SUMMARY
African Development Report 2000

Introduction

The *African Development Report 2000* reviews economic developments in Africa at the turn of the millennium while taking stock of the continent's economic track record over the last forty years and assessing future prospects. This Millennium Report also revisits the issues of Regional Integration and Cooperation in Africa. In addition, it provides the main economic and social statistics on Africa. The Summary highlights the main aspects of the Report.

Economic Performance in 1999

Economic growth in Africa is estimated to have averaged 3.5 per cent in 1999, slightly below the 3.7 per cent attained in 1998, but well above the average of 2.7 per cent a year for the 1990s as a whole (Table 1 and Figure 1a). In an encouraging development, as many as 12 countries are estimated to have recorded real GDP growth rates above 5 per cent, while close to 30 countries had positive real GDP per capita growth. Positive economic performance in 1999 reflects the gradual, though better-than-forecast recovery of the international economy. This created a platform for an African upturn mainly in the form of stronger export demand and a recovery in commodity prices from their trough of mid-1999, exemplified in the oil price rebound in the second half of the year.

Positive growth for the fourth consecutive year reflects the decisive role of economic reforms in the recovery process. In 1999, the domestic macroeconomic policy environment continued to improve, with Africa's fiscal deficit falling to 2.9 per cent of GDP from 3.5 per cent in 1998 (Table 1 and Figure 1c). Inflation declined from 32.8 per cent in 1995 to 9.8 per cent (Table 1 and Figure 1b), signalling greater price stability, with a growing number of countries recording single digit inflation rates in the last two years.

Investment continued its gradual, though hesitant improvement, reaching 20.8 per cent of GDP in 1999 compared with an average of 19.3 for the period 1995-98 (Table 1). But investment is still below the 1990 level of 22 per cent and 24.6 per cent in 1980. Africa's inadequate investment performance undoubtedly reflects the low income levels and the related weak domestic savings rate in many countries, as well as increasingly intense competition in emerging markets for global capital inflows. Sustained high levels of investment will depend partly on further strengthening market-oriented economic reforms that emphasize the private sector as the prime force of investment in productive capacity. Privatization and market deregulation too will contribute to a strong and sustained investment recovery.

Exports recovery in 1999

After a one per cent decline in 1998, export volumes increased by 1.7 per cent last year, though this remained well below the rate of global trade growth of 3.9 per cent, reflecting further slippage in Africa's share of the global market (Table 1 and Figure 1d). The mild 1999 recovery was driven primarily by developments in the oil market, which

Table 1: Africa: Macroeconomic Indicators, 1995-1999

Indicators	1995	1996	1997	1998	1999
1. Real GDP Growth Rate (%)	2.8	5.5	3.4	3.7	3.5
2. Real Per Capita GDP Growth Rate (%)	0.1	2.7	0.7	1.1	0.9
3. Inflation (%)	32.8	24.8	13.3	10.0	9.8
4. Investment Ratio (% of GDP)	19.5	18.4	18.8	20.5	20.8
5. Fiscal Balance (% of GDP)	-2.8	-2.4	-2.0	-3.5	-2.9
6. Growth of Money Supply (%)	22.4	19.0	16.1	14.3	13.6
7. Export Growth, volume (%)	9.4	5.5	5.9	-1.0	1.9
8. Import Growth, volume (%)	11.5	3.3	7.1	4.8	4.2
9. Terms of Trade (%)	3.3	3.6	-0.3	-7.6	1.9
10. Trade Balance ($ billion)	-3.6	3.5	1.7	-14.2	-15.1
11. Current Account ($ billion)	-13.4	-5.5	-6.5	-21.0	-21.9
12. Current Account (% of GDP)	-2.6	-1.0	-1.1	-3.7	-3.8
13. Debt Service (% of Exports)	24.4	20.4	20.2	21.2	24.6

Source: ADB Statistics Division and IMF.

enjoyed a dramatic resurgence in the second half of the year, and that continued into 2000. After falling below $10 a barrel in February, prices more than doubled to reach $25, while metal (aluminium, copper, lead, nickel and zinc) prices also recovered strongly. But the positive impact of the oil price rebound was not sufficient to overcome the negative effects of depressed prices for non-oil commodities, which declined 11 per cent over the year.

Africa's trade balance fell steeply reflecting weak export prices and sluggish volume growth relative to that of imports. Invisible earnings were also depressed, resulting in the sharp deterioration of the current account balance for the second successive year. The quadrupling of the current account deficit to 4 per cent of African GDP over the last two years is a major reversal of the improved trend that began in 1995 (Table 1 and Figure 1e).

Net non-debt-creating capital flows used to finance current account deficits rose strongly to reach $20 billion in 1999, compared with $13 billion the previous year. Foreign direct investment (FDI) estimated at $9.4 billion accounted for almost half of this capital inflow, and virtually double the FDI attracted in 1998. However, FDI as a proportion of GDP in Africa remains very low averaging a minuscule 1.3 per cent of GDP during the period 1995-1998, though this was an improvement on the 0.8 per cent recorded in the first half of the 1990s.

Figure 1: Africa: Major Economic Indicators, 1990-1999

Net external credit at $6.3 billion was the next largest component of the inflow of funds to finance the current account deficit. However, net external borrowing dropped by more than half in 1999 compared with 1998. Capital transfers were barely changed at $3 billion. External indebtedness remains high with total outstanding debt reaching $336 billion in 1999, a 16 per cent increase during the 1990s. While short-term debts are declining, long term debt is rising. The deterioration in debt service ratio to 25 per cent from 20 per cent in 1996 and 1997 highlights the need for a radical new approach (Table 1 and Figure 1f). The enhanced HIPC initiative relief should help ease the debt crisis in the region, though whether in its present form it provides a lasting solution is problematic.

From the above discussion, it is clear that economic trends since the mid-1990s strongly suggest a transition to a new era of more stable macroeconomic conditions and sustained and broad-based economic growth. This is in marked contrast to the previous two decades of economic volatility, stagnation and retrogration.

Africa's Long-term Economic Growth

Overall Economic Trends: 1960-1999

Over the last forty years, Africa has lagged behind other regions in GDP and per capita income growth particularly since the 1970s. Africa's failure to achieve convergence with global economic growth and to keep up with the developing world as a whole, is captured by the declining relative share of Africa's GDP in total world output from the already low 1.25 per cent in 1960 to 1.1 per cent in 1997. Africa is also the only region where per capita income fell, in marked contrast to the doubling of the average global per capita income in the last four decades.

Economic growth, measured by the growth rate of real GDP at market prices in constant 1995 US dollars, averaged 3.8 per cent annually between 1960 and 1997, while per capita incomes rose 1.2 per cent a year. Africa's real GDP, valued at US $100 billion in 1960 trebled to reach US $320 billion almost forty years later, Over the same period real GDP in Latin America more than quadrupled.

After growing at a modest rate of 3.9 per cent annually during the 1960s, when per capita grew 1.4 per cent a year, GDP growth accelerated to 4.2 per cent a year in the 1970s, while per capita GDP rose 1.5 per cent annually but slowed down considerably after the first oil-price stock in 1973 (Table 2). The 1980s witnessed a dramatic reversal in economic fortunes as GDP growth slowed to a mere 0.7 per cent a year and per capita incomes declined some 3 per cent annually. During the 1990s, growth rates recovered to 2.7 per cent, but with population increasing at 2.6 per cent a year, living standards stagnated rather than improved.

