performance – a strong global presence will be required to reverse the negative light in which it is still seen by potential investors and trade partners in the West.

Discussion and Recommendations

- Sound domestic institutions and harmonization of national policies through RECs, for example to encourage mobility of skilled labor across borders;
- Investment in young people and women, who are important drivers of development and thus must be included;
- Coordination between the private sector and institutions of higher education to identify key industrial growth areas so that young people can develop appropriate skills;
- Financial resources focused on investment in agriculture, as well as energy and transport infrastructure, to increase output both to feed Africans and to increase exports;
- Trade not only with traditional Western partners but also with the BRICs and other emerging economies.

PLENARY 1: Regional Integration for Inclusive and Sustainable Growth

Paulina Elago, Country Director, TradeMark, Tanzania

Mthuli Ncube, Vice President and Chief Economist, African Development Bank
(*moderator*)

Delphin Rwegasira, Professor, University of Dar Es-Salam, Tanzania

Jean-Gustave Sanon, Technical Adviser, West African Economic and Monetary Union

Lemma W. Senbet, Executive Director, African Economic Research Consortium

Abebe Shimeles, Division Manager, African Development Bank

Fatiha Talahite, Professor, University Paris XIII, France

Mthuli Ncube – noting that there are both benefits and risks of regional integration – asked:

- How can regional integration facilitate inclusive growth and sustainable development?
- Why is there little regional integration in Africa?
- Do the Regional Economic Communities need to be reformed?
- What dimensions of regional integration need emphasis?
- What should multilateral and regional development institutions do to advance regional integration?

In response, keynote speakers reflected on everything from finance and tax convergence to road transport, power pools, water management, and the free movement of labor.

Abebe Shimeles stressed that many African agricultural producers still have great difficulty in getting their products to markets, which exacerbates poverty and exclusion. To improve agricultural productivity and food security as well as to unlock the potential of the private sector more generally, and to enhance community participation – including that of youth and women – regional infrastructure projects are essential.

Paulina Elago mentioned approvingly that Rwanda and Burundi have been able to attract many Tanzanian teachers to improve the teaching of Swahili in their education systems, and Rwanda in particular has also made regional efforts to attract skilled labor to boost various other sectors of its economy. She stressed the importance of eliminating the hindrances to the free movement of skilled labor which – despite its recent rapid growth – still obstruct integration in East Africa.

Lemma W. Senbet – pointing out that more than a quarter of Africans with tertiary education live, not in Africa, but in OECD countries – emphasized legal allowance for circular migration and for free movement of skilled labor as the core of regional integration and competitiveness, with incentives to attract workers to countries with a scarcity of skills. Progressively harmonizing and integrating financial sectors can increase efficiency by reducing interest rates and generally decreasing the cost of credit, thus increasing productive investment.

Fatiha Talahite – pointing out that women experience barriers to market participation different from those experienced by men, because of underlying poverty and gender inequalities, uncertain land rights, low literacy and education, family-care responsibilities and the lack of time for personal development – argued that growth in North Africa had failed to include them, and thus the need for gender mainstreaming. Gender-sensitive policies can help, for example, to ensure that female importers and exporters reap the same benefits as their male counterparts, particularly from improved trade logistics. This means identifying and measuring the gender effects of product standards, of energy, transport, and other infrastructure, and of customs and regulatory reforms.

Jean-Gustave Sanon – despite successful economic integration of eight West African countries – acknowledged low growth, due largely to endemic socio-political problems, as well as fluctuations in world markets.

Delphin Rwegasira suggested that while East Africa could eventually adopt an economic and monetary union such as that in West Africa – with a single currency to reduce transaction costs – caution is advised, especially given the example of Europe’s current problems. A monetary union must be based on harmonization and convergence of financial systems, labor markets, and tax regimes.

Discussion and Recommendations

- Lack of qualified workers, shortage of good infrastructure, and low intra-regional trade help explain the slowness of African integration.
- But regional integration remains a key driver of sustainable inclusive growth through increased market opportunities.
- Greater border and customs security and accountability, better awareness of rights and obligations, and sensitization of officials on gender issues can help small-volume traders, many of whom are women, gain greater access to regional markets.
- African countries should not rush into a single currency.

PLENARY 2: Regional Infrastructure, Trans-boundary Value Chains, and Growth Corridors

Fantu Cheru, Professor, American University, Washington, DC

Mwangi Kimenyi, Director, Africa Growth Initiative, Brookings Institute, Washington, DC

David Kimoimo, Managing Director, Business Synergies, Uganda

Emmanuel Nnadozie, Director, Macroeconomic Policy Division, UN Economic Commission for Africa (*moderator*)

Slim Othmani, Chief Executive Officer, NCA Rouiba, Algeria

Emmanuel Nnadozie – stressing the need for regional infrastructure to create an economic space large enough to exploit complementarities in resources and to develop trade linkages – asked what are the impediments to shared infrastructure, and how can Africa exploit existing opportunities to enhance cross-border value chains.

Fantu Cheru – in stressing the role of political institutions – emphasized that conflicting national policies are impediments to regional integration and development, as is bureaucracy. But governments also have a positive role in facilitating access to credit, foreign exchange, land, and in governing economies more generally. Regional integration – including regional financial markets, labor mobility, and infrastructure (e.g., for greater connectivity) – can facilitate trade and innovation.

Slim Othmani, drawing lessons from North Africa, stressed better understanding of and support for the informal sector – which employs much of Africa’s population – and the necessity that regional integration benefit both resource-rich and resource-poor countries. Culture, tradition, history, and politics drive economic results. Trust that policies will be adhered to – and institutions that justify that trust – will determine the

success of regional integration. Strategic sectors which could cause conflicts, and dependence on particular political developments, should be avoided.

David Kimoimo – with respect to using trans-boundary value chains to achieve food security and increase exports – emphasized

- exploiting national and regional comparative advantages in agriculture;
- investment in research and infrastructure to support the private sector, particularly power connectivity, especially going the “last-mile”;
- adoption of large-scale commercialization to add value, including systematic, efficient agricultural processing, minimizing waste.

Mwangi Kimenyi suggested that – to exploit synergies and improve productivity and competitiveness to help Africa enter global markets – regional integration, trans-boundary value chains, growth corridors, and industrial clusters can help. A business model approach is essential. Both government policies (e.g., supporting logistics) and private sector involvement will be required.

Discussion and Recommendations

- Link the informal to the formal sector – following the Indian model – rather than wasting time trying to formalize it.
- Prioritize migration policies to improve access to engineering skills and research capacity.
- Support private sector investment especially in higher education and technology.
- Landlocked countries could share infrastructure for access to the coast, improving their competitiveness and thus attracting investment.
- Revisiting areas of comparative advantage through collaboration to improve output and competitiveness. Countries producing the same goods could combine resources.

PLENARY 3: The Political Economy of Regional Integration

Pedro Conceicao, Chief Economist, Regional Bureau for Africa, United Nations Development Programme (*moderator*)

Tetteh Hormeku, Head of Programs, Third World Network, Africa

Ibbo Day Mandaza, Executive Director, South African Political Economy Series (SAPES) Trust, Zimbabwe

Thandika Mkandawire, Professor, London School of Economics and Political Science

Lemma W. Senbet, Executive Director, African Economic Research Consortium

Pedro Conceicao asked:

- What are the institutional political impediments to faster regional integration and how can they be overcome?

- What effect do non-tariff barriers have on livelihoods, food security, agriculture, and transformation generally?
- What is needed to enhance the effectiveness of regional institutions and deepen the engagement of member states and civil society?

Thandika Mkandawire emphasized that uniting Africa involves overcoming language differences and other initial conditions such as relations with former colonial powers and levels of industrialization which may require preferential treatment. Surrendering sovereignty in regional integration affects people's interests differently, so it requires cultural solutions (ideas) more than technocratic ones. National political institutions must first be convinced through national debate.

Ibbo Day Mandaza pointed out that the vertical integration of African countries with former colonial powers – with emphasis on export of raw materials – runs counter to regional integration and industrial development. But African regions have their own centers and hierarchies, which might facilitate their integration, but sometimes the regions work at cross purposes. Freedom of movement of people across borders is perhaps the most basic element that must be stressed.

Tetteh Hormeku asserted that the benefits of regional integration are self-evident, yet national leaders lack political will to integrate because – while dealing with their own economic and social problems – populations don't perceive those benefits and "own" the project, which would give it legitimacy. Linking internal (national) industrialization to agricultural transformation might be a way to start to forge legitimacy for wider integration.

Lemma W. Senbet acknowledged typical conflicts between the private sector and those seeking to legislate or regulate in the public interest (who may also have interests of their own, of course). Conflicts are exacerbated when trying, for example, to harmonize financial regulations across countries. Competent and motivated regulators – understanding risk exposure and regulating risk – are thus important.

Discussion and Recommendations

- Regional integration of Africa – which is 25% larger than North America including Central America and Greenland, or almost as large as South America, Europe, and Australia combined – is further complicated by relations with different former colonial powers and by uneven development, but Africans are culturally attached to their continent.
- The TV reality show Big Brother Africa has educated Africans about each other's countries and cultures, as do shared sports.
- But integration is lagging even where there are "low hanging fruit" such as the Yamoussoukro Declaration on liberalization of air transport, implementation of which wouldn't require much resources besides political leadership.
- In general, the differing interests of countries and their powerful stakeholders (as well as external parties) – which can affect the timing of integration steps – all need to be calibrated so that short- and long-term benefits can be maximized and costs distributed fairly.

- But regional Integration is essentially driven by politicians, with whom technicians have to find ways to work.
- Financial integration could use more attention, as could (especially) freedom of movement of people (especially in Southern Africa).

PLENARY 4: Regional Integration and the Private Sector

Vivienne Apopo, Director General, East African Development Bank

Steve Kayizzi-Mugerwa, Director, African Development Bank

Elias Masilena, CEO, Pension Investment Corporation, South Africa

Alex Rugamba, Director, Energy, Environment, and Climate Change Department, African Development Bank (*moderator*)

Admassu Yilma Tadesse, President and Chief Executive Officer, PTA Bank, Burundi

Alex Rugamba indicated that the chains of jobs clearly show that inclusive regional integration can be achieved by the private sector. The different kind of businesses count in the regional integration process and SMEs can be quite an important pressure group. However, the legal framework is also very important. Which type of institutions will allow the private sector to participate more fully in regional integration?

Steve Kayizzi-Mugerwa said that there are no permanent allies and enemies, but permanent interest driving the private sector for profit. However, the profit motive is important but it is not the only driver. Religion as well as power (i.e. building a network at the regional level) could drive the regional integration process. Various examples illustrate the integrating aspect in terms of trading in East Africa, such as the Aga Khan group, banking, private universities, malls.

Vivienne Apopo argued that there are no other actor than the private sector to provide such particular support to integration. The private sector has been at the forefront of all kind of integration, pushing governments to discuss and gathering the various actors to realize the integration. Big businesses which drive government policy have already engaged in the process. If their interests are well-served, they will work behind the scene to capitalize the process. Further support should be given to SMEs for them to better understand the benefits and challenges of regional integration and actively participate to the process.

Admassu Yilma Tadesse insisted in the institutions which would allow enterprises to pursue profit across borders and to access larger markets. Regional institutions are particularly essentials for big business such as telecommunication, power, transport and PPPs.

Elias Masilena indicated that in Europe, regional integration centered on a cross-country agreement, involving states and the private sector, to promote a regional coal industry; in Asia, regional integration has been driven by firms developing regional value chains, with political processes and formal institutions coming only much later. In Africa, the private sector is already helping to advance regional integration; but this role may be

enhanced further. At the same time, there are some calls for caution about the role of the private sector in regional integration. Such calls point to the role of the private sector in lobbying the interests of individual pressure groups, thereby derailing regional tariff reductions and regional industrial policy. Given these realizations, the key issues raised by the panel included:

- What role should the private sector play in regional integration? How can the private sector “push” for regional integration? What outcomes does this bring about?
- What are the success stories and best practices that can be drawn from the role of the private sector in regional integration?
- What kinds of institutions are necessary? Which institutions may allow for the private sector to participate more fully in regional integration? In which cases are institutions needed to limit the activities of the private sector?
- Is there a case for regional industrial policy? Is it possible for competing private sector interests from member RECs to work together to advance a regional industrial policy (as promoted by the Tri-Partite Agreement)?

Discussion and Recommendations

- Regional Integration is an old concept in Africa. It has not materialized because of lack of leadership – both political and from the private sector.
- No other actor can promote regional integration and sustain it more than the private sector. The private sector in general and industry in particular must make a commitment to build the skills necessary for integration.
- Pan-African industrial development is a necessary condition for the development of regional integration through the enhanced role of the private sector. The key question must be how to help such industries grow.
- In addressing the role of government in promoting private sector to enhance regional integration, the emphasis must be to target the simple policies that enhance the private sector.
- Skills development remains crucial for private sector development and industries must make a commitment to develop skills.
- The private sector must not wait for political leadership. It must take the initiative and lead the way.
- Integration will be sustained if based on trade, which is the main attraction of the private sector.
- As the main interest of the private sector is profit maximization, it needs to be ascertained in order for the profit motive to be an integrating factor. Although the profit motive is important; it should not be the only factor involved.
- Areas where the profit motive could be an integrating factor include trade and financial institutions.
- More attention must be paid to the role of SMEs. Given their numbers, size and depth in Africa, they need to be supported to lead integration.

- Institutions that are needed to promote the private sector to lead regional integration are those that scale up enterprises and allow businesses to perform their core functions.
- Specialized/regional institutions, such as power pools, and one stop border posts are needed in order to undertake infrastructure across borders.
- Strong and committed political leadership is essential for the creation of such regional institutions.
- There is need to quantify the cost of Africa's failure to integrate as a way of encouraging governments to be more purposeful.
- Development institutions like the African Development Bank must address the issue of collateral, which remains a major hindrance to private sector development.
- The African Development Bank and other MDIs need to step up their support for private sector development in Africa.
- Emphasis on bankable projects is a limitation to private sector development. Consideration must also be given to socially desirable projects.
- Socially desirable projects that are not bankable may not be undertaken by the private sector. Governments may undertake these or may need to provide subsidies to the private sector for such projects to be developed.
- Public-private-partnerships can succeed where and when there are institutions that enable such partnerships to thrive. Legal problems in Africa continue to be a major challenge to PPP development

Main Take-away

For the private sector to lead in regional integration, some measures must address the issues related to business climate environment.

PLENARY 5: Industrialization and Trade

Mina Baliaoune, Director of Research, African Center for Economic Transformation, Ghana

Asma Bouraoui Khouja, Executive Director, Maghreb Economic Forum

Stephen Karingi, Director, Regional Integration and Trade Division, UN Economic Commission for Africa (*moderator*)

Olatunji Olaniyi, Senior Trade Advisor, African Business Roundtable, Nigeria

Patrick Osakwe, Chief, Africa Section, UN Conference on Trade and Development

Jane Nalunga, Uganda Country Director, Southern and Eastern African Trade, Information, and Negotiations Institute

Oliver Saasa, CEO/Managing Consultant, Premier Consult Ltd., Zambia

Stephen Karingi asked:

- How can domestic resources be mobilized to promote industrial development and trade?
- What can governments and non-state actors do to relieve constraints industrial development and trade?
- What can Africa learn from other regional experiences, for example, East Asian?
- How should Africa deal with the rise of the BRICs and, more generally, the challenges of globalization?

Mina Baliaoune noted the African Center for Economic Transformation's definition of transformation as requiring more technology and diversification with increased productivity and export competitiveness resulting in human betterment. Poor governance has been a problem, but quality of institutions is improving in many countries, and even poor governance scores on, for example, corruption, have not necessarily led to less investment. Governments can foster entrepreneurship by reducing economic uncertainty, and can promote exports by maintaining stable exchange rates and assisting firms in obtaining appropriate technology. Public-private-partnerships (PPPs) can provide skills training, which must involve the private sector but also benefits from government involvement. Despite the importance of taxation for government revenues, countries must be careful not to unnecessarily increase taxes as they are a major deterrent to business. The AU can negotiate with external partners on behalf of African countries. Donors should target their programs to support regional integration, industrial development, and trade.

Jane Nalunga – noting the limited linkages between the more productive mining and agricultural sectors and industry and trade – expressed concern about incoherent, contradictory policies. Neo-liberal policies removed vital state support from industries so that, for example, only 0.4% of Uganda's budget is allocated to the Ministry of Trade and Industry. Industrialization is also being un-done by limiting export taxes through Economic Partnership Agreements, which make little sense for Africa. Negotiations with external partners must bring more technology and transfer of skills while requiring more local content. The high tariffs placed on African value-added products such as roasted and processed coffee must be eliminated. While transformation must be defined in the African context, the European Union provides an example, defining what it aims to do and how it aims to do it.

Olatunji Olaniyi noted that no region has achieved sustained development without well-developed industries transforming primary commodities into higher value-added goods, but Africa's industrialization is very low, and intra-African trade is lower than intra-regional trade elsewhere. Africa has the resources to power its own growth, it just lacks regional integration to promote trade. At independence, industrialization focused on national self-reliance. A renewed focus on industrialization – in the context of regional integration – is needed to build resilience against external shocks. Integrating small-scale industries into the economy can also help address rural poverty.

Patrick Osakwe noted that manufacturing value-added in Africa is low and the continent's share in global manufactured exports is less than 2%. But whereas only 15% of Africa's global exports are manufactures, 40% of intra-African trade is already manufactures, and this can be boosted with regional integration. The tastes and

behavior of African consumers are important. Switzerland built a wine industry not because of global competitiveness but to supply its domestic demand. Because of domestic consumption, the beer industry in Africa is one of the few which has not been affected by de-industrialization. Countries should be pragmatic – focusing on what has worked – not ideologically focused on either state-led or private-sector development. Besides finance, the other main driver of industry is innovation, but African firms generally have low innovation capacity.

Asma Bouraoui Khouja – focused on the Maghreb – emphasized the importance of political stability and regional integration (as well as the creation of sovereign funds) to promote industrial differentiation, which has so far been attempted mostly in heavy industry with mixed results, though Tunisia’s export-substitution policy has helped to ensure economic independence while promoting exports. Small and medium private enterprises need public support and encouragement to diversity in order to attract investment and promote exports.

Oliver Saasa stressed recent progress in regional infrastructure, market integration, and industrial development (as well as information and communications technology) through agreement among the East African Community (EAC), the Southern African Development Community (SADC), and the Common Market for Eastern and Southern Africa (COMESA) – which collectively cover 26 countries with 530 million people and GDP of USD 600 billion – to integrate policies, plans, and programs, e.g., the North-South corridor which began in 2009 which includes energy as well as transportation and goods trade.

Discussion and Recommendations

- Strategic vision and political will are needed, with a pragmatic approach and specific guidelines for implementation and monitoring.
- Regional economic communities should coordinate among themselves to promote development of regional infrastructure and trade corridors.
- Keys to successful industrialization of other regions have been foreign direct investment, technology transfer, and trade. Strategies used successfully by Singapore and Malaysia might be utilized to ensure that investments build capacities.
- Both global exports and intra-African trade are important.
- Poor program implementation has hampered industrialization in Africa.
- Public-private partnerships and agricultural and rural development are important parts of overall transformation.
- Small-scale industries – which are prevalent in Africa and important for employment – need support with financing and knowledge transfer.
- Continent-wide problems with the business climate could benefit from continent-wide efforts at improvement.
- The UN Conference on Trade and Development’s 2011 *Report on Economic Development in Africa* included many useful policy suggestions.

- External financial and technical supports have been used for many of Africa's infrastructural and industrial initiatives; to have ownership over them, domestic resources must be mobilized.
- Transformation can be financed by tapping the continent's domestic financial potential (including measures to address illicit financial outflows of US\$50 million annually).
- The African Development Bank and the Economic Commission for Africa can facilitate knowledge creation and transfer about regional integration and industrialization.
- The African Union Commission and regional economic communities should facilitate negotiations with external partners to mandate greater technology- and skills-transfers and better market access as well as development assistance channeled towards productive capacities.
- The role of the Millennium Development Goals in promoting or hindering industrialization should be examined.

PLENARY 6: Management of Regional Public Goods and Natural Resources

Sanusi Imran Abdullahi, Executive Secretary, Lake Chad Basin Commission

Lynette Chen, CEO, New Partnership for Africa's Development Business Foundation, South Africa

Pedro Conceicao, Chief Economist, Regional Bureau for Africa, United Nations Development Programme (*moderator*)

Canisius Kanangire, Executive Secretary, East African Community/Lake Victoria Basin Commission

Mwangi Kimenyi, Director, Africa Growth Initiative, Brookings Institute, USA

Pedro Conceicao asked

- What is the experience of transnational water management in Africa?
- What are the challenges to effective management of transnational public goods and natural resources, and how can they be addressed?
- What is the state of financing for management of transnational public goods and resources, and does the private sector have a role?

Mwangi Kimenyi argued that successful agreements for sharing natural resources require equality in negotiations and transparency and fairness in results, including fair representation in management institutions. The problem with the Nile river-basin water-sharing treaty is that every agreement (1902, 1929, 1959) skewed towards securing water for British colonial interests: 90% of water is for Egypt (and Sudan, though not for irrigation or power), leaving out Ethiopia and all others. Unless managed carefully, there is potential for conflict.

Canisius Kanangire said the Lake Victoria Basin Commission – which coordinates stakeholders to facilitate projects for growth and development (including improved infrastructure, livelihoods, and health) as well as environmental protection –

successfully manages shared resources through a binding legal framework in which all parties both contribute to the effort and share the infrastructure and income which result. Successful management requires harmonized national policies, knowledge sharing, and capacity development. A new water-release policy has just been developed to prevent conflict.

Sanusi Abdullahi says that key issues facing the Lake Chad Basin Commission – which also manages shared water resources for both conflict prevention and ecosystem protection – include reviewing the 1964 agreement to define authority to regulate activities along inflowing waterways. A newly-developed Water Charter is being ratified. An inter-basin water-transfer program is also being developed to link Central and West Africa.

Lynette Chen discussed the public-private partnerships – such as the Namibia corridor – championed under the Programme for Infrastructure Development in Africa (PIDA), which has 51 programs in water, transport, energy, and aviation. Private sector expertise can accelerate regional infrastructure projects, while governments are needed to provide financial depth and enforce conditions such as local recruitment, sourcing, skill development, and technology transfer. Key issues in selection of projects are who pays for it, can they afford to pay for it, can governments give guarantees. There is currently a 93 billion dollar gap in financing for infrastructure projects, but as long as they make financial sense they might attract funding. However, the private sector might not value projects such as water development based on social need. Politicians – such as the national presidents championing the North-South corridor, ICT in Rwanda, the gas and oil pipeline in Algeria, and a bridge over the Congo River – can be key to mobilizing funding.

Discussion and Recommendations

- Africa has more transnational water basins than any other continent, covering 64% of its surface, but otherwise problems with their management are mostly similar. The unique aspect is the colonial legacy. Most water-management agreements were signed during the colonial era and reflect unfair colonial biases (e.g., Egypt has rights to 90% of the Nile's water, which essentially requires other countries in the basin to secure Egypt's agreement to their use of water before it reaches Egypt).
- Under the "Nyerere doctrine" postcolonial African states are refusing to be bound by such colonial agreements. More equitable and consensus-built agreements are needed to avoid a "tragedy of the commons".
- Effective transnational management requires some surrender of authority to supranational management institutions.
- Greater participation of parliament members is needed in order to sustain political support for cooperative management of common resources.
- Projects that make social or political but not commercial sense – e.g., the Congo bridge – require innovative funding and high-level inter-state cooperation. Thus the New Partnership for Africa's Development (NEPAD) has the Presidential Infrastructure Champion Initiative (PICI) in which African presidents are championing projects.

- The mandate of supranational management institutions has expanded from environmental sustainability to economic development, including identifying and developing potential projects, assistance in mobilizing financial and technical resources, and coordinating stakeholders. This requires capacity building in knowledge management and policy analysis to understand and equitably distribute potential benefits and costs while maximizing the net gain.
- Better data is needed, including on the ingenuity of local populations as expressed in traditional knowledge and cultural practices such as oral history.
- The private sector is slowly being included in regional integration projects. The NEPAD Business Foundation has partnered with Transnet to bring together governments, donors and the private sector to champion infrastructure projects in Africa.

CLOSING ADDRESSES

Pedro Conceicao, Chief Economist, Regional Bureau for Africa, United Nations Development Programme

Stephen Karingi, Director, Regional Integration and Trade Division, UN Economic Commission for Africa

Steve Kayizzi-Mugerwa, Director, African Development Bank (*moderator*)

Mthuli Ncube, Vice President and Chief Economist, African Development Bank

Emmanuel Nnakodzie, Director, Macroeconomic Policy Division, UN Economic Commission for Africa

Steve Kayizzi-Mugerwa noted that African countries need development of domestic markets but also regional markets and trade. Regional integration is a political project requiring political will from leaders with both a 50-year vision (Vision '63) and continuous monitoring of progress. But, to succeed, it must also be people-driven, owned and desired from the grassroots. It must also integrate asymmetries between actors with regards to regional policy goals and the implementation process, based on the capacity and willingness of the leaders to move forward. It can build on African success stories and on Africa's own experiences, while mobilizing domestic resources to determine and exploit key entry-points into global value chains. It requires both hard and soft regional infrastructure (e.g., both roads and financial services), as well as industrialization through a new business model.

Stephen Karingi – introducing the sixth edition of the joint AU-UNECA-AfDB publication assessing regional integration in Africa, “Harmonizing Policies to Transform the Trading Environment” – explained that rules of origin and related trade-liberalization measures such as one-stop border posts and integrated border management are extremely contentious yet seriously hinder the success of a continental free-trade area. Harmonizing rules of origin and trade-facilitation instruments across RECs – if facilitated by the private sector and further development of information and communications technology – could double trade. In this view, the publication addresses the areas of

commonality and divergence with regards to regional rules of origin, bring to light the difficulties of implementing FTA policies for member countries and offer recommendations to make Free-Trade Agreement negotiations and the harmonization of policies across the continent work.

Pedro Conceicao stressed that – rather than being technocratic – regional integration should reflect unity and take Africa’s identity into account, bridging the gaps between the agendas of political leaders, bureaucrats, and people’s aspirations. The African Economic Conference helps by bringing policy-makers together with researchers who seek, for example, to understand how to make use of cost-differences across countries.

Emmanuel Nnadozie said that although the debate on regional integration began 50 years ago, very little has been done. Africa needs capacity building for sound economic analysis and debate. The African Economic Conference is a platform for knowledge-sharing but needs to be reinforced as a forum for sharing policy ideas as well as networking and professional development especially among research-driven young problem-solvers, with emphasis also on helping those less privileged, particularly women and those from poorer countries.

Mthuli Ncube – pointing out that regional integration is not only about the movement of goods but also about free movement of capital and skilled workers to lower costs of doing business and increase jobs and opportunities throughout the continent – said that, more than policies, Africa needs strategies for getting on with what needs to be done to build upon its recent strong performance despite the global economic doldrums.

SEMINARIES

SEMINAR 1: Convergence and Monetary Unions

Moderator: **Victor Murinde**, Director, African Development Institute, African Development Bank

Paper 1: *Regional Integration and Convergence: Does African Regional Economic Communities Converge Faster?* by **Bamba Ka**, Central Bank of West African States and PhD Candidate, Cheikh Anta Diop University, Dakar, Senegal; *discussant:* **Aissatou Gueye**, Economic Affairs Officer, UN Economic Commission for Africa

Following Blanchard and Quah (1989) – to better understand necessary adjustments and choices of exchange rate regime within the Economic Community of West African States (ECOWAS) – the degree of symmetry of and convergence after macroeconomic shocks have been analyzed in a dynamic integration, using a Kalman filter.

High heterogeneity of both supply and demand shocks was found, including great asymmetry to monetary shocks. Weak convergence to supply and demand shocks allows consideration at this time only of a monetary union composed of those countries with the most important economic relations. A common ECOWAS currency will thus require enormous efforts. According to the discussant, strengthened political commitment, more developed regional infrastructure, and intensified intra-regional trade are needed.

In discussion, it was suggested that more in-depth macroeconomic analysis might be needed to explain the results. Would other (perhaps newer) methods find the same results?

Could groups of countries within ECOWAS be identified which are converging faster, and would that determination depend on the convergence criteria being used?

Could more specific measures be proposed to speed up convergence of macroeconomic policies?

Target dates for achieving steps towards a common currency – such as creating a second zone for non-West African Economic and Monetary Union countries – have been extended several times, so participants were skeptical of achieving macroeconomic convergence soon.

Paper 2: *Can WAMZ Area Inflation Converge Without Ex-Ante Monetary Policy Coordination?* by **Emmanuel Dele Balogun**, Lecturer, University of Lagos, Nigeria; *discussant:* **Babatunde Omilola**, Economic Adviser, United Nations Development Programme

The determinants of inflation differentials from the single-digit target were estimated in the 5-country West African Monetary Zone using panel data from 1986-2011 in the light of country-specific monetary-policy shocks.

Inflation varied greatly, and most of the countries had not attained the target, due to overvalued currencies and expansionary monetary policies (distorted interest rates) propelled by government credit which tended to favor the private sector. A simulation suggests that regional policy coordination might hold the key to inflation convergence, without which monetary union may not be feasible.

In discussion it was suggested

- that the ideas underlying founding of the West African Monetary Zone could be explained;
- that analysis of interest rates should be expanded to explain how governments determine monetary policies;
- that likely reasons for differences in inflation could also be explored and explained qualitatively.

Whether macroeconomic convergence was necessary for achieving economic integration was also discussed. For example, since infrastructure investment is necessary for economic transformation, enforcing budget constraints (limiting deficits) might be counterproductive.

Paper 3: *Economic Integration in WAEMU: Will the Multilateral Monitoring Mechanism Lead to Growth and Welfare Convergence?* by **William Gbohoui**, PhD Candidate, Université de Montréal, Canada; *discussant:* **Basil Jones**, Assistant to the Chief Economist, African Development Bank

Nominal effects of the Convergence, Stability, Growth and Solidarity Pact – adopted by West African Economic and Monetary Union governments in 1999 – were analyzed using a dynamic linear model with time-variable coefficients, then a standard convergence hypothesis was tested. Using panel data, a gap model based on neoclassical growth theory was used to test for the existence of multiple steady-state equilibria.

Judging by inflation and payments arrears, member states haven't improved significantly, nor has the multilateral surveillance system in use improved rates of beta-convergence, though trade liberalization had a positive effect, and sigma-convergence in the cross-sectional dispersion of *per capita* income improved. At least two convergence clubs were found within WAEMU.

In discussion the desirability of a longer study period was suggested, along with identification of leading countries as well as looking at convergence of both GDP *per capita* and *log* of GDP *per capita*.

In light of the 200-year convergence-speed found in the study, it was also suggested that WAEMU redefine its convergence criteria and strengthen its currency union, including mobilization of social cohesion funds to help poorer countries.

SEMINAR 2: The Political Economy of Regional Integration

Moderator: **Said Adejumobi**, Director, Southern Africa Office, UN Economic Commission for Africa

Paper 4: *The 10 Commandments of Applied Regional Integration Analysis for Africa: Why Africa is Not a Country* by **Ilan Strauss**, Consultant, African Development Bank, and **Naym Charaf-Eddine**, PhD Candidate, Université de Montréal, Canada; *discussant:* **Mzwanele Mfunwa**, Economic Affairs Officer, Southern Africa Office, UN Economic Commission for Africa

Africa is different. While some of the tools useful in understanding African integration are derived from the canon describing advanced economies, regional integration in Africa will require adapting them. Regional integration in Africa is characterized by many processes but few outcomes, leading to an overabundance of indicators, policy statements, political commitments, and intra-national institutional configurations.

Ten guidelines are offered for policymakers to improve their analysis of and approach to regional integration. Regional integration statistics are often misunderstood or misconstrued, while the goals of even minimal regional integration – and preconditions for achieving it – have not been seriously thought through.

Oil exporters are not integrated strongly within Africa – significantly affecting the character of intra-African trade – but regional hegemons have a more decisive role to play as enablers of integration.

In discussion the following points were raised:

- Complementarity in traded goods across a region is a more important driver of trade than an active role by a hegemon.
- Who owns which integration agenda, are the real beneficiaries (for example) multinational corporations?
- Would hegemons produce better results than mere champions?
- Hegemons could be useful drivers of regional integration but could also act as bullies to the detriment of integration efforts.

Paper 5: *The Political Economy of Regional Integration and Development in Africa: Rethinking the Theoretical Models* by **Samuel Olorunoba**, Lecturer, University of South Africa; *discussant:* **Emelly Mutambatsere**, Principal Regional Economist, African Development Bank

The sub-optimal outcome of regional integration efforts in Africa can be traced directly to the application of inappropriate Eurocentric theoretical models. Post-independence nationalist leaders (such as Kwame Nkrumah) have since the 1950s seen integration as a necessary precondition for economic development, but there are structural problems bequeathed by colonialists. Many states are small and landlocked, while many others are oriented primarily towards the former colonial powers and the global economy rather than towards their neighbors. A “new regionalism” will acknowledge and incorporate African conditions including the history of state-formation, the multiplicity of

stakeholders, the salience of the shadow economy, and reversion to the pre-colonial basis of economic exchange. While nationalism limits possibilities, a greater role for non-state actors will be critical in achieving continental integration.

In discussion the following points were raised:

- A clear definition of regional integration relevant to Africa is needed before we can say which model works or doesn't work.
- Non-state actors had clear roles in formation of the African Union but haven't done as much regionally.
- Geographic proximity is not enough to foster regional integration, one needs intra-regional trade.
- Does the falling share of manufacturing in regional trade indicate deindustrialization in Africa?
- Bureaucratic corruption constrains regional integration.

Paper 6: *Informality: A New Paradigm for Development and Integration in Africa* by **Issoufou Mountapbeme Njifen**, Lecturer, Center for Studies and Research in Economics and Management, University of Yaoundé II, Cameroun; *discussant:* **Isiyaka Sabo**, Economic Advisor, United Nations Development Programme, Burkina Faso

Results are mixed from five decades of top-down high-level political integration efforts in Africa. Those who have the most to gain – the people at the bottom, organized only informally – are not taken into account in integration policies, institutions, and rules, which undermines the effort. Integration from the bottom would focus on including the informal sector through social and cultural institutions and cross-border trading networks including money transfers and migration – where subordinate social groups share the aspiration – to generate inclusive and participatory development.

The author calls this new paradigm for guiding integration, which is based in Weber's sociological theory, "informality". Informality supports development and integration rather than hindering it. To further integration, African countries need to create space for dialogue with, and ensure the effective integration of, the informal sector.

In discussion the following points were raised:

- Regional integration is a means to an end but not the end itself. Informality demonstrates the purpose of integration because it bypasses process and focuses on results.
- But while informality can alleviate poverty but it cannot transform economies.
- Nevertheless, by moving ahead of the formal integration process, the informal sector could influence implementation deadlines.

SEMINAR 3: Regional Integration and Economic Growth

moderator: **Pedro Conceicao**, Chief Economist, Regional Bureau for Africa, United Nations Development Programme

Paper 7: *Revisiting the Effectiveness of African Economic Integration: A Meta-Analytic Review and Comparison of Estimation Methods* by **Sylvanus Kwaku Afesorgbor**, PhD Candidate, University of Professional Studies, Accra, Ghana, and Aarhus University, Denmark; *discussant:* **Adam Elhiraika**, Chief Forecaster, UN Economic Commission for Africa

The estimation of gravity models in previous studies of the effectiveness of African regional trade agreements (RTAs) had two main shortcomings: 1) They failed to allow for a multilateral resistance term, the omission of which biases estimates for standard variables. 2) They failed to properly account for zero flows – which are over 50% in African bilateral trade – instead relying on Tobit models or replacing zero flows with small values. Both these strategies produce inconsistent parameters.

A meta-analysis of previous empirical studies was thus conducted, comparing their estimation methods to Poisson Pseudo Maximum Likelihood. Using panel data on 47 African countries' trade flows during 1980-2006, the effectiveness of five major RTAs was assessed.

Although there was generally a positive (though uneven) effect of the RTAs, effects were highly sensitive to estimation method, tending to be substantially overestimated when zero flows were not properly dealt with.

In discussion it was suggested that the paper be divided in two – one on meta-analysis, the other on the gravity model – with each focused on producing useful policy recommendations, which the current paper lacks. Before estimating models, data could also be examined to see how bilateral trade changed after implementation of RTAs, explained by changes in institutions, policies, and the channels through which trade increased (if it did). Growth and effects on employment and poverty could also be addressed. If possible, results could also be disaggregated by country.

Paper 8: *Regional Integration and Growth: The Case of Central Africa* by **Gaston Xavier Dagba Ndongo**, PhD Candidate, Université de Montréal, Canada; and **Joseph Baricako**, UN Economic Commission for Africa; *discussant:* **Joseph Mouanda**, Senior Evaluation Officer, African Development Bank

Regional integration in Africa has suffered from numerous impediments, including – in Central Africa – reluctance of the ruling classes (who may not understand the potential benefits) resulting in poor mobilization of resources and a huge discrepancy between agreements and implementation. The nature, amplitude, and persistence of growth effects of creation of the Economic Community of Central African States were therefore estimated using a VAR model on panel data. Regional integration contributed 17% to changes in each country's growth. Partial and full economic union contributed 3.34% and 7.79% to growth in ECCAS countries respectively. The effects of regional trading bloc and customs union, though small, were positive and persistent over 10 years.

In discussion it was suggested that the author

- first analyze the data descriptively in order to better choose an appropriate model
- take into account national as well as regional dynamics in order to have a more holistic view of the problem and generate more robust policy recommendations.

If possible, results could also be disaggregated by country, and effects on employment and poverty could be addressed.

Paper 9: *Monetary Policy and Economic Growth in CEMAC Zone: A Panel Data Approach* by **Fouda Ekobena Simon Yannick**, PhD Candidate, University of Yaoundé II, Cameroon; *discussant:* **Angela Lusigi**, Policy Adviser, Strategy and Advisory Unit, United Nations Development Programme

In the early 1990s the monetary policies of the countries of the Economic and Monetary Community of Central Africa (CEMAC) were reformed. The effects of these reforms on their economic growth were estimated while allowing for country- and time-specific fixed effects using panel data from 1986-2006. Nominal monetary aggregates did not influence growth, but inflation had a negative effect, emphasizing the importance of maintaining a stable macroeconomic framework

In discussion it was suggested that the author give more attention to heterogeneity across countries in implementation of the monetary policy reforms – and, even more importantly, heterogeneity in fiscal and trade policies – as well as in growth rates. Missing variables – e.g., focusing only on money supply without taking into account inflation – might have affected the results. Hyper-liquidity – when, despite a surplus of funds, banks are not lending to the private sector for productive activities, thus constraining growth – might also have been a problem.

It would be useful to present disaggregated country-level results – which the model allows for – in order to see patterns of convergence (or divergence). Effects on employment and poverty could also be addressed, as well as policy implications.

Paper 10: *Regional Integration Models and Africa's Growth in the 21st Century: A Fitness Evaluation* by **Peter Golit** and **Yusuf Adamu**, Research Department, Central Bank of Nigeria; *discussant:* **Ilan Strauss**, Consultant, African Development Bank

To determine their suitability for rapid economic growth, Africa's regional integration models were analyzed using the Johansen and Juselius (1990) and Johansen (1998) method of co-integration and the vector error-correction mechanism (VECM) on annual data from 1980-2012 to test for the presence of long-run equilibrium relationships and estimate their static and dynamic coefficients. Human and physical capital accumulation – including infrastructure financing – had statistically significant positive effects on growth. Intra-African trade was less effective. However, government spending and trade openness were the only variables found to significantly influence short-run growth. Nevertheless, the traditional approach to growth through regional integration and trade may not provide the best alternative. A mixed policy approach is thus recommended.

In discussion it was pointed out that no substantive national or regional industrial policy had been proposed, nor suggestion how to engage in globalization. Africa needs to take advantage of manufacturing FDI coming from China and other non-traditional (as well as traditional) sources. Human and physical capital accumulation are certainly fundamental in promoting growth. In developing regional trade agreements, policymakers should focus on infrastructure investment and macroeconomic stability.

SEMINAR 4: Institutional Integration and Policy Coordination

Moderator: **Sam Cho**, Chief, Finance and Private Sector, UN Economic Commission for Africa

Paper 10: *The Will to Integrate: South Africa's Responses to Regional Migration* by **Christopher Changwe Nshimbi**, Researcher, and **Lorenzo Fioramonti**, Professor, Center for the Study of Governance Innovation, University of Pretoria, South Africa; *discussant:* **Kumo Wolassa Lawisso**, Senior Country Economist, African Development Bank

There has been substantial migration in southern Africa since the large mineral discoveries of the late 1800s. There are two pan-African migration frameworks, but neither is binding. The COMESA-EAC-SADC Free Trade Area makes no reference to free movement of persons, only of capital.

Bilateral and regional frameworks for managing labor migration into South Africa from seven neighboring countries are surveyed, including legislation, policy reports, and scientific publications. Key policymakers were interviewed or corresponded with.

Neither the Southern Africa Development Community nor the Southern African Customs Union has adopted a regional migration policy – not even the African Union's basic guidelines – though there are aspirations in that direction. Instead South Africa manages bilateral migration policies, which dims prospects for a regional policy.

In discussion it was suggested that the idea of using external migration frameworks as a model for SADC is very useful. However, the lack of primary data and statistical analysis in the paper makes it difficult to accept the conclusions. The difference between movement of skilled labor and movement of people more generally – as in the SADC draft framework – could be explored, as could SADC's progress on trade in goods and services.

Paper 11: *The Challenges of Regional Integration: A Case Study of the East African Community (2002-2011)* by **Patricia Mwithiga**, Kenya Red Cross Society; *discussant:* **Allan Mukungu**, Economic Affairs Officer, Finance and Private Sector, UN Economic Commission for Africa

A federation among three East African states (Kenya, Tanzania, and Uganda) was first attempted in the immediate post-independence period, an effort which, in the 2000s, has been renewed and expanded to include Burundi and Rwanda. What are the motives for – and historical and current obstacles to – forming such a federation out of

the East African Community? What other possible approaches to regional integration are there? Is there something that Pan-Africanism can contribute?

Non-tariff barriers to trade persist, as well as barriers to the free movement of people. There are fears of loss of sovereignty. There are other, overlapping, regional economic communities. Kenya, Uganda, and Rwanda seem to constitute a “coalition of the willing” aiming to move forward, which risks leaving Tanzania and Burundi isolated.

In discussion it was suggested that policy conclusions would be stronger if more data was included and analyzed more methodically rather than simply narratively as now. Documents of the EAC secretariat could also be consulted. The history of integration attempts prior to 1945 should also be included.

Paper 12: *Law and Development in Africa: Paving the Way for Regional Integration through Harmonization of Laws* by **Regis Y. Simo**, PhD Candidate, Università Commerciale Luigi Bocconi, Italy; *discussant:* **George Lwanda**, Economic Advisor, United Nations Development Programme, Zambia

Doing business in LDCs, especially in sub-Saharan Africa, is inherently risky, partly because the legal framework (inherited from colonial days) has been obsolete in many ways, which doesn't help the investment environment. Globalization and the desire of sub-Saharan LDCs to participate in global markets led in the 1990s to a desire to “modernize” their legal systems. The Organization for the Harmonization of Business Law in Africa (OHADA) was created to serve as a development engine, to increase investment opportunities and confidence. There are still challenges – such as non-business laws that have not been harmonized, and the resistance of some African countries to civil law in general – but a lot has been accomplished in only 20 years. Could OHADA's efforts lead to greater regional integration and economic growth?

In discussion it was questioned whether, given the economic structure of African countries (with many small informal businesses), legal harmonization would matter very much. It was also noted that, even in the EU, common and civil law systems conflict. The presenter responded that OHADA is open to all AU countries, and will hopefully attract non-civil-law countries in the future. National sovereignty and country-specific conditions of course result in variations in the common framework. An important next step is to assess whether businesses are benefiting from the new laws.

Paper 13: *External Debt and the Quality of Institutions and their Impact on Economic Growth: The Case of the West African Economic and Monetary Union* by **Jérôme Ouedraogo**, PhD Candidate, National Higher School of Applied Statistics and Economics (ENSEA), Abidjan, Côte d'Ivoire; *discussant:* **Liliane Alapini**, Technical Adviser in Economics, Ministry of Development, Benin

Time-series data from 1985-2010 was used to study the effect of external debt and the quality of institutions on long-term economic growth in the WAEMU while controlling for per capita income, level of education, rate of investment, and trade openness. External debt had statistically significant non-linear effects. A debt ratio exceeding 51% was an obstacle, whereas at lower levels debt promoted growth. Quality of institutions was

measured by political risk as reflected in corruption, military influence in politics, and government instability. Improvements in these areas seemed to improve growth directly, and also fostered investment.

In discussion it was suggested that the paper better connect descriptive and econometric results and address not just GDP growth but also employment, value-added, and sectoral growth, as well as other factors connecting debt to growth. With reference to Reinhart and Rogoff (“Growth in a Time of Debt”, 2010), the validity of instruments was questioned. A debt ratio goal of 51% might be ideal overall, but individual countries should also undertake debt-viability studies. Similarly, policy recommendations should include possible strategies for each country.

SEMINAR 5: Competitiveness and Trade Integration

Moderator: **Witness Simbanegavi**, Research Director, African Economic Research Consortium

Paper 15: *The Impact of North-South and South-South Trade on Africa’s Industrialization* by **Henri Atangana Onda** and **Henri Ngoa Tabi**, Lecturers at University of Yaoundé II, Cameroon; *discussant:* **Ralf Kruger**, Chief Research Economist, African Development Bank

A dynamic panel was used to study the effect of North-South and South-South trade on industrialization in Africa. It was found that trade with industrialized countries has contributed to industrial development in Africa, but trade with emerging Asian economies has been fatal, with deindustrialization reaching alarming proportions. Tariffs were found to stimulate industrialization in some countries but deindustrialization in others. Intra-African trade has led to deindustrialization in some African countries. It was concluded that African countries should maintain trade links with industrialized countries while promoting regional integration and supporting manufacturing.

In discussion it was suggested that, in analysis of effects on industrialization, business environment be included as well as trade. It was also pointed out that, as South-South trade, the paper only looks at trade within Africa and with Asia, but should also include trade with Latin America. The results are contrary to usual mainstream “common sense” and are thus worth pursuing. But more robust estimations – and perhaps evidence beyond the scope of this paper – would be needed to support such bold conclusions.

Paper 16: *Trade Policies, Market Structure, and Manufacturing Performance in Malawi, 1967-2002* by **Hopestone Chavula**, Economist, UN Economic Commission for Africa; *discussant:* **Aika Bhatia**, Economic Advisor, United Nations Development Programme, Lesotho

The effects of Malawi’s trade policies and market structure on manufacturing performance since independence were analyzed using the Kaluwa and Reid (1991) modeling framework, a widely-accepted approach which follows the general class of oligopolistic models. Following Baum (2001), structural breaks were econometrically identified in relation to changing trade policies. Market concentration was found to have

had a positive effect on price-cost margins regardless of trade policy, while factor inputs had negative effects on price-cost margins. Imports and exports also had negative effects on price-cost margins despite not being statistically significant during the SAPs period. Tariff rates had no significant effect across trade policies.

In discussion it was suggested that later data as well as overview of later policies (and of later literature) should be included. While thorough and insightful, the paper could also be improved by discussing how policies should be adapted to Malawi's circumstances, the sequencing of reforms, and implications for structural transformation of the market towards more competitiveness.

Paper 17: *Competitiveness and Integration through Trade in CEMAC Countries: Comparative Advantage and its Contribution to the Balance of Trade* by **Joseph Parfait Owoundi**, Economist, Ministry of Economy, Planning, and Regional Development, Cameroon; *discussant*: **André Loua**, Advisor, Ministry of Economy and Finance, Guinea

A goal of regional trade agreements and customs unions is to promote regional integration and competitiveness. The paper shows the determinants of and limits to competitiveness in the CEMAC and provide recommendations on how to enhance competitiveness within the CEMAC. It shows how the exploitation of comparative advantage is beneficial to intra-CEMAC trade and to which extent the lack of institutional integration and competitiveness is, to the contrary, an impediment to regional trade. Compared to WAEMU, the countries of the Economic and Monetary Community of Central Africa are finding comparative advantage and thus important contributions to trade balances in intra-CEMAC trade, particularly in oil, natural gas, and wood. Thus competitiveness is improving, but institutional integration lags, suggesting weakness in long-term competitiveness. Free movement of goods and people – requiring institutional integration – is the key to international competitiveness.

In discussion it was suggested that

- conclusions need more analytical support,
- more attention be given to bilateral exchange,
- comparison be at country not regional-community level,
- a monetary variable be introduced into the analysis of competitiveness, and
- analysis be included of the effects of external shocks on countries' competitiveness.

Policy recommendations related to institutional integration and included

- establishment of an import-export bank,
- harmonization of business law and taxation,
- development of transport, electricity, and communications infrastructure, and
- establishment of a business climate observatory including competitiveness polls.

Also discussed was the need to change Africa's reliance on trade in raw materials. Why not invest in more research-intensive goods? Geographical analysis might help identify clusters based on competitiveness.

SEMINAR 6: The Gravity Model Approach and Trade Potential

Moderator: **Adam Elhiraika**, Chief Forecaster, UN Economic Commission for Africa

Paper 18: *Integration through the Market: The Case of ECCAS Countries* by **Désiré Avom**, Professor, and **Mouhamed Mbouandi Njikam**, PhD Candidate, University of Yaoundé II, Cameroun; *discussant:* **Daouda Sinwinde**, Economic Affairs Advisor, Ministry of Economy and Finance, Burkina Faso

A gravity model was used to estimate intra-regional trade flows among the ten countries of the Economic Community of Central African States (ECCAS) during 1995-2010, then the results were used in a simulation to identify their potential trade, with emphasis on removal of tariff and non-tariff barriers. Commercially, ECCAS countries were found to be poorly integrated – with domestic commerce and out-of-ECCAS trade predominating over trade between member states – while the low levels of industrialization and diversification greatly reduce potential trade.

In discussion two major questions were raised:

- Why is the EU the main partner for regional economic communities?
- What can individual countries do to foster economic integration?

It was recommended to more clearly define the research hypothesis and to elaborate on policy recommendations.

Paper 19: *Regional Integration and Trade in Africa: An Augmented Gravity Model Approach* by **Edris Seid**, Junior Research Fellow, Horn Economic and Social Policy Institute, Ethiopia; *discussant:* **Elvis Mtonga**, Economics Advisor, Office of the CEO, New Partnership for Africa's Development

Despite the many regional economic communities (RECs) in Africa, intra-regional trade remains very low compared to trading blocs in Europe, Asia, and Latin America, partly due to inefficient and costly transport systems as well as complicated customs procedures. To uncover the main factors behind this low level of intra-regional trade – and the role of four RECs, COMESA, ECOWAS, IGAD, and SADC, in promoting it – the intuitive theoretical gravity model of Anderson-van Wincoop was applied to panel data from 1993 to 2010. The traditional gravity model variables (GDP, population, distance, border, language, and colonial links) as well as bilateral real exchange rates and differences in preferences among trading partners were found to be important factors determining bilateral trade flows. But the effect of the RECs on bilateral trade was found to be mixed: SADC and ECOWAS seem to have created trade in the Vinerian sense, while IGAD had a statistically non-significant positive coefficient and COMESA had an implausible negative coefficient.

In discussion, it was suggested that too much focus had been placed on the gravity model instead of situating it within a larger analytical framework. But the question remains, can regional integration boost trade, and if so, how?

Paper 20: *Africa's Economic Regionalism: Is There Any Other Obstacle?* by **Atif Moheeldeen**, Asst. Professor, Department of Economics, Kassala University, Sudan, and **Ishak Yussof**, Professor, School of Economics, National University of Malaysia; *discussant:* **Isiyaka Sabo**, Economic Advisor, UNDP Burkina Faso

The effects of infrastructure, human capital, macroeconomic policies, institutional quality, political stability, FDI, and former-colonial regimes on intra-regional trade were examined using a gravity model. As expected, the basic gravity-model variables had substantial influence on bilateral trade. In addition, political instability appears (not unexpectedly) to have had statistically significant harmful effects, but human capital, FDI, and being a former British colony had positive effects. Thus – besides harmonization of policies and procedures across countries – devoting more resources to human capital and creating a favorable investment environment should be top priorities for encouraging intra-regional trade.

In discussion it was suggested that sectoral policies might also be studied for their effects on intra-regional trade.

Paper 21: *Assessing the Impact of Trade Facilitation on SADC's Intra-Regional Trade Potential* by **Albert Makochekanwa**, Lecturer, Department of Economics, University of Zimbabwe; *discussant:* **Simon Mevel**, Economic Affairs Officer, African Trade Policy Center, UN Economic Commission for Africa

SADC countries' bilateral trade potential was estimated using a gravity model with – besides transportation costs – a variety of other indicators of trade facilitation such as country-specific port efficiency, customs environment, and business use of e-commerce. Improvements in port efficiency and increased use of e-business were found to have potential to boost intra-regional trade, though the effects differed between exporting and importing countries. Botswana and Madagascar, among others, had untapped trade potential with many regional trading partners. However, South Africa and Zimbabwe appear to have exhausted their intra-regional trade potential.

In discussion it was questioned why a counterintuitive sign had been obtained for customs environment and how to consider trade barriers separately. The composition of proxies was also questioned, for example “port efficiency” and “inland transport” including quality of roads. It was pointed out that FDI usually focuses on extractive sectors for export outside Africa. A holistic approach was suggested in order to better determine which sectors have contributed to intra-regional trade.

SEMINAR 7: Financial Integration

Moderator: **Pedro Conceicao**, Chief Economist, Regional Bureau for Africa, United Nations Development Programme

Paper 22: *Financial Integration and Economic Growth: Portfolio Equity Flows to Sub-Saharan Africa* by **Eric Osei-Assibey**, Lecturer, and **Seth Obeng Adu**, Research Assistant, University of Ghana; *discussant:* **Barfour Osei**, Chief Research Economist, African Development Bank

The relationship between financial integration, proxied by portfolio-equity flows, and economic growth in Sub-Saharan Africa was estimated. First, while controlling for initial income, human capital, and other factors, a baseline growth regression was estimated from a dynamic panel using Generalized Method of Moments (GMM). Portfolio-equity flows were found to have had a positive effect on growth. To check for robustness, the data was then analyzed again using a random effects-GLS (EGLS) model. Now a negative but not statistically significant effect was found. However, a positive relationship between financial development and economic growth was confirmed. Because of the inconsistency regarding the IFI-growth relationship, SSA policymakers should adopt a cautious approach to financial integration and, specifically, to deregulation of foreign banks and allowing portfolio-equity inflows. While countries should liberalize their capital accounts, proper sequencing is needed, otherwise such inflows might be counterproductive.

In discussion it was pointed out that the effect of financial integration on growth differed across countries according to the level of development and absorptive capacity. Economies with more highly-skilled people may be better able to absorb portfolio flows, and thus to suffer less when there is a reversal. Thus the education variable might be used more innovatively, including an interactive effect with portfolio flows. If data is available, appropriate measures of education could be the gross secondary (and possibly tertiary) enrollment rates.

Following Shleifer's and Vishny's arguments, it was also pointed out that institutions such as legal systems matter. Politically stable countries with strong institutions attract and can better utilize portfolio flows, generating growth. Another important variable is volatility of portfolio flows. The link between risk-sharing, increased liquidity, private investment, and growth must be discussed.

It was also pointed out that the model labeled "Dynamic GMM" (introduced by Arellano and Bond) is actually the SYS GMM model (introduced by Blundell and Bond), a subsequent version of the First DIFF GMM.

The inclusion of initial income – though typical of growth regressions (based on the growth convergence hypothesis) – has been challenged recently by Quah and Durlauf. Perhaps there should be convergence among a homogenous set of countries, but – as noted in the paper – SSA countries have peculiar differences. Given the evidence for early divergence and possible current convergence, Romer's endogenous growth theory – to which, by construct, the dynamic GMM panel data method lends itself well – might be more plausible.

With the random effects-GLS (EGLS) model run for robustness, endogeneity problems (especially between integration and growth) arise once the static panel setup is changed, though they may not have arisen in the dynamic GMM model due to its inherent use of suitable regressors as instruments. However, one can use other IV methods with the static panel, such as the Baltagi IV EC 2SLS.

Paper 23: *Financial Frictions and Exchange Rate Regimes in the Prospective Monetary Union of the ECOWAS Countries* by **Lacina Balma**, PhD Candidate, Université Montesquieu, Bordeaux, France; *discussant:* **Joseph Baricako**, Central Africa Economic Affairs Officer, UN Economic Commission for Africa

To explore the connection between external borrowing constraints and exchange-rate regimes in the prospective currency union of the Economic Community of West African States (ECOWAS), Bayesian estimation was used with a small open-economy Dynamic Stochastic General Equilibrium (DSGE) model and annual data for each of the ECOWAS countries. Included in the model were typical LDC inefficiencies in investment, constraints on absorptive capacity, constraints on borrowing resulting in imperfect capital mobility, and operating costs in firm's capital utilization, along with a financial-accelerator mechanism with domestic firms' external borrowing-premium depending on the state of their balance sheet. The model was then used to assess the role of external borrowing and other constraints in choosing monetary policy for a future ECOWAS Central Bank. Dynamic impulse response analysis for the five founding members of the WAEMU zone was generalized to the ECOWAS region. Flexible rates are found to be better insulator and stabilizing than fixed rates for countries subject to adverse external shocks.

In discussion it was noted that estimations were based on only five of the eight members of WAEMU, which might be too small a sample to generalize the results. Besides, many of the parameters used were drawn from other studies with other objectives and contexts, and it wasn't clear whether they had been properly adapted to the present case. Variables are expressed in log-deviations from steady-state values asserted to be pre-processed, but how they were derived should be explained at greater length (in an appendix). The core of the paper, the contributions by the author, should also be expanded, as should the conclusion, which should include policy recommendations. The interesting literature review should be in a separate section, while the introduction should first explain what motivates the study before explaining the methods, which were well presented, though the paper was too technical for many in the audience to follow. The title of the paper might be revised to better reflect its contents.

Paper 24: *Financial Integration: Challenges for Financial Regulation* by **Roy Havemann**, National Treasury, South Africa; *discussant:* **Angela Lusigi**, Policy Advisor, Strategy and Advisory Unit, United Nations Development Programme

What can be learned about financial integration from Europe and other industrialized countries? Several African banks have already expanded in other African countries. Financial integration is thus taking place in Africa, and needs to be managed carefully. Common or joint financial regulations – as well as fiscal and monetary policies – are important ingredients of regional integration. The G20 has studied financial regulations. Recommendations include making banks more resilient by strengthening accounting standards and improving transparency.

In discussion it was noted that inconsistent regulations or enforcement can open the door to “regulatory arbitrage”, but that reconciliation of such inconsistencies can be quite complicated. The benefits of regulatory integration must also be weighed against possible costs in financial instability. The sequencing of reforms is important. It was questioned why the need for resilience seemed focused only on banks, not on other financial institutions. Also, if (for example) South African banks go to other African countries, whose regulations apply? Can financial integration be harnessed to generate more capital for SMEs and others, and if so, how?

SEMINAR 8: Impact of Currency Union on Trade

Moderator: Issa Faye, Manager, Research Division, African Development Bank

Paper 25: *The Impact of Monetary Union on Trade: The Case of WAEMU* by **Ibrahima Camara**, Statistician, Central Bank of the Republic of Guinea; *discussant:* **Isiyaka Sabo**, Economic Advisor, United Nations Development Programme, Burkina Faso

Cross-sectional data from the fifteen ECOWAS countries during 1990-2005 was analyzed to determine the effect of the West African Economic and Monetary Union (WAEMU) on trade. Though decreasing over time, the effect appears to have been positive within the Union. Diversion of exports to the detriment of other ECOWAS countries was not statistically significant for any year of the study. The WAEMU economies appear to be highly dependent on imported commodities, especially in their trade with Côte d'Ivoire. The union would therefore benefit from diversification strengthening complementarity among members.

In discussion the study period was questioned, since WAEMU has existed since 1962 (it was merely extended in 1992). Including other exogenous variables was also suggested, such as infrastructure and changes in public policy in key partner countries, as well as analyzing trade by type of goods (e.g., manufactured vs. primary products). The question was also raised – in order to facilitate policy recommendations – how could one identify specific determinants of the effect on trade of currency unions?

Paper 26: *Trade Agreements and Trade Flows in ECOWAS: Is Sharing a Single Currency the Determining Factor?* by **Benjamin Ndong**, Lecturer/Researcher, and **Sokhana Diarra Mboup**, PhD Candidate, Gaston Berger University, Saint Louis, Senegal; *discussant:* **Bernadette Dia Kamgnia**, Manager, Development and Policy Dialog Division, African Development Bank

Despite the regional integration efforts of the West African Economic Monetary Union (WAEMU) and the larger Economic Community of West African States (ECOWAS), intra-community trade is weak. Have ECOWAS and WAEMU increased trade among their members? An augmented gravity model – controlling for determinants of trade such as geography, language, trade agreements and monetary policies – was analyzed using data from 141 countries for the year 2010. As expected, trade increased with the size of economies (and with a common border or language) and decreased with distance and isolation. In general, both regional trade agreements and common currencies increased trade. Specifically, membership in ECOWAS increased trade but – though positive – the effect of membership in WAEMU was not statistically significant.

During discussion it was noted that gravity models are better at identifying trade effects in the case of industrial products, so the type of product should be distinguished. It was also suggested that trade in ECOWAS could better be compared with that in WEAMU – an established monetary area – rather than to the rest of Africa, and that data after 2000 should be included. A dummy for monetary policy might instead be replaced with an actual monetary variable. The use of stationary tests on cross-sectional data was questioned. Even if the estimated model is a spatial regression – which is not clear – the temporal dimension should be analyzed. A smaller model might also be more appropriate, with greater attention to infrastructure levels and to unofficial (non-registered) or fraudulent trade.

Paper 27: *A DSGE Model of Trade and Risk-sharing Effects of Currency Union on Economic Integration of the CFA Zone* by **Kame Babilla Thierry Urgue**, Researcher, University of Yaoundé II, Cameroon; *discussant:* **Joseph Atta-Mensah**, UNECA Senior Advisor, African Union-New Partnership for Africa's Development

Theoretical and empirical evidence suggests that currency unions expand markets for goods and services, including financial products, and that increased trade and risk-sharing in turn reinforce regional integration. In an effort to learn from the CFA Zone (14 West and Central African countries using the former French franc) and to offer policy recommendations valid more widely, a dynamic stochastic general equilibrium (DSGE) model was applied to the two CFA regions – CEMAC and WAEMU - with special attention paid to differences in trade and risk-sharing. Integration of the CFA Zone was not found to have been reinforced by use of a common currency. Savings are insufficient to intensify cross-border risk-sharing, and financial asymmetries have led to amplification of bilateral differences, so business cycles have not synchronized. Policymakers could accelerate synchronization by promoting savings and fostering better risk-sharing institutions such as easily-accessible regional credit markets.

In discussion it was pointed out that parameters for calibration of the model might not be appropriate – as they were borrowed from the literature – and thus policy recommendations might be too strong. It might be better to estimate parameters where possible. Since there is little trade between WAEMU (which uses the West African CFA) and CEMAC (which uses the Central African CFA), it might also be useful to look at trade between WAEMU and WAMZ (the West African Monetary Zone, six countries within ECOWAS working to introduce a common currency soon).

SEMINAR 9: Regional Integration in ECOWAS

Moderator: **Janvier Litse**, Director, New Partnership for Africa's Development, Regional Integration and Trade, African Development Bank

Paper 28: *Impact of Regional Road Improvement on Intra-ECOWAS Trade* by **Uduak Akpan**, Researcher, Infrastructure Consortium for Africa, Tunisia; *discussant:* **Fatou Leigh**, Economic Advisor, United Nations Development Programme, Swaziland

Road networks increase market access for goods and services and thus promote investment while also reducing barriers to movement of labor. A gravity model – including variables for language and common border – was used to analyze the possible effects on trade of improving the regional road network in ECOWAS (the Economic Community of West African States). To test the Linder hypothesis, per capita GDP was also included. Parameters were estimated using Tobit postulation. All else equal, road improvement would lead to a US\$398 million (over 5%) increase in intra-regional trade relative to the 2012 level, with further gains in the longer term, which could be compounded if other regional integration measures such as soft infrastructure were instituted as well. However, the costs of improvements to the road network would also be large, so a thorough cost-benefit analysis must be conducted.

In discussion it was pointed out that the estimated coefficient for road quality was not statistically significant at conventional levels, so the policy relevance of the results needed to be argued more broadly and thoroughly. Testing for multicollinearity and regrouping countries by currency were suggested, as well as adding explanatory variables for security and stability, rules and regulations, and land-locked or coastal.

Paper 29: *Telecommunications Infrastructure, Intra-Regional Trade, and Income Convergence in ECOWAS: A Dynamic Panel Approach*, by **Idrissa Yaya Diandy**, Lecturer-Researcher, Cheikh Anta Diop University, Dakar, and **Demba Sy**, Economic Statistician/Researcher, National Agency of Statistics and Demography, Senegal; *discussant:* **Mina Baliamoune**, Director of Research, African Center for Economic Transformation, Ghana

The Economic Community of West African States has recently experienced strong growth, with a booming telecommunications sector but lagging intra-regional trade. To better understand the dynamics of growth, the potential effect of improved telecommunications infrastructure and increased intra-regional trade on income

convergence was estimated using generalized method of moments (GMM) – which overcomes endogeneity problems and omitted-variable biases – with data from a dynamic panel of 14 ECOWAS countries during 2001-2012. Estimates show that intra-regional trade has a high effect on growth, as opposed to telecommunication, which has a very marginal impact on growth. Strengthening commercial ties among member countries in general is of course desirable, but focusing investment in the telecommunications sector – which in turn would facilitate trade – might be most productive.

Paper 30: *Regional Economic Integration, Growth, and Income Distribution: A GTAP/CGE Impact Analysis of ECOWAS* by **Eric Osei-Assibey**, Lecturer, University of Ghana, and **Joseph Kwadwo Asenso**, Ministry of Finance and Economic Planning, Ghana; *discussant:* **Albert Mafusire**, Senior Country Economist, African Development Bank

Does creation of a free trade area (FTA) or common external tariff (CET) lead to convergence in economic growth and income distribution of member states? The Global Trade Analysis Project (GTAP) – a computable general equilibrium model – was adapted to estimate the probable effects of regional integration in ECOWAS and its two sub-blocs, WAEMU and WAMZ. Whereas an FTA would generally increase incomes, a CET would be better in most cases. Income growth was higher in the CET simulations for all countries except Côte d'Ivoire, where FTA performed better. CET would also provide greater opportunities for smaller economies to catch up with larger ones. However, results for income distribution were mixed, with some factors experiencing income declines across sectors. Smaller economies would likely not benefit as much as larger ones.

In discussion it was pointed out that the “dynamics” observed in the simulations – based on a *static* general equilibrium method (the reason for which is unclear) – result from reallocation of available endowments across sectors, whereas a dynamic model might produce different results. The reason why FTA is inferior to CU – which results from trade diversion – should be explained, and the base year – and why it was chosen – made clear. The implications of the closure rules adopted should be explained, for instance, what accounts for excess supply of labor, which is likely a result of wage fixing.

Paper 31: *Trade Facilitation, Economic Integration, and Intra-Regional Agricultural Exports in ECOWAS* by **Oluyomi Ola-David**, Lecturer/Researcher, Covenant University, Nigeria, and **Wumi Olayiwola**, Principal Program Officer, Economic Commission of West African States; *discussant:* **Said Adejumobi**, Director, Southern Africa Office, UN Economic Commission for Africa

Agriculture is the backbone of ECOWAS economies. General method of moments (GMM) was used with instrumental variable (IV) estimation on panel data from 15 ECOWAS members during 2003-2008 to analyze how trade facilitation – and economic integration more generally – have affected intra-regional agricultural exports. Not

unexpectedly, the level of trade facilitation in ECOWAS was found to be below world average, though new and improved infrastructure such as Internet facilitated trade, while agricultural production – in which there has been sustained growth – affected agricultural exports, but countries with more bureaucratic processes had greater costs associated with trade. There remains much to do to improve agricultural production and facilitate trade and economic integration in ECOWAS. Incentives are needed for fuller implementation by member states of the ECOWAS Agricultural Policy (ECOWAP) and the ECOWAS Trade Liberalization Scheme (ETLS).

In discussion it was suggested that human capital might be included as an important explanatory variable in the estimation. It was questioned whether (and to what extent) – given the member states' similar conditions and products – it is possible to increase intra-regional agricultural trade in ECOWAS. Perhaps the problem is low productivity instead of lack of trade facilitation. Could economic transformation (in this case, agricultural processing) increase trade?

SEMINAR 10: Trade Liberalization

Moderator: **Joseph Atta-Mensah**, UNECA Senior Advisor, African Union-New Partnership for Africa's Development

Paper 32: *A Partial Equilibrium Analysis of the Proposed Tripartite Free Trade Area: A Ugandan Perspective* by **Malcom Spence**, Trade and Finance Economist, Ministry of East African Community Affairs, Uganda; *discussant:* **Babatunde Omilola**, Economic Advisor, United Nations Development Programme, South Africa

The proposed COMESA-EAC-SADC Tripartite Free Trade Area – consisting of the Common Market for Eastern and Southern Africa, the East Africa Community, and the Southern African Development Community – looks likely to become reality. In Uganda's trade, 44% of exports are destined for potential FTA members, while they are the source of 26% of imports. The proposed FTA represents an opportunity for Uganda to expand this intra-regional trade, but since only 3% of imports from non-EAC Tripartite members have non-zero tariffs, only a small import effect should be expected. A single-market partial-equilibrium simulation tool (SMART) model was used to estimate the effect of eliminating intra-regional tariffs. Uganda's high degree of openness already limits welfare gains to only \$2.5 million, with a revenue loss of \$23.65 million. However, the simulation suggests a substantial increase of exports, including \$112 million to the Democratic Republic of Congo. As trade complementarity is low, and proposed FTA members already enjoy a preference margin, it is not surprising that overall trade and welfare effects are small. Thus – to amplify gains from eliminating tariffs – Tripartite negotiations should fully embrace trade facilitation, including trade in complementary services and the removal of non-tariff barriers.

Rather than discussion of individual papers, there is a general discussion of trade issues after the last paper in this seminar.

Paper 33: *Intra-COMESA Trade Performance: Comparison with ASEAN* by **Ebaidalla Mahjoub Ebaidalla**, Assistant Professor, and **Abdelrahim Yahia**, Lecturer, University of Kassala, Sudan; *discussant:* **Andrea Molinari**, Senior Adviser, African Development Bank

An out-of-sample approach was used to assess intra-COMESA trade performance as compared to ASEAN's. A gravity model was used to estimate the coefficients of ASEAN trade, which were then used to benchmark the potential trade of the eight COMESA members. COMESA's performance was measured by the ratio of actual to potential trade. All COMESA members were found to be far below potential, though the gap between actual and potential has fallen in the last decade. To increase performance, export diversification is needed. Industrialization was the major force behind ASEAN's success, so should be given special attention in COMESA as well. Better transport and communications infrastructure is also needed, as well as further efforts to attract foreign direct investment (FDI). Comprehensive trade liberalization measures such as removing tariff and non-tariff barriers (e.g., improving customs procedures at ports and borders) would also help.

Rather than discussion of individual papers, there is a general discussion of trade issues after the last paper in this seminar.

Paper 34: *The Impact of Trade Liberalization on Imports and Exports in Sub-Saharan Africa* by **Lanre Kassim**, PhD Candidate, University of Kent, UK; *discussant:* **Wilberforce Mariki**, Principal Country Economist, African Development Bank

Panel data was used to investigate the effect of trade liberalization on imports and exports across 28 Sub-Saharan African countries during 1981-2010, with liberalization dates derived from a careful examination of trade policy reviews. Consistent with the findings of other studies on less- and least-developed countries, liberalization was found to have increased the growth of exports, but to have increased the growth of imports by about two percentage points more, contributing to deteriorating trade balances in the post-liberalization era. Liberalization raised the price elasticity (but not the income elasticity) of demand for both imports and exports.

Rather than discussion of individual papers, there is a general discussion of trade issues after the last paper in this seminar.

Paper 35: *Trade in Intermediate Inputs and Trade Facilitation in Africa's Regional Integration, with Focus on Kenya* by **Siope Vakataki Ofa** and **Stephen Karingi**, UN Economic Commission for Africa; *discussant:* **Samuel Mwakubo**, Manager of Research, African Economic Research Consortium

A recent UNECA survey found widespread skepticism in Africa about regional integration contributing to job creation and regional value chains, and indeed, little progress has been observed in Africa's regional integration since the third stage of the Abuja Treaty began in 2008. Why is regional integration stalling? Conventional answers include inadequate infrastructure for trade and inadequate financial resources. But resource-based industrialization could be an alternative way forward to regional

integration, creating jobs and raising incomes. Balassa's Revealed Comparative Advantage Indexes were used to analyze industrialization in Africa using world trade data from CEPII-BACI. Though obviously not all the same, the level of industrialization among African countries is generally low. Using the GTAP 8 dataset, Kenya's trade in intermediate inputs was analyzed using an input-output production table. Imported manufactured intermediate inputs were found to be critical to all major economic sectors (food, agriculture, energy & mining, manufacturing, services). Trade facilitation measures would thus support resource-based industrialization, as they ensure the provision of timely and cost-effective inputs. Analyses of five African regions were similar to the Kenya results.

Additional trade issues discussed in the context of the papers above

Regional integration may promote policy credibility by "locking in" uniform trade and investment reforms through group action that influences all members to abide by a common reform agenda.

There is political will for regional trade integration, but bureaucratic will is lacking. Both are necessary.

Trade liberalization will lead to orientation of investment toward exporting sectors, better allocation of resources, and thus increased productivity and economic growth with greater global competitiveness.

The rationale for regional integration is also standard trade theory: Free trade is superior to all other policies.

Both economic theory and empirical evidence on regional integration in Africa point towards both static and dynamic potential gains: static gains as one-time improvements in allocation of capital, labor, or land (including natural resources); but larger dynamic gains because stimulation of investment in production for export (and in linked industries) will increase productive capacity.

There are non-economic benefits that countries may also derive from regional integration:

It can improve collective bargaining. Acting together, countries may be better able to increase their voting power in international organizations; to demand access to foreign markets; and to withstand demands for access to their own from non-members.

The commitment of member countries to common political goals requiring increased regional dialogue may also help reduce tensions and the possibility of war among potentially antagonistic countries.

Regional integration can also serve as a check on otherwise popular (but harmful) policy decisions by governments. Governments might be able to commit to a schedule of tariff reductions which are economically beneficial though unpopular.

Trade creation will take place if a country switches to lower-cost imported goods from higher-cost domestically produced goods. Trade diversion will instead take place if a country switches to higher-cost goods produced by a partner country within the region

(which, however, now face lower tariffs after integration) from lower-cost goods previously imported from outside the region.

SEMINAR 11: Financial Regulation and Transport Liberalization

Moderator: **Agostinho Zacarias**, UN Resident Coordinator & United Nations Development Programme Resident Representative, South Africa

Paper 36: *Financial Deepening and Implications for Policy Coordination in WAEMU* by **Christian Nguena**, Consultant, and **Temilade Abimbola**, Division Manager, African Development Bank; *discussant:* **Robert Lisinge**, Economic Affairs Officer, Industrialization and Infrastructure, UN Economic Commission for Africa

Both a hypothetical-deductive theoretical approach and static and dynamic econometrics based on panel data were used to investigate the implications of financial deepening for policy coordination in the West African Economic and Monetary Union (WAEMU). The converging dynamics found suggest that within five years – conditional on harmonized structural and institutional characteristics – harmonization of financial policies could reach optimal effect, which highlights the feasibility of common policies indirectly targeting financial depth. Policies should aim to increase GDP per capita and savings, and to reduce reserves.

In discussion it was suggested that the paper would benefit from greater specificity, a sharpening of parameters, and clear indication of limitations.

Paper 37: *The Interbank Market in Kenya and Implications for Bank Regulation* by **Ye Bai**, Lecturer, University of Nottingham, UK, **Victor Murinde**, Director, African Development Institute, African Development Bank, and **Isaya Maana**, Central Bank of Kenya; *discussant:* **Elvis Mtonga**, Economics Advisor, Office of the CEO, New Partnership for Africa's Development

Quarterly data on 43 large and small Kenyan banks which participated in interbank transactions during 2003-2011 was used to investigate whether market discipline was an effective complement to government regulation. After controlling for differences in bank characteristics, an inverse relationship was found – up to a certain point – between interbank activity and risk, after which the relation reversed from risk-reducing to risk-increasing. Given that Kenya's banks have spawned the burgeoning Eastern African banking market, these findings may have implications for bank regulation throughout the region. Vibrant derivatives markets could allow for effective hedging of interest rate risk as well as credit risk, attracting more participants into – and thus deepening – the market. Another possible tool for reducing bond market volatility is development of a more active and well-functioning repurchase market, including short-selling.

In discussion there was curiosity about whether – and, if so, how – asymmetry of information was being dealt with among banks. It was suggested that the paper should examine market discipline at greater length, including the implications of oligopoly

amongst the most powerful banks. Further responses and discussion revealed that the paper was one of the four on the Interbank Market. The first paper in the series looks at the micro structure of the market and how prices evolve. This paper indicates that even if collusion amongst Banks happens, it is relatively ineffective as the smaller Banks actually appear to be quite influential in the market.

Paper 38: *Quantifying Illicit Financial Flows from Africa through Trade Mispricing and Assessing their Incidence on African Economies* by **Simon Mevel**, Economic Affairs Officer, African Trade Policy Center (ATPC), UN Economic Commission for Africa, **Siope Ofa**, Assistant Economic Affairs Officer, UN Economic Commission for Africa, and **Stephen Karingi**, Director of Regional Integration and Trade Division, UNECA; *discussant:* **Athanasius Coker**, Chief Programme Coordinator, African Development Bank

Capital flight from less-developed countries – much of it illicit – has increased tremendously in the last decade. Illicit financial flows (IFF) have three main sources: corruption; proceeds from criminal activities; and proceeds from commercial tax evasion, mainly through trade mispricing and other laundered commercial transactions by multinational corporations. IFF from Africa was estimated at sector level – using a method based on the IMF’s DOTS-based trade-mispricing model – finding that in excess of US\$409 billion left Africa through IFF during 2001-2010. A MIRAGE Computable General Equilibrium (CGE) model was used to assess the economic effects on African economies. IFF losses – highly concentrated in a few countries and sectors, mostly extractive – go primarily to the EU, the U.S., and emerging Asian economies. Partial returns of IFF might be possible and could be beneficial if the funds were invested towards targeted reforms such as enhancing regional integration. But it is more important to curb IFF in the first place by adopting more transparent and stringent policies, rules, regulations.

In discussion it was pointed out that, even though the limitations are well stated, the paper would have benefited from more discussion of recent literature, from model calibration, and from use of firm-level data and further disaggregation by country and region.

Paper 39: *Economic Effects of Air Transport Liberalization in Africa* by **Megersa Abate**, National Road and Transport Research Institute, Göteborg, Sweden; *discussant:* **George Lwanda**, Economic Advisor, United Nations Development Programme, Zambia

Air transport has become increasingly important for Africa’s economic integration, but access to regional and continental markets remains hindered by regulations. There has been little empirical evidence – in the African context – of the welfare effects of liberalization. Thus the economic effects of air transport liberalization on fares and departure frequencies were estimated. No effect on fares was found, but departure frequencies were 40% higher on liberalized routes compared to those with continued

bilateral restrictions. The effect was most noticeable on partially-liberalized routes. Further liberalization should eventually lead to fare reductions as well.

In discussion it was suggested that the paper would benefit from more detailed literature review, more in-depth references to both data sources and figure drawn by the authors based on their calculation, greater clarity on the limitations of the econometric model, and more developed policy recommendations.

SEMINAR 12: Fiscal Policy and Regional Integration

Moderator: **Tonia Kandiero**, Resident Representative, Tanzania, African Development Bank

Paper 40: *Africa's Budget Reforms: The Senegalese MTEF Experience* by **Ligane Massamba Sene**, Statistical Engineer and Economist, International Food Policy Research Institute, West and Central Africa, Senegal; *discussant:* **Mama Keita**, Economic Affairs Officer, Renewal of Planning, UN Economic Commission for Africa

Many African countries have instituted a set of fiscal management reforms known as a Medium-Term Expenditure Framework (MTEF) to improve fiscal discipline and facilitate fiscal redeployment to priority sectors. A major focus of integration efforts in the West African Economic and Monetary Union is adoption and harmonization of MTEFs, though so far implementation has been uneven. But what is the effect of adoption of an MTEF? Non-parametric statistics were used to test the effect of Senegal's MTEF, finding – despite lower deficits found in South Africa and Tanzania after adoption of similar MTEFs – no effect in Senegal on budget balance, forecasting, programming, or fiscal redeployment to priority sectors. However, acceptable budget predictability was found, with realistic multi-year projections. It thus seems necessary to continue adoption and harmonization of MTEFs, perhaps learning from South Africa's MTEF use.

Paper 41: *Monitoring Fiscal Sustainability in Africa: Symptoms and Sources* by **Moses Obinyeluaku**, Chief Economist, International Trade Administration Commission, South Africa; *discussant:* **Isiyaka Sabo**, Economic Advisor, United Nations Development Programme Burkina Faso

African countries tend to have weak national revenue-forecasting and budgeting institutions – leading to persistent large deficits and debts which undermine macroeconomic stability and growth. But what are the sources of deficits, on which side of the budget do they emerge, and how can they be cured? Weak budget planning and deficits are key drivers for a coordinated monetary policy-making, which would be a check on national policy-making. The relationship between revenue and spending was analyzed using Granger causality in a panel framework. A panel unit-root test revealed causation from revenue to expenditure – not the reverse – supporting the “revenue-spend” hypothesis of pro-cyclical expenditure. This suggests that African countries could improve multi-year balances by strengthening revenue-forecasting and budgeting institutions and making expenditures less driven by revenue-availability. Revenue-

raising measures are unlikely to improve fiscal sustainability, but expenditure-reducing measures might. Medium Term Expenditure Frameworks (MTEFs) could encourage multi-year expenditure planning while providing insulation from volatile short-term revenue availability.

Paper 42: *Fiscal Policy Rules in WAEMU: An Empirical Study of the Criteria Needed to Limit Public Deficits* by **Mohamed Coulibaly**, University of Ouagadougou II, Burkina Faso; *discussant:* **Ridha Chkoundali**, Cabinet Advisor, Ministry of Development and International Cooperation, Tunisia

In a monetary union – in the absence of independent monetary policy – does pursuit of fiscal balance erode stability? Does adhering to strict criteria hamper growth? To assess the relevance of fiscal criteria in the West African Economic and Monetary Union (WAEMU)'s Convergence, Stability, Growth, and Solidarity Pact – using data from 1995-2009 – general method of moments (GMM) was applied to the same empirical specification as Ballabriga and Martinez-Mongay (2002). Then five fiscal indicators were compared to determine which offers the most flexibility for national budgeting. It appears that, since establishment of WAEMU, fiscal policies have been non-cyclic. There has also been no correlation between fiscal balance and indebtedness, although indebtedness has increased. Strengthening government – including monitoring – capacity and fighting corruption, as well as promoting intra-regional trade, will foster growth and stability. More investment in infrastructure, and attracting investment in developing sectors, will help. WAEMU administration will also need strengthening to support a move to a single currency in the future. A Solidarity Fund may be necessary to help offset volatility resulting in revenue shortfalls.

In discussion it was pointed out that exchange rates and internal debt levels were not incorporated in the model. It was also suggested that WAEMU members may not be sufficiently integrated, which might be why they have had increasing difficulty managing their fiscal policies.