

# **Annual Report on Integration in Africa 2002**

## **Overview**

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## **Introduction**

This draft overview of the Annual Report on Integration in Africa (ARIA 2002), to be published later in the year, presents the preliminary findings of more than two years of research and analysis at ECA. The Report, which ECA intends to produce each year, has several objectives. It hopes to establish the analytical tools, methods, and benchmarks for tracking integration in Africa's subregions. It also hopes to provide a framework to assist countries, regional economic communities, the OAU, the African Union, and other entities in positioning their engagements and responsibilities. Prepared in close consultation with national and regional stakeholders, the report thus hopes to become an authoritative reference on Africa's integration.

The Report will appraise the full spectrum of integration in Africa, using carefully designed indicators of achievement for the region and the many regional economic communities, based on goals set out in regional and subregional commitments. Drawing on these findings, the Report intends to provide lessons and action-oriented recommendations for addressing constraints and formulating policies.

The first Report is very much a work in progress, as is this draft overview. It spells out some of the main reasons for African integration. It examines the performance of the regional economic communities as building blocks for Africa's integration. It then looks at the general trends toward integration. It assesses the key sectors of trade, policy discipline, infrastructure, industry, and agriculture, describing progress by the individual economic communities. And it presents the highlights from the African Integration Indicators, a new contribution to help understand progress.

The draft concludes with some questions to set the stage for the way forward. Where does integration stand today? What are the big issues to be addressed in trade, macro convergence, infrastructure, industry, agriculture, and institutions? What should be the action plan for moving ahead with the African Union, and how should it relate to the regional economic communities and to national governments?

Geared to the needs of senior policymakers, this draft is presented to all those attending the African Development Forum—to serve as a basis for discussion, to frame what appear to be the most important issues, and to elicit answers to the many questions posed. The consultations at the Forum will then inform the content and preparation of the final Report.

## **One Africa! The vision**

One Africa has been a vision since the early days of independence in the 1950s and 1960s. There would be a common market for goods and services—and

coordinated policies for interest rates, exchange rates, and fiscal discipline. New and upgraded physical infrastructure, as well as improved facilitation and services, would ease transport and communications across all borders. And with a unified labor market, workers could move easily to the best opportunities.

But the vision's been clouded. There have been the devastations of war, civil and territorial, and the ravages of corruption, draining the state, and sapping individual endeavor. Closed regimes have been unwilling to reveal themselves to scrutiny. Inward-looking economies have been dominated by governments and public enterprises, crowding out private enterprise.

All along, however, the vision has made sense for Africa's 53 mostly small economies. Uniting them would permit the economies of scale that make countries competitive. It would provide access to a wider trading and investment environment, inducing backward and forward supply links. It would promote exports to regional markets, building experience to enter global markets. And it would provide a framework for African countries to cooperate in developing common services for finance, transport, and communications.

### ***Why integrate?***

***To transform Africa's economies.*** Regional integration is indispensable for the transformation and growth of African economies—and for Africa's integration with the global economy. Efficiency in production would rise in accord with the law of comparative advantage, while bigger markets would permit better exploitation of economies of scale. The attendant changes would increase the quantity and quality of factors of production, progressively upgraded through technological advances. Furthermore, factor mobility across borders and the coordination and harmonisation of monetary and fiscal policies would spillover into faster economic growth and enhanced welfare for participating countries.

***To unleash industry and business.*** One of the strongest justifications for regional integration in Africa is its longer term effect on industrial and business organisation. First, the increased tempo of competition among firms would force some inefficient business units to improve their operational procedures—while others, unable to change in the light of new realities, would fade away. The emerging competitive atmosphere will be healthy for business growth and profitability—and good for the consumer. Second, a wide range of manufacturing activities would be able to operate on a larger scale, expanding the industrial base so necessary for transforming Africa's economies. Third, wider opportunities for investment (domestic and foreign) would increase the volume and deployment of investable funds to exploit the continent's ample natural resources and tap its enormous reservoir of human resources and potential savings. The promise of attracting superior technology through private foreign investment could also be a big instrument of competitive production and integration.

***To become part of the world economy.*** Regionalism in Africa can also promote multilateralism—in the following ways:

- By going beyond the narrow issues of trade and global welfare, to include measures to promote foreign investment, human capital and technological development; infrastructure development, efficient exploitation of natural resources, and effective response to environmental challenges.
- By acting as an agency of restraint that locks in trade reforms.
- By creating larger political-economic units that can bargain more effectively in international forums.
- By building pro-export constituencies to counter domestic protectionist constituencies.
- By encouraging competition in domestic markets, lowering prices and improving quality, to make products more competitive in global markets.

Africa would progressively move toward being an integral part of the world economy, avoiding further marginalisation. But there is much work to be done to ensure that Africa's regional integration arrangements conform to WTO requirements, as stipulated under Article XXIV of the GATT.

***To promote the African Union.*** Regional integration is also perceived as a rallying platform for establishing an African Union. The OAU Charter and the Constitutive Act establishing the African Union establish the anchoring ideals. The Lagos Plan of Action and the Abuja Treaty establishing the African Economic Community spell out the economic, political and institutional mechanisms that ensure the attainment of this goal. In addition, the various Treaties establishing regional economic groupings since and prior to independence period, while showing the rich mosaic of goals and instruments that reflect the geographic and economic diversity of the continent, have pan-African dimensions.

***To address common political problems.*** Regional integration arrangements can also promote political cooperation, as members commit themselves to common objectives. The arrangements provide a platform for addressing common political problems and external threats. The ECOWAS partners have launched initiatives to consolidate peace, stability, and security through joint efforts with ECOMOG. The framework for such activities was recently reinforced by a permanent Mechanism for Conflict Prevention, Management, and Resolution, including protocols establishing a regional mechanism for mutual assistance in defence. SADC also has a peace and security arrangement for Southern Africa.

## **What now?**

Africa's leaders now see regional integration as a way to penetrate global markets and attract foreign direct investment. And they have upped the stakes for integration with their recent moves towards the African Union and the New Partnership for Africa's Development.

**Use the RECs as building blocks.** Africa's leaders have also decided that the many regional economic communities, known as RECs, will be the building blocks for integration. Now a mix of overlapping memberships, underappreciated and underfunded, the RECs have had some successes but generally have not met their objectives of greater production and internal trade—perhaps caught in the downdrafts of Africa's shrinking economies and shares in global trade.

But for this to happen, the RECs need to be invigorated. The first requirement is to rationalise their structure and their interactions with national governments, which have to recognise their current commitments. Also needed is greater cross-REC coordination, making the harmonisation of their often-competing protocols mandatory.

**Emphasise trade.** The RECs—and the region's integration—should start with trade. And because trade demands easy transactions, assured payments, and predictable exchange rates, there has to be much more progress toward macro convergence among trading partners. That could induce countries to invest in the physical integration of roads, rails, power lines, air services, and telecoms.

**Make the private sector a driving force.** In all this, the private sector has to be a driving force, with governments in a supportive role, providing better governance and a better climate for business. The private sector should be *the* driving force in cross-border investment and the production of goods and noninfrastructure services. And it should be a driving force in infrastructure and production. To be established, then, is a public-private relationship based on comparative advantage and friendly competition—the platform for cultivating innovation and the accumulation and transfer of knowledge.

**Solidify public support.** It's also essential to enlist greater popular participation and to solidify the support of civil society—to ensure the financing and development of institutions with the capacity to take on the many tasks of integration. Political leaders should make integration a national priority. And to elicit broad-based support for integration, they should launch awareness campaigns to spotlight successes and show the long-term rewards.

## **Regional economic communities—and Africa's integration**

With their treaties, protocols, and agendas, the RECs are logical institutions to jumpstart Africa's integration. Their treaties may be less than understood, their

protocols less than observed, their agendas less than what might ever be accomplished, but they could be converted from stumbling blocks to building blocks for African integration.

### ***Building blocks?***

The extent to which individual RECs can be truly considered as building blocks depends on the political commitment collectively displayed by the member states in moving integration forward.

In moving to the AEC, the Treaty provides for implementation in six phases. The first phase rightly focuses on strengthening the RECs so that they can become effective building blocks for the AEC. In later phases, the RECs are expected to evolve into free trade areas, customs unions, and through horizontal co-ordination and harmonisation, eventually culminate into a common market embracing the entire continent.

Africa has 14 RECs of varying design, scope, and objectives. Seven of them dominate the integration landscape:

- The Arab Maghreb Union (AMU), with five members.
- The Common Market for Eastern and Southern Africa (COMESA), with 20 members.
- The Economic Community of Central African States (ECCAS), with 10 members.
- The Economic Community of West African States (ECOWAS), with 15 members.
- The Southern African Development Community (SADC), with 14 members.
- The Inter-Governmental Authority on Development (IGAD), with seven members in eastern Africa.
- The Community of Sahel-Saharan States (CEN-SAD), with 18 members.

In addition, six other RECs are geographically limited or subsets of larger RECs:

- The West African Economic and Monetary Union (UEMOA), with eight members, all also belonging to ECOWAS.
- The Mano River Union (MRU), with three members, also belonging to ECOWAS.

- The Central African Economic and Monetary Community (CEMAC), with six members, also belonging to ECCAS.
- The Economic Community of Great Lake Countries (CEPGL), with three countries, also belonging to ECCAS.
- The East African Community (EAC), with three members, two belonging to COMESA and one to SADC.
- The Indian Ocean Commission (IOC), with five members, four belonging to COMESA and one to SADC.
- The Southern African Customs Union (SACU), with five members, all of which belong to SADC and two to COMESA.

The integration process in almost all the subregions is currently managed by two or more groupings. Most countries belong to two or more blocs. Of the 53 African countries, 27 are members of two RECs and 18 others are members of three RECs. One country (DR Congo) is a member of four. Only seven countries belong to one REC.

African countries chose to create and belong to several RECs to pursue their integration on multiple tracks. Some members of a larger bloc could proceed at a much faster speed in a separate smaller grouping. There was also a desire to maximise the benefits of integration and minimise losses by spreading risks. Especially for economically weaker countries, this may have been a strong incentive for clinging to several blocs.

***Harmonising the RECs.*** The AEC Treaty devotes an entire chapter to the need for the RECs to march in unison. The recent Constitutive Act of the African Union reiterates the competence of a harmonious approach to realising the Union.

- The growing rapport between ECOWAS and UEMOA has borne fruit in a common program of action on trade liberalisation and macroeconomic policy convergence. Both have agreed to adopt new common rules of origin to enhance the flow of trade. Other important aspects for harmonisation are customs declaration forms (to be a single document) and compensation mechanisms (ECOWAS has already agreed to adopt the system applied by UEMOA).
- In Central Africa, ECCAS is adopting a trade regime that takes into account the dispensations in CEMAC.
- IGAD and IOC are applying most of the integration instruments already adopted within COMESA, while the EAC and COMESA have concluded a memorandum of understanding to foster the harmonisation of their policies and programmes.



COMESA and SADC have agreed to set up task forces to deal with common issues and invite each other to their policy and technical meetings.

These initiatives increase the prospect for narrowing the discrepancies among the RECs. Even so, the RECs' efforts will need the support of a strong continental coordinating mechanism.

### ***Or stumbling blocks?***

The provisions of the RECs are in most cases as sophisticated as those of economic integration schemes in other regions of the world. They all have reasonably operational secretariats, conducting frequent meetings at the ministerial and working levels. Yet despite the political declarations, the complex institutional arrangements, and the protracted efforts of governments, they have produced very limited concrete results. Unlike economic integration in other parts of the world—in Europe (the EU), North America (NAFTA), and South America (MERCOSUR)—the African RECs have not accelerated growth or even trade.

***Little provision for interacting.*** The overarching objectives, principles, and other provisions of the Abuja Treaty, and those of the Constitutive Act of the African Union, should provide a framework for the convergence of the various protocols of RECs. But in most cases the provisions of such protocols confine the RECs to their own concerns and make little opening for interaction with other economic groupings. The Protocol on Relationship between the AEC and the RECs tries to address this by bringing the operation of the RECs under the umbrella of the AEC through greater coordination and harmonisation of their activities. The last Summit of the OAU passed a decision on the need for the AU to also sign a protocol with RECs on their mutual relationship.

***Whose protocols?*** At issue is whether the AEC (and now the AU) have to adopt their own protocols, to provide guidance for the RECs to adapt theirs. Given the large number of protocols (29) anticipated under the Abuja Treaty, it is unrealistic to have these protocols signed and in force before harmonising those of the RECs. Besides, the AEC does not need any protocol for itself before the last two phases of implementing the Community. Until then it would mainly coordinate the activities of RECs.

***Weak interfaces with member countries.*** Most of the economic integration measures in protocols, decisions, and agreements are to be implemented at the national level. This requires setting up one or more national mechanisms to plan, organise, coordinate, and follow up on the commitment of each country. Some countries have already established such a mechanism, including specific ministries to deal with integration issues. But others have yet to set up such a structure. In some cases the existing mechanism is too loosely defined or insufficiently equipped with human, material, and financial resources to do its work.

The weaknesses of national mechanisms explain:

- The failure of African governments to translate their commitments in regional treaties and arrangements into substantive changes in national policies, legislation, rules, and regulations.
- The unwillingness of governments to subordinate immediate national political interests to long-term regional economic goals (that would have had much higher payoffs for long-term national welfare) or to cede essential elements of sovereignty to regional institutions.
- The absence of monitoring and enforcement mechanisms to ensure adherence to agreed timetables for such matters as tariff and non-tariff barrier reductions or to achieve more difficult objectives, such as macroeconomic stabilisation.
- The frequent failure of national policymakers to consider AEC provisions and their involvement with RECs.

***Low capacity to deliver on ambitious mandates.*** The RECs have to cope with the ambitious mandates entrusted to them in their treaties and protocols, but they lack the resources to do so. Indeed, the lack of appropriate funding for regional integration policies and programmes has been pointed out as one of major weaknesses of the integration process. The gap between the allotments and payments is considerable and growing, even more so given estimates of their projected needs in the near future. For example, for COMESA and CEMAC the rate of collection against assessed contributions dropped from 100% in 1993 to just over 50% in 1998. Moreover, the contributions actually paid by member states have barely covered the operating expenses of the RECs, which have thus been overdependent on external assistance. The financing gap depends pretty much on the scope of cooperation. So, refocusing that assistance could make better use of scarce resources.

***Relating to other players.*** RECs may be the main actors in integration, but they are not the only actors, given the many regional and subregional bodies formed around narrower sets of activities, such as transport or energy. And in many instances, others may be more cost-effective or have a greater comparative advantage in doing the job. The problem for RECs is that they have been mandated to pursue such activities, so they cannot shy away from them—even if they lack the resources, even if they cannot pursue those activities cost-effectively, even if others are better suited to the task. One solution could be for the RECs to partner with others. Another would be to revise their mandates.

## **How integration is proceeding**

The research for this Report amassed a wide range of information on Africa's integration process. For each REC and for each of eight clusters of integration (such as trade, macro policy, infrastructure, industry, agriculture) data were collected at national, regional and continental levels. Those data were used to compile indicators of integration, which were then used to construct indexes of integration—for each sector, for each REC and for all of Africa.

### ***Sectoral analysis***

**Trade.** The Abuja Treaty calls for a six-stage approach lasting 34 years (from 1994) to form the African Economic Community. The first stage involves the phased elimination of tariffs on intra-REC trade, thus establishing free trade areas. Simultaneously, or subsequently, nontariff barriers would be eliminated and a common external tariff adopted, forming a customs union. Deeper reform would provide for free movement of goods within the community, free movement of factors of production, thus forming a common market. Finally, economic, social, environmental and other key policies would be harmonised and an economic union or community would be formed.

All the RECs have made significant efforts to move ahead with the first stage by adopting staged elimination of their tariffs on internal trade. Although there has been some variation in performance, REC members are for the most part adhering to their commitments.

The scheme for realising the AEC anticipates that all the RECs will satisfy the requirements of a free trade area by 2017. COMESA has already achieved the legal launching of an FTA, and some other RECs have made substantial progress ahead of the implementation timetable. UEMOA, SACU, and CEMAC are already fully functioning customs unions. But COMESA, ECOWAS, SADC, ECCAS, and UMA have lagged behind.

The outcomes so far? A mere 10 percent of the exports of countries belonging to RECs go to other REC members (table 1).

**Table 1. Exports to other REC members—or the world?**

	EXPORTS					
	Individual intra-REC exports as share of total intra-REC exports		Share of intra-REC exports in total Africa exports		Individual intra-REC exports as a share of its total exports	
	Percent	Rank	Percent	Rank	Percent	Rank
CEMAC	1.1	10	0.1	10	1.9	11
CENSAD*	12.8	3	1.3	4	3.6	8
CEPGL	0.1	12	0.0	13	0.5	12
COMESA	9.3	4	1.0	5	6.0	6
EAC	4.7	7	0.5	7	18.1	1
ECCAS	1.3	9	0.1	9	1.9	10
ECOWAS	19.9	2	2.1	3	10.2	5
IGAD	4.4	8	0.5	8	13.5	2
IOC	0.7	11	0.1	11	4.0	7
MRU	0.0	13	0.0	12	0.3	13
SACU						
SADC	31.3	1	3.3	2	12.8	3
UEMOA	5.9	6	0.6	6	11.2	4
UMA	8.6	5	8.6	1	3.1	9
<b>Total</b>	100		10.5			

\*CENSAD's ranking is happenstance, given that it was so recently formed.

Source: ECA staff.

SADC countries have the greatest trade among themselves, 31% for exports and 24% for imports, influenced by South Africa. Other strong export-oriented economies within SADC, such as Mauritius and Zimbabwe, contributed as well. Countries such as Malawi and Mozambique were equally impressive in direct exports to the SADC market. SADC tops the other RECs despite the fact that it began implementing a trade protocol only in September 2000. As most SADC countries also belong to COMESA, the COMESA trade liberalisation program could have helped them. As the implementation of