Broad regional economic trends mask diverse country growth experiences. Table 3 classifies countries into four groups on the basis of GDP growth:

- Fast growth economies, spearheaded by Botswana and Mauritius, increased GDP by 5 per cent and above, also achieving significant improvement in their standard of living. Within this group, only Botswana consistently recorded mean growth rates above 5 per cent in all the four periods. When the first two periods (1960-69 and 1970-79) are compared with the latter two

Table 2: Africa's Economic Performance (%)

	1965-73	1974-79	1980-85	1986-94	1995-99
Average Real GDP Growth	4.0	2.9	2.7	2.2	3.4
Average Real GDP Per Capita Growth	1.5	0.0	-0.2	-0.5	1.1
Rate of Inflation	5.6	12.7	15.7	22.2	13.3
Fiscal Balance (% of GDP)	*	-5.4	-7.8	-6.6	-2.7
Investment/GDP Ratio (%)	20.0	26.0	23.7	21.4	19.6
Savings/GDP Ratio	*	22.5	18.9	17.3	16.3
Average Growth of Agricultural Output	2.7	2.6	1.5	2.9	3.7
Average Growth of Manufacturing Output	7.3	6.7	2.3	0.5	3.8
Average Real Export Growth	8.2	2.6	-2.9	3.3	4.3
Average Real Import Growth	7.4	6.2	-1.0	1.0	6.2
External Debt/GDP Ratio	*	23.0	42.8	61.8	60.1
Debt Service/Export Ratio	*	7.0	21.1	26.2	20.2

* not available
Source: ADR 95 and ADB Statistics Division.

(1980-89 and 1990-99), the table shows a decline in the number of fast-growth economies from eighteen to eleven.

- Second tier countries grew marginally faster than the rate of population growth, - 3 per cent to 5 per cent annually.

- Slow growth economies achieved positive growth, but for the most part living standards fell because output growth of less than 3 per cent fell below the rate of population expansion.

- The final category covers just 7 countries where GDP declined over the period. Poverty increased substantially in these countries, which included mostly conflict-afflicted countries such as Burundi, DRC, Liberia, Sierra Leone, and Somalia.

Most African countries on the continent fall into groups 2 and 3, growing at less than 5 per cent annually. Most of the continent's larger economies - South Africa, Nigeria and Algeria - fall into these two groups. Three conclusions can be drawn from these data:

- Most African countries failed to sustain rapid GDP growth rates for extended periods as reflected in the considerable fluctuations in growth rates. Since independence, rapid growth has been the exception rather than the rule in Africa. These fluctuations were driven largely by two distinct influences: (a) Volatile primary commodity prices, and, (b) Supply-side shocks, mainly

Table 3: Africa: Distribution of Countries According to Real GDP Growth Rates

Real GDP Growth Rates (%)	Average 1960-69		Average 1970-79		Average 1980-89			Average 1990-97		
More than 5%	Botswana Côte d'Ivoire Egypt Gabon Kenya Lesotho	Malawi Mauritania Morocco South Africa Togo Tunisia	Algeria Botswana Cameroon Congo, Rep. Côte d'Ivoire Egypt Gabon Kenya Lesotho	Malawi Mali Mauritius Morocco Nigeria Rwanda Seychelles Swaziland Tunisia	Botswana Cape Verde Congo, Rep. Egypt, Arab Rep. Swaziland Zimbabwe			Botswana Equatorial Guinea Lesotho	Mauritius Sudan Uganda	
Above 3 to 5%	Algeria Benin Burkina Faso Congo, Dem. Rep. Congo, Rep. Gambia, The	Mali Mauritius Seychelles Sierra Leone Zambia Zimbabwe	Burkina Faso Burundi Gambia, The Guinea-Bissau	South Africa Sudan Togo Zimbabwe	Angola Benin Burkina Faso Burundi Cameroon Chad Gambia, The Guinea	Kenya Lesotho Mauritius Morocco Rwanda Tanzania Tunisia		Benin Burkina Faso Cape Verde Chad Egypt, Arab Rep. Eritrea Ethiopia Gabon	Ghana Guinea Guinea-Bissau Malawi Mali Mauritania Mozambique Namibia	Nigeria Seychelles Swaziland Tanzania Tunisia
0 to 3%	Burundi Cameroon C. Afr. Republic Chad Ghana Madagascar	Niger Nigeria Rwanda Senegal Sudan	Benin C. Afr. Republic Congo, Dem. Rep. Ghana Madagascar	Mauritania Niger Senegal Sierra Leone Zambia	Algeria C. Afr. Republic Comoros Congo, Dem. Rep. Equatorial Guinea Ethiopia Gabon Ghana Guinea-Bissau	Madagascar Malawi Mali Mauritania Mozambique Namibia Niger Nigeria Sao T. and Princ.	Senegal Seychelles Sierra Leone South Africa Sudan Togo Uganda Zambia	Algeria Angola C. Afr. Republic Comoros Congo, Rep. Côte d'Ivoire Gambia, The Kenya Madagascar	Morocco Niger Rwanda Sao T. and Princ. Senegal South Africa Togo Zambia Zimbabwe	
Negative			Chad		Côte d'Ivoire			Burundi Cameroon Congo, Dem. Rep.	Djibouti Sierra Leone	

in the form of drought or adverse weather conditions that undermined agricultural production, along with political and civil disturbances that impacted adversely on output and exports.

- As net energy and oil importers, most African economies suffered a severe setback in the latter half of the 1970s in the wake of the energy crisis and global recession. 1975 did, in fact, mark something of a watershed for the global economy - the end of the post-World War II "golden age" of strong global economic growth and the start of a period of sluggish expansion that lasted through the mid-1990s, constraining Africa's economic performance.

- Third, African economies converged slowly to global averages of economic growth and even the mean level for the developing world. The decline in per capita income in a large number of African countries was in marked contrast to the global trend of positive growth suggesting the substantial exclusion of most countries in the region from the benefit of the enormous expansion in global output and living standards on the past half a century.

Lessons of Development

Four salient aspects of Africa's economic performance over the last 40 years stand out:

1. Economic performance was not - as often suggested - uniformly poor throughout the post-independence period. During the 1965-73 period, many African economies achieved satisfactory growth rates - some of them enjoying growth performances that parallel those of East Asian countries today.

2. It is clear that this promising post-independence economic performance was derailed in 1973 by the first oil shock. But while that was the immediate cause of Africa's economic slowdown, it is equally obvious that the failure of many countries to take timely and appropriate adjustment measures exacerbated the crisis.

3. As a result of the inadequate adjustment efforts during the late 1970s, few countries were in a strong enough position to weather the series of severe adverse external shocks that buffeted their economies in the early 1980s. These gave rise to a severe economic downturn for the continent from which most countries have yet to emerge.

4. Following the considerable efforts of most African countries to adjust and re-structure their economies during the 1990s, adjustment programs in many countries have began to show signs of economic improvements.

Medium-Term Prospects and Challenges in the 21st Century

Although Africa's economic performance over the last five years represents an encouraging improvement on that of the first half of the decade, deep concern remains that current growth rates are inadequate for effective poverty reduction.

Africa starts the new century facing enormous challenges, with close to 350 million people living on $1 a day or less, and up to 150 million children living below the poverty line. Africa is the only

continent where the number of the poor is increasing, creating the perception that poverty is increasingly becoming an African problem rather than a global one.

The central development challenge confronting Africa and its partners, is that of accelerating broad-based economic growth with the aim of attaining International Development Goals, that are proxies for broader development goals. These goals fall into three major groups:

- Economic well being - halving the proportion of people living in extreme poverty by 2015;

- Social development - universal primary enrolment in all countries by 2015; gender equality and the empowerment of women by eliminating gender disparity in education by 2005; reducing mortality of infants and children under five years by two-thirds of the 1990 level and maternal mortality by three-quarters no later than 2015; access through the primary health care system to reproductive health services for all individuals of appropriate ages, no later than the year 2015;

- Environmental sustainability and regeneration - implementation of current national strategies for socially responsible sustainable economic development, in every country by 2005, to ensure effective reversal of current trends in loss of environmental resources at both global and national levels by 2015.

Africa's circumstances are particularly difficult because the growth rate required to secure these goals, especially that of poverty reduction, is high relative to the continent's past experience. Recent studies have shown that 4 per cent of the population in Africa will need to move out of poverty each year in order to meet the internationally agreed goal of reducing the proportion of the poor by one-half by 2015. The rates of growth required to achieve such a reduction in poverty vary among African countries depending on initial levels of per capita income and patterns of income distribution.

While the relatively more prosperous countries in North and Southern Africa would need to grow at an annual rate of about 5 per cent to achieve the targeted reduction in poverty, the poorest states of West and Central Africa would have to grow by at least 8 per cent. Clearly, such growth rates exceed those attained by even Africa's better performers during recent years, though a few high performers, - Botswana, Côte d'Ivoire, Egypt, Mali, Mauritius, Tunisia, and Uganda - have demonstrated the capacity to do so, albeit in most cases, not on a sustained basis.

Sound economic management and appropriate structural policies that stimulate private initiatives, boost the supply response and diversify the pattern of production are needed if such growth rates are to be reached. The priorities are:

- deepening economic reforms, and promoting the development of the private sector;
- building human capital through efficient delivery of social services;
- creating the non-economic foundations necessary for sustainable development - gender mainstreaming, environmental management and the pursuit of good governance; and,
- promoting regional integration, which provides economies of scale and opportunities to pool resources for investment

Regional Integration in Africa

The Rationale

The small size of many African countries is a major obstacle to its economic and social development, a source of the continent's extreme vulnerability, and one of the leading factors of its external dependence. The rationale for regional integration in Africa reflects the desire to deal, in one way or another, with the perceived growth-retarding constraints inherent in small markets. The importance of economic co-operation for Africa derives mainly from the opportunities that emanate from integrating the markets of individual countries in the continent. The major potential benefits underpinning the rationale for regional are discussed below.

Dynamic gains for accelerated growth and poverty reduction. One of the major dynamic benefits of regional integration is that export markets widen the total market for a country's producers. There is also a close connection between increasing returns and the accumulation of capital. For a small country there is very little scope for large-scale investment in advanced capital equipment and specialization is limited by the extent of the market. Thus, the relevance of regional integration to growth and poverty reduction is that it helps to shift outwards the whole production possibility frontier by augmenting the availability of resources for production through increasing the productivity and quantity of resources. It provides stimulus to competition; the acquisition of new knowledge, new ideas and the dissemination of technical knowledge; the possibility of accompanying capital flows through foreign direct investment; and changes in attitudes and institutions. These dynamic effects would serve to accelerate the rate of growth, reduce poverty and improve socio economic conditions— the ultimate objectives of regional integration.

Investments and industrialization. Regional integration is expected to create better conditions for a more successful industrialization by pooling regional resources for investment. The initial increase in capital stock would contribute, in turn, to a temporary acceleration of growth rates as the accumulation shifts the economy onto a higher growth trajectory. Regional integration may help to reduce uncertainty, and hence stimulate domestic and foreign investment, by inducing greater credibility in the government's ability to pursue sound and predictable policies. FDI helps to increase the rate of investment, provide technological and managerial know-how, and stimulates more investment by boosting confidence in the host economy.

Optimal industrial location. Insights from the literature on economic geography suggest that the interplay of economies of scale and location-specific costs (e.g. land) could provide a rationale for regional integration schemes in Africa. A regional integration arrangement that joins up periphery countries by reducing intra-Africa transaction costs could radically alter the existing core-periphery production and trade pattern and induce the location of industries within the integrated region. However, if intra-regional transaction costs are initially high, small reduction would tend to increase regional concentration of production, which generate controversy over compensation arrangements. To counteract this, countries that gain may be encouraged to increase their investments in and imports from those that lose. Larger reduction in intra-regional transaction costs would substantially counter the trend towards concentration of industries.

Participation in the global economy. Regional integration arrangements might help to enhance policy credibility and integration in the global economy by "locking in" trade reforms. This is particularly true since in many developing countries economic reforms frequently lack credibility because of time inconsistency and asymmetric information problems. Regional integration entails a larger political community that might lessen the scope for adverse discretionary actions by governments, and in particular restrict the power of growth-retarding political interest groups, unless politically powerful lobbies can form alliances across countries. When a regional institution is set up, better choices may be made than at the nation-state level, where policy-makers have to contend with existing institutions that accommodate factional interests. Also the political leadership in a country may not be able to get support for either unilateral or multilateral liberalization but may be able to do so for liberalization within a regional context. Once regional liberalization has taken place, however, economic incentives may shift so as to produce support for wider liberalization. Furthermore, integration might facilitate multilateral negotiations by allowing integrated countries to negotiate *en bloc* rather than individually.

Regional security. Some regional integration arrangements help to stabilize neighboring countries and thus lessen the possibility that migrants or, indeed, bloodshed will spill across international borders. Integrated countries might respond to outside threats by strengthening relations between the integrating partners and hence act as a deterrent to the eruption of conflicts. Trade is a natural instrument for diplomacy and for fostering regional stability. Trade among neighboring countries provides security directly, for example, by raising the level of interaction and trust among the people of those countries, by increasing the stake that each country has in the welfare of its neighbor, or by increasing the security of access to the neighbor's strategic raw materials. Furthermore, regional trade arrangements that involve previously antagonistic states might help to reduce tensions and the possibility of war.

Collaboration in provision of services. Regional integration offers opportunities for harmonizing economic policies, improving institutional efficiency; increasing bargaining power on the diplomatic front; and attaining high leverage in pursuing peace and security. It also helps to improve the provision and efficiency of infrastructural services. The economies of scale argument for regional integration and cooperation applies also with respect to the joint provision of a range of infrastructural services where considerably lower per unit costs might be achieved than when each country attempts to provide the same set of services individually.

Achievements

In appreciation of the large dividends that can accrue from regional integration, African countries have embarked, since their independence, on establishing numerous integration schemes. These include in North Africa, the Arab Maghreb Union (AMU). In West Africa there are the Economic Community of West African States (ECOWAS), the West African Economic and Monetary Union (WAEMU, formerly CEAO) and the Mano River Union (MRU). In Central Africa there are the Central African Monetary and Economic Community (CEMAC, formerly UDEAC), the Economic Community of Central African States (ECCAS), and

the Economic Community of the Great Lakes Countries (CEPGL). In East Africa, there is the East African Community (EAC). In Southern Africa there are the Southern African Customs Union (SACU) and the Southern African Development Community (SADC). And in Eastern and Southern Africa, there was the Preferential Trade Area for Eastern and Southern Africa (PTA), which has been succeeded by the Common Market for Eastern and Southern Africa (COMESA).

The efforts at regional integration culminated in the Abuja Treaty of 1991, which is articulated around the concepts of solidarity and collective self-reliance; a self-sustaining and endogenous development strategy; and a policy of self-sufficiency in basic needs. Progress toward these goals was marked by the establishment of many regional organization mandated to support regional integration. These include the African Development Bank and the Organization of African Unity, which together with United Nations Economic Commission for Africa gave important impetus to a greater cooperation among African countries. The establishment of the African Export-Import Bank and The African Re-Insurance Corporation were also important steps in promoting regional integration. At the level of individual regional schemes, there were noteworthy achievements in some areas, which are summarized below.

Regional Trade: In the area of intra-regional trade, the Southern African Development Community (SADC) and Southern African Customs Union (SACU) have experienced some success in recent years. Between 1993 and 1998, intra-SADC trade grew by 70 per cent from $2.8 billion to $4.8 billion. South Africa typically accounts for about 50 per cent of intra-SADC exports, while Botswana, Swaziland and Zimbabwe each account for a further 10-12 per cent. In SACU total imports from SADC increased by 13 per cent from 1989 to 1998. The share of SACU's imports from Angola, Mozambique, Zambia and Tanzania increased significantly during the 1990s. Overall exports from SACU to the rest of SADC have increased at a faster rate than imports, thus enlarging the trade surplus that SACU has with SADC.

Monetary integration and macroeconomic Stability. The West African Economic and Monetary Union (WAEMU) has made clear progress in the area of monetary integration and illustrated the advantages of a monetary zone anchored on a convertible external currency. Members of this Union have experienced slower expansion in money supply, relatively strict budgetary discipline and hence consistently lower inflation rates than most of the other African countries. This stability contributed to the relatively better performance of countries in the Union, particularly in the period before the economic crisis of the 1980s.

Labor mobility, governance and regional security initiatives. The Economic Community of West African States ECOWAS achieved some measure of success in facilitating labor mobility. Note should also be taken of the limited but encouraging progress made by ECOWAS in the field of political and human right integration. Progress in this direction is marked by the Declaration of Political Principles issued by the Heads of State and Government of ECOWAS in 1991. The creation of the Economic Community of West African States Monitoring Group, which pioneered regional security initiatives, could be considered as a first practical step in implementing these principles (see Box 1). The active involvement of ECOWAS in encouraging the pursuit of democracy and good governance in its member countries is a further step on this road.

Box 1: ECOMOG: A Regional Security Initiative

Economic Community of West African States Monitoring Group (ECOMOG), established the West African peacekeeping force aiming at achieving three main objectives:

- to prevent, manage and resolve conflicts;
- to maintain peace in the sub-region; and
- to create conditions for free and fair elections.

Initiatives in ECOMOG are led by Nigeria, the largest country in the region accounting for more than half of ECOWAS population and half of the combined GDP of the group. Since its creation, ECOMOG has made important achievements in terms of ending the civil war in Liberia with the 1996 peace accord. This was followed up with actions that provided successful elections in 1997. In the same year, ECOMOG intervened in Sierra Leone after the military coup against the democratically elected government. In February 1998, ECOMOG was instrumental in reinstating the democratically elected president. After the peace-settlements, ECOMOG has in the cases of both Liberia and Sierra Leone stayed in the country to provide security protection. ECOMOG has also been active in promoting democracy and governance by engaging in policy dialogue with the governments in the region. Even though ECOMOG has proved to be an effective peacekeeping organism, its role could be strengthened by addressing its financial, organizational and operational problems.

Source: Oneworld (1998), DFAIT (1999), United Nations (1999).

Economic convergence. Members of SACU have achieved a considerable degree of convergence in terms of both policies and policy outcomes since 1971. Fiscal and monetary policy, inflation rates, interest rates as well as per capita incomes of the SACU have converged. This is particularly true for members of the Common Monetary area (CMA), where convergence in monetary policy is inherent in the arrangement.

Shortcomings and Constraints

These achievements notwithstanding, the overall assessment indicates that regional integration schemes in African have not met expectations and that much remains to be done in order to move toward achieving the declared objectives. In virtually all cases, the volume of intra-regional trade has stagnated or even declined slightly, and there have been no changes in the composition of trade indicating that integration has not led to any significant structural change in African economies. Furthermore, most African regional integration schemes have not achieved full integration and the domestic policy in individual member countries have also been generally at variance with the ideals of harmonized and coordinated pursuit of regional objectives. In what follows we summarize the main factors responsible for the limited results achieved to date.

Structural characteristics of the integrating economies. Most African countries lack the structural complementarities that could be relied upon to generate appreciable gains from specialization based on regional integration. Most African countries are excessively dependent on the production and exportation of few primary products, which face a declining income elasticity of demand in the international market. They are also excessively

dependent on the importation of industrial capital goods and manufactured consumer goods. With such a narrow pattern of trade, regional integration, which is based on discriminatory trade liberalization would not be expected to generate intra region trade. The diversification of production patterns and export baskets is indispensable for the success of a trade-focussed regional integration approach.

The absence of effective compensation mechanisms. The absence of mechanisms to compensate the countries for the cost of integration has hindered the implementation of certain trade liberalization measures. Economic integration cannot be viable unless member states perceive themselves as net beneficiaries. In the African context several measures have been tried to achieve the objective of fair distribution of costs and benefits, and a good deal of lessons have been learnt from the experience. The expectation for the future is that a combination of fiscal transfers with measures to encourage the flow of investment funds from the more advanced to the less advanced members of the integration groupings, may be more successful than fiscal transfers alone.

Lack of political commitment. Dissonance between national and regional interests and commitments is evident. There seems to be some reluctance to relinquish decision-making power by national policy makers. Focus seems to be on short-term political considerations, rather than on long-term development prospects and strategies. This is often seen in the protracted ratification processes of protocols. Multiple membership further complicates the issue of political commitment. Clearly, political will to succeed is essential, and so is the full support of the administrations in the member states, the business community and international institutions.

Implementation failure. Non-compliance with and delayed implementation of agreed trade liberalization schedules have constrained intra-regional trade expansion. Among the factors that have contributed to the inadequate outcome are the lack of monitoring of the implementation of decisions and the apparent unwillingness of governments to cede authority to the regional bodies. Related to these are lack of resources and power by the regional secretariats to take initiatives and promote regional perspectives. A particular challenge comes from the need to eliminate non-tariff barriers, and simplify the rules of origin and value-added criteria. Import licensing, removal of foreign exchange restrictions and taxes on foreign exchange, removal of import and export quotas, removal of road blocks, easing of customs formalities, extending the opening hours of border posts could all do with a lot of improvements.

Lack of adequate regional infrastructure. Africa's transport and communication networks are still inadequate to serve an integrated regional market. Infrastructure networks generally tended to be from centers of production to overseas with little inward and regional expansion. This is because the systems are geared outward for transportation of primary commodities and importation of raw materials and finished products with the outside world as opposed to inward distribution of finished products traded among African countries. Also in many cases, the inadequate and inefficient provision of infrastructure continues to contribute to high transaction costs, hindering the expansion of trade and investment.

Bank Group Experience in Promoting Regional Integration

The Bank is mandated to further the economic development and social progress of African countries, individually and collectively. In pursuit of its mandate, the Bank has since its establishment collaborated with other regional institutions, financed integration-enhancing studies, supported multinational projects, provided resources to regional development finance institutions for on-lending, cooperated with regional integrating institutions and promoted and facilitated the creation of regional capacity building institutions.

The Bank, the United Nations Economic Commission for Africa (UNECA) and the Organization of African Unity (OAU) have a shared vision of the importance of regional integration for Africa's sustainable development. This is reflected in their collective support of the ideals of African Common Market as the ultimate goal of integration and their longstanding collaborative efforts aimed at facilitating the creation and nurturing of African regional organizations. This cooperation has culminated recently in the creation of a joint OAU/UNECA/ADB Secretariat which was established specifically by the African Heads of State and Government, mandating the three organizations to provide logistical and technical assistance and guidance towards the establishment of the African Economic Community (AEC). To give practical meaning to their cooperation, the heads of these institutions hold regular joint meetings during which current and emerging development issues of interest to Africa, including regional integration, are discussed. Furthermore, their regular joint presence and participation at the Annual Ministerial and Heads of State meetings of the OAU provide them with opportunities to discuss and obtain political support for their various development initiatives.

The Bank has financed several studies aimed at facilitating regional integration including the "*Economic Integration and Development in Africa*" (*African Development Report, 1989*); the "*Economic Integration and Structural Adjustment*" (*African Development Report, 1993*); and "*Economic Integration in Southern Africa*" — which explored the prospects and opportunities for economic integration in the Southern African region. The Bank has also financed several other studies. Among these are: a study leading to the establishment of an ECOWAS community levy, which has lessened its financial dependence on budgetary contribution from member states, increased its operational independence, and, thus strengthened its status as a supranational agency; the feasibility study on establishing an intra-African satellite communications organization (RASCOM); and, a study leading to the establishment of the Afreximbank. Furthermore, the Bank is in the process of undertaking a major study on integration in the East African region.

The Bank's effort at promoting integration have not been limited to studies. The Bank, the World Bank, the IMF and the European Union are the cosponsors of the Cross-Border Initiative. The Bank also has a long history of financing regional/multinational projects and national investments, which increase the complementarity of member countries' economies. These investments include several industrial and agricultural lines of credit to regional development banks. In addition to providing lines of credit resources to regional development finance institutions for national and regional projects, the Bank has also financed several other major regional projects including Air Afrique, reinforcement project (Box 2.)

Box 2: Air Afrique Reinforcement Project

In 1961, a number of French speaking African states signed a treaty to establish the multinational Air Company to contribute to socio-economic development of their companies. The Multinational Company "Air Afrique" was thus created as the sole instrument of exercising the international traffic rights of its member states (Benin, Burkina Faso, Togo, Central African Republic, Chad, Congo, Côte d'Ivoire, Mali, Mauritania, Niger, Chad and Senegal). This in accordance with the rules and regulations of international air transport on the basis of reciprocity and equity in the exercise of these rights. In the 1980s Air Afrique suffered substantial deterioration in its financial, physical and organizational condition. To save the company, the States adopted a reinforcement plan in 1989 whose main objectives were:

i) the partial and immediate replenishment of the Company's capital base through a fresh contribution of its shareholders and equity grants

ii) the payment of the Company's arrears to all its suppliers and creditors and the consequent restoration of its fund of confidence which was seriously undermined

iii) the lasting rehabilitation of the company through the recuperation of its business, rigorous management of all its expenses and the renewal and reinforcement of a part of its equipment

The African Development Bank contributed about 80 percent to Air Afrique reinforcement project. The motive for the ADB intervention was the recognized importance of regional projects in the air transport market. Foreign companies largely dominated the market, which made it difficult for separate African airlines to stand the competition. With a regional solution, the African airlines could gain scale advantages in management and equipment expenses and in this way ensure a large potential market as well as create conditions for an optimal economic management. The implementation of the reinforcement project helped the company to recoup some of its market share and its financial performance. However, managerial difficulties coupled with the devaluation of the CFA in 1994 which doubled the company's foreign debt in domestic currency terms, have caused serious problems servicing the debt incurred in purchasing five Airbus 310s. Subsequently, the member States opted for partial privatization as a means to improve management and its technical and financial efficiency.

Sources: ADB (1989); Mbendi (1997).

The Bank has also been instrumental in establishing the African Infrastructure Fund (AIF) which seeks to create a private investment fund to develop services in this sector. With respect to regional institutional capacity building, an example of a project financed by the Bank is the West African Rice Development Association institutional building project which aimed at improving the rice sub-sector (Box 3). Beyond these the Bank has promoted the establishment of development institutions with the aim of improving the macroeconomic and business environment and stimulating trade and private investments. Among these institutions it is worth mentioning the African Project Development Facility, the African Management Services Company, and the African Business Roundtable (ABR). Also, the Bank has, established, with the IMF and World Bank, the Joint

Box 3: The WARDA Institutional Building Project

WARDA (West African Rice Development Association) has 17 West African countries as members. Initiatives for its creation were taken in 1970 after the recognition of the sub-regions considerable rice production potential which is not yet sufficiently developed. WARDA's function is to direct and facilitate research into the improvement of productivity and production with a view to enhancing the technical and economic options offered to the main rice producers of the sub-region, namely small-scale farmers. Since its creation, the member countries, regional and international organizations and bilateral donors of the CGIAR system financially back WARDA.

In August 1990, WARDA requested the Bank Group to finance a project for the improvement of the West African rice sub-sector. The project was implemented in May 1991 and finished in June 1997. The total project cost amounted to 3.236 million UA. The ADF financing was 90 per cent of this total cost, the rest financed by WARDA itself.

The objective of the project was to strengthen the capacity of WARDA. The main components of the project were:

(i) technical assistance to back up WARDA's efforts to obtain better performing varieties and to improve the production technology
(ii) a study on the West African rice sub-sector
(iii) training of staff and researchers from the WARDA member countries
(iv) support to the national agricultural research services

The project has had positive outcomes. Considerable progress has been made in the development of technologies adapted to the different agro-ecological conditions of West Africa and these technologies are based on the traditional management methods of small-scale farmers. These include the development of high-yielding varieties, the improvement of cropping systems and the enhancement of technical knowledge on the rice sub-sector. The project has also, through its training program, largely contributed to the development of human resources for rice research.

The project achievements clearly show that with limited resources, agricultural research activities could develop technologies adapted to the needs of the small-scale farmers, provided the latter are involved in the research activities from the onset. With sustained financing, agricultural research could significantly contribute to increasing the productivity of rice in West Africa and, by the same token, contribute to the improvement of the well being of small-scale farmers and environmental protection.

Source: ADB (1999b).

African Institute (JAI). Based in Abidjan, Côte d'Ivoire, the Joint African Institute aims at promoting good economic management and attractive business environments through training professionals from member countries, in financial, economic and development issues.

Assessment of Experience and Lessons

Since post-evaluations have not been conducted for several of these multinational projects, it is difficult to draw definite conclusions about the impacts of the above interventions by the Bank aimed at fostering regional integration. However, a review of project completion report-based per-

formance assessments points to some useful insights which can guide the Bank's regional integration policy development and the preparation of guidelines for future multinational projects. The main lessons include:

- Physical infrastructure projects, especially those in the transport sector, with few exceptions (such as Air Afrique and RAN), have performed well. Performance of lines of credit has, however, been mixed and points to the need to be more selective in the choice of national development banks as onlending institutions. In the industrial sector, the CIMAO project has experienced severe capacity underutilization and competitive problems due to high production costs.

- There is a need for selectivity in the choice of areas of intervention, prudent integration policy underpinned by sound guiding principles, and a criterion for selecting multinational projects and programs.

- Given the complexity of multinational projects, good governance, social stability, and regionally harmonized macroeconomic policy and regulatory environment are necessary for the establishment of conducive rule and market-based integration initiatives.

- Integration initiatives, including multinational projects, involve two or more countries both individually and collectively, thus the relevant countries must demonstrate commitment to and own the initiatives and be integrally involved in all phases of the project/program cycle.

- To ensure sustainability of regional initiatives, there is a need for the Bank to collaborate closely with the relevant regional and sub-regional institutions and to incorporate their integration features and mandates into project loan agreement and implementation modality.

- Since multinational projects tend to be large and involve high sunk costs, the Bank would need to enhance co-financing arrangements that involve external financiers and the beneficiary countries.

The African Development Bank Group recently adopted a new Vision Statement that would enable it to deal effectively with the challenges and opportunities facing the continent in the new millennium. The new Vision which is predicated on making the Bank Group the leading development finance institution in Africa, has regional integration among its overriding objectives of sustainable economic growth and poverty reduction. In line with the spirit of the new Vision, the Bank is now in the process of preparing a Policy Paper on regional integration. The Policy Paper aims at providing the Bank with the opportunity to clearly define a broad framework to guide its efforts at promoting economic co-operation and integration in Africa. In setting the key guiding principles to underpin its future regional integration activities, the Bank is attaching as much importance to the process as to the product. Accordingly, the Bank is adopting a broad-based consultative approach to ensure that future Bank policy in this area is a true reflection of the collective judgement and consensus of all our stakeholders. This is particularly the case as there is an acute need to reorient Africa's regional integration paradigm in view of new con-

cerns including the increasing trend of globalization and trade liberalization. The following section provides a discussion of some elements of the new orientation for the dual purpose of better linking the region together and of better integrating Africa into the global economy.

Towards Open Regionalism

The non-complementarity of Africa's exports and imports restricts the potential positive impact of trade-focused preferential trade arrangements among countries within the region. The new orientation should not necessarily be concerned primarily with preferential trade arrangements among groups of African countries, but more broadly with cooperation on a much wider range of economic issues. The suggested shift in orientation needs to be clearly understood. It is without prejudice to the desire to provide regional industries an opportunity to learn how to cope with competition in the larger regional market before being fully exposed to the more intensive competitive pressures in the world market place. In this context, the larger regional market is viewed primarily as an entry point into and conduit through which the global market would eventually be accessed. This outward-oriented regional integration model represents something like a half-way house consisting of two inter related stages, the first is a preparatory phase while the second heralds full entry into the global economy. The rules of the WTO involve a measure of flexibility, which can be used to good effect by African countries, to shape up local industries for international competition (Box 4).

In particular, the new approach for regional integration and cooperation in Africa should directly target overall economic growth by focusing on the establishment and maintenance of macroeconomic stability, reduction of transaction costs, and rapid accumulation of human and physical capital. In the context of this approach, a stable macroeconomic environment whose credibility is sustained through "lock-in" mechanism of a regional integration arrangement will serve as a magnet for drawing in foreign direct investment. Some of the basic elements of such new orientation are discussed below.

Rationalizing Existing Institutions

New approaches for regional integration and cooperation in Africa should also involve a change of strategy. The Abuja Treaty has already indicated that regional integration and economic cooperation must be organized around one central economic community in each region. The efficiency and effectiveness of these communities are seen as essential to achieving the goals of the AEC. The rationalization of existing groupings would eliminate useless duplication of activities and rivalry. By limiting the number of organizations, each region would have a better prospect of rationalizing and maximizing the use of its meager resources. Each regional grouping could streamline its structures and substantially cut down on administrative and other current costs. This, in turn, would put African states in a better position to pay their dues on a more regular basis and participate more actively in the activities of the rationalized institutions. Finally, this rationalization would help the groupings to become more consistent with the goals of the AEC.

The concept of variable geometry may be usefully applied as African countries increasingly move away from the straitjacket of the Lagos Plan of Action to more heterogeneous strategies in the design and implementation of regional integration

Box 4: The Post-Uruguay World and Developing Countries

The post-Uruguay world, which is configured by as many as 18 separate agreements embodied in the Final Act of Marrakech 1994, presents challenges and opportunities for African countries. These agreements, scheduled to be fully implemented by the year 2005, will affect African countries in five main areas:

- Phasing out of the Multi Fibre Agreement (MFA). Increased competition from Asia for clothing and textile manufacturers in Africa, as a result of tariff reductions and elimination of quotas will negatively affect some African countries. However, the experience of Mauritius in developing a competitive clothing sector is worth drawing on to inform effective responses to this new environment.

- Subsidies and countervailing measures. Export subsidies are now prohibited, and subsidies that encourage local content are also not allowed. Less developed countries are however exempt from these provisions. This provision provides an incentive for African countries to devise innovative firm and industry support policies and instruments with the aim of fostering regional industries.

- General Agreement on Trade in Services (GATS). A framework of rules (most-favored nation and national treatment principles) and liberalization commitments for various service sectors has been established. Developing countries are allowed to flexibly open fewer sectors and to liberalize fewer services. They are also allowed to impose conditions on suppliers to set up joint ventures so as to facilitate access to technology.

- Agreement on Trade-related Investment Measures (TRIMS). Under TRIMS, countries should attract FDI and allow operations under conditions no less favorable than those for local investors. TRIMS does not include rules to regulate FDI flows, but, trade and investment and trade and competition are among the 'new issues' which will further in the future. African countries should prepare collectively to present a regional case on these issues.

- Agreement on Trade-related Intellectual Property Rights (TRIPS). The agreement lays down minimum standards for protection and procedures for enforcement of intellectual property rights. The provisions apply to patents, copyrights, trademarks, industrial design and related rights. A transition period of five years is allowed for developing countries to bring their legislation into conformity with the agreement (up to 1 January 2000), and for least developed countries the transition period is 11 years. TRIPS may lead to technology transfer through investment, to countries, which offer intellectual property rights protection. African countries therefore have an incentive to strengthen their protection of intellectual property rights.

Source: Otsubo, Shigeru.

arrangements. The strategy implied by variable geometry is essentially pragmatic and incremental in that it permits integration to proceed on the basis of progressive steps, allows smaller subgroups to move faster than the whole group and provides for many decisions to be made by majority rather than by consensus. A diligent application of variable geometry principles could considerably ease some of the tensions among various sub-regional integration arrangements in Africa and enhance the prospects for closer and more fruitful regional cooperation.

Regional Policy Harmonization

The rationalization of regional economic groupings must also contribute to a greater coordination of key macroeconomic policies within each region. In that regard, it must contribute to the harmonization of national development plans, particularly in the areas of industrial and agricultural production; in infrastructural development; and education, training and human resources development. Cooperation at the regional level in food production and security is both vital and particularly urgent since food self-sufficiency must be one of the priorities of regional integration, with the view to limiting and even eliminating the occurrence of famine and malnutrition. Member countries may exploit their comparative advantage, and reap the benefits derived from economies of scale provided by a large regional market.

Without the coordination of industrial and agricultural policies, the process of integration is likely to become bogged down in superficial issues, thus losing the main purpose of African self-reliance. The progress made in Southern Africa in the area of food security and the coordination of agricultural and energy policies is a good example that could be duplicated in the rest of Africa. The coordination of industrial and agricultural production can be greatly helped by a coordination of monetary and fiscal policies. The adoption of common monetary and fiscal policies may help a region use more effectively its resources, develop more competitive enterprises and gain greater access to external markets.

Regional Infrastructure Development

As noted in the *African Development Report 1999*, African countries are characterized by high transactions costs which inhibit both trade and economic growth. The high transactions costs are, in turn caused by high transport costs, difficulties associated with contract enforcement, high cost of information and poor quality of ancillary public services. A significant component of Africa's high transactions costs may thus be explained in terms of infrastructural deficiencies. In the context of regional integration, it is obvious that efficient and reliable cross-border transport and communication links are crucial for attracting investment and optimizing its allocation and use.

There are several benefits arising from the externalities/regional spillovers and economies of scale in a regional approach to infrastructure development. This modality can, for instance, help to improve reliability of supply and minimize uncertainties typically associated with long-term infrastructure investment. Since the required investment is often substantial, regional coordination and use could ensure greater efficiency and developmental impact. For the land-locked countries, the deepening of regional cooperation for infrastructural development may be particularly crucial.

In designing and implementing regional cooperation arrangements for infrastructure development, the principles of variable geometry become particularly important. There may, for example, be need to establish different schemes involving different sets of countries for different types of infrastructure. The country stakeholders who combine and cooperate to develop a particular river basin do not necessarily have to be members of the same trade-focused regional integration arrangement. Neither does the exact same set of countries have to cooperate on a regional road or telecommunications project. For each regional cooperation arrangement, therefore, there will be need to have clearly defined functions and responsibilities for the regional agency, the cooperating

governments and, in many cases of infrastructural development, independent (local or foreign) private investors.

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

Developing Financial Markets

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

Well-functioning financial markets enhance long-run economic growth. In particular, standard indicators of stock market development (e.g. liquidity, capitalization, and turnover) are positively correlated with capital accumulation, productivity improvements and economic growth. The Abidjan stock exchange is a manifestation of regionalization of this type in the context of WAEMU. The second CFA zone in Central Africa is expected to create another regional stock exchange; and it is not unlikely that these two will eventually establish close linkages. In Southern Africa, there is also a proposal to link the small stock exchanges in Botswana, Namibia, and Swaziland to the much bigger South African stock exchange. Ultimately, the Nairobi stock exchange could also serve Uganda and Tanzania, once the East African Cooperation (EAC) becomes fully effective. However, in the spirit of variable geometry, one should think of regional cooperation in this area more broadly to include the possibility of cross listing of shares on different stock exchanges. This could be an important first step in regionalization, given that regionalizing the critical regulatory, legal and accounting ancillary services may not necessarily be so easily achieved outside the framework of the more effective and deeper regional integration arrangements (e.g. WAEMU and SACU).

Regional cooperation initiatives aimed at dealing with various dimensions of commodity market problems could yield significant dividends. An important mechanism for managing the market risks associated with commodity production and trade is the commodity exchange. Several African countries (e.g. Nigeria) are known to be seriously considering the establishment of commodity exchanges. A final area of "soft" infrastructure where considerable potentials for regional cooperation exist and are not being fully tapped is the pooling of risks associated with investment in African countries both for the purposes of production and trade. At the regional level, the African Export-Import Bank (Afreximbank) as well as the African Re-Insurance Corporation have been established to provide some risk potential cover, particularly in the area of trade. However, both the Afreximbank and Africa-Re are inadequately capitalized to cover the entire spectrum of risk-pooling requirements of African firms and countries in the production and trade areas. Clearly, a strong

case can be made for creating a regional MIGA-type institution in Africa whose primary mandate would be to meet the risk coverage of increasing private sector activities.

Effective Clearing and Payment Systems

Attempts to facilitate intra-regional trade through the creation of regional institutions and other trade liquidity instruments have also been made in Africa. Experience suggests that monetary integration through either a common currency (e.g. WAEMU) or through exchange rate policy coordination (e.g. CMA) can enhance intra-regional trade. But as the experience of UDEAC shows, even a common currency does not generate high intra-regional trade ratios in the absence of enhanced intra-regional factor movements. In any case, enhancing trade through improved intra-regional payments systems can be much more easily achieved through the liberalization of current account transactions and the abolition of foreign exchange control. Unilateral country-level reforms along this line have progressed quite well in Africa. With only few exceptions, most African countries have liberalized their current account transactions by accepting the obligations under Article VIII of the IMF. Hence current account convertibility no longer constitutes a major hindrance to intra-regional trade in most parts of Africa. Doing this does not require regional cooperation. But taking the further steps required to achieve the coordination of exchange-rate policy or to adopt a common currency implies a higher level of regional cooperation.

There remains at least one area where the potential benefit of regional policy harmonization has not been exploited. In spite of the widely acknowledged importance of establishing and maintaining sound macroeconomic policies for rapid and sustained economic growth, there appears to have been no far reaching attempts to coordinate key macroeconomic policies either regionally or sub-regionally. To remedy this, "regional stability pacts" built on the model of the "convergence criteria" of the European Union are often proposed. In this context, African governments could establish appropriate macroeconomic policy targets monitored by the ECA or ADB.

Integrating Africa into the Global Economy

The options for linking Africa with the world derive their value from their usefulness as external agencies of restraint that can assist in locking in African policy reform; thereby sustaining policy credibility and enhancing the growth process. These options can be classified into two broad categories. One category of options for linking Africa with the world consists of regional arrangements of the North-South type. In this category may be placed the proposed post-Lomé IV linkage between groups of African countries and the EU, the free trade agreements between the EU and several African countries, as well as the proposed US-Africa free trade agreement(s). The second category of options for linking Africa with the world consists of the multilateral arrangement in which individual African countries relate to each other and the rest of the world in the context of the framework of the WTO. These two broad categories of options are examined below.

Renegotiating Lomé Convention with the EU

A proposal which aspires to establish a NAFTA-type of North-South regional arrangement between the EU and groups of African countries

has been generated by the discussions associated with the future of the Lomé Convention. This has defined the trade, investment and aid relations between Europe and the African, Caribbean and Pacific (ACP) countries since 1975. At the expiration of Lomé IV in February 2000, the EU has suggested that the successor arrangement should include the following key elements. First, the new trade relations should be based on reciprocity between the EU and groups of African (and other ACP) countries. And, second, the arrangement would require the prior formation of regional integration schemes among African countries. Thus, the EU and these groups of countries would then establish Regional Economic Partnership Agreements (REPAs). These are preferential trading arrangements to be established during the 2005-2015 period, to remove mutual trade restrictions on 80 to 90 per cent of bilateral trade, with the African countries allowed to "back load" their reforms such that the main tariff reductions are postponed to the end of this period (Lecomte, 1998). The African country groups that have been identified as REPA candidates in this proposal include WAEMU, UDEAC/CEMAC, SADC, and EAC.

From the perspective of more secure market access for African exports, a larger inflow of foreign direct investment into the region, and enhanced credibility of policy in African countries, this proposal appears to have certain advantages. In particular, the scheme would give duty-free access to a larger market which may raise the return on investment. The arrangement could also bring multinationals to redirect investment to African REPA countries as the environment would be perceived as being sufficiently stable and predictable to bring foreign investors to set up export platforms in Africa. It is feared, however, that the proposal may have several significant downsides for potential African REPA countries. Since African countries are so heavily dependent on the EU for their external trade and given their fragile industrial sectors, the impact of the proposed scheme in terms of increased competitive pressures and lost fiscal revenues could be quite large. Furthermore, the "hub-and-spoke" approach to regionalism may bias investment towards the hub (i.e. EU) rather than towards the spokes (i.e. African countries) even in the context of the REPA scheme.

The proposed REPA schemes are not the only mechanisms through which the EU has sought to establish more reciprocal trade relations between itself and African countries. The EU has in fact concluded free-trade agreements with three African countries, Morocco, Tunisia and South Africa. The first two of these countries are covered in the "Euro-Med" agreements that were created in 1995 by the new Mediterranean policy which articulated a series of bilateral free-trade agreements between the EU and each Mediterranean country to be completed by 2010. The agreements with Morocco and Tunisia envisage that imports of industrial products from the EU will be fully liberalized within 12 years. The association agreements are expected to have an impact on the economies of Morocco and Tunisia through a number of channels. Static and dynamic efficiency gains would tend to strengthen long-term growth, while transitional short-term costs may affect certain sectors and put upward pressure on unemployment to rise. The direction and magnitude of these effects will depend on the pace of structural reforms aimed at facilitating the required industrial reform and reallocation of factors of production towards more competitive activities. Thus, despite potential long-term gains, the agreements might exert some short-term costs as some local companies that would not be able to compete may face difficulties.

Another type of North-South regional integration proposal has been offered to African countries by the United States. As articulated in the African Growth and Opportunity Act, a series of free-trade agreements (FTAs) between selected African countries and the US will serve as a catalyst for increasing trade between the US and participating African countries and increasing private sector development in the region. It will also include the creation of an infrastructure fund aimed at attracting US investors to potentially profitable projects that could enhance Africa's future competitiveness.

If the FTA is fully reciprocal and thus permits duty-free entry of US imports into African countries, it will be trade diverting. If participating African countries already have substantial preferential market access for their exports to the US (through GSP and/or least developed country preferences), the additional market access gains will be limited. In addition, African countries are likely to suffer some fiscal revenue losses for which no full compensation will be provided.

Participation in WTO

Full-fledged integration of African countries into the global trading system will require the building up of the requisite capacity to enable them to contribute to shaping and designing the rules and regulations for its management by maintaining continuous presence at trade negotiations in Geneva, enhancing the capacity of policy makers based in home capitals to support and guide their negotiators, and ensuring systematic preparation by African countries in advance of WTO meetings and negotiations.

Effective participation in the WTO process can generate several beneficial outcomes. The first and, perhaps, most obvious is the gain in market access. Negotiation can bring about substantial reduction in the external barriers facing a country's exports. Secondly, reciprocally bargained multilateral agreements can provide a basis for resisting undesirable protectionist measures; and thus help to maintain a more rational trade regime. There are three core sets of competencies required for effective participation in the WTO process that are typically channeled through three mechanisms. A country's resident delegation in Geneva, skilled in negotiation and diplomacy, serves as the arrowhead in the country's pursuit of national interests within the WTO framework. Key staff in home capitals, with analytical and policy-making skills, provide direct operational support and guidance to the resident delegation. Finally, the more general personnel requirement, in the form of technical, legal, political and legislative skills, which are distributed among the various trade policy institutions in the country contribute to effective participation in the WTO process by implementing the country's commitments. Because the WTO is "member-driven" and it has a wide and growing mandate, the WTO process involves an unusually large number of meetings and consultations in Geneva.

These considerations place considerable premium on a country's capacity to maintain in Geneva a large, skilled and versatile delegation, which can engage in the daily meetings and consultations that ultimately move the WTO process. However, many African countries cannot afford to do this and should, instead establish a process of consultation with "like-minded" countries in the context of which their interests can be reflected in the WTO. Along similar lines, many analysts point to the growing recognition of the role of open regional economic integration in promoting multilateral liberalization and suggest that regional organizations could play an important role in en-

hancing African capacity to participate effectively in the WTO process. In particular, these organizations can, through pooling resources, provide services to their member states in a more cost effective way than when the member states act on their own.

Conclusion

Several features of the typical African economy, such as small population and low income, suggested that regional integration would provide a suitable mechanism for promoting economic growth through the expansion of intra-regional trade. But other features of their economies, such as lack of complementarity in goods and factors and poor infrastructural services, have shown that trade-focussed preferential trade agreements could not provide a viable means of achieving the articulated objectives. Yet, the potential for regional cooperation on a wide range of issues continues to exist in Africa. To realize these potentials, however, there is a need to search for new modalities of regionalism that lean more towards cooperation, less rigidity and more pragmatism. This necessitates the rationalization of existing regional economic groupings. As stipulated by the Abuja Treaty, all current regional and sub-regional institutions must be overhauled, to reduce duplication, maintain focus on major goals, concentrate resources on a few efficient and functioning institutions, and help avoid unnecessary competition and costly rivalry. The principles of variable geometry could be usefully applied in this more pragmatic modality for defining the functions and powers of the various layers of the new regional cooperation institutions.

Regional integration efforts should also focus on establishing a stable macroeconomic policy environment through regional coordination and harmonization of a wide range of policies as well as trade and investment regulations. In tandem with these, the development of a comprehensive transportation and communications network among African countries is one of the keys to an effective integration. This network is essential to facilitating the transfer of goods, services and capital. It is also an important factor in the exchange of ideas and people. This requires that Africa invest in new information and communications technologies and in human resources development. These aspects are critical for the competitiveness of African-based enterprises and to the education of its people.

In general, North-South type FTAs involving African countries may not be particularly beneficial to them in the short run, unless the FTAs are sufficiently asymmetrical over a sufficiently long period of time to permit orderly adjustment. It is also essential that such agreements include an appropriate compensation mechanism to take account of problems associated with fiscal revenue losses, de-industrialization and current account deficits. In the long-run, however, static and dynamic efficiency gains from such agreements might strengthen growth. The direction, magnitude and sustainability of the effects on growth will depend on the pace and success of the structural reforms aimed at facilitating the required industrial reform and reallocation of factors of production towards more competitive activities. In other words, the success of such North-South Agreements will depend on whether or not they attend to Africa's quest for diversification and industrial transformation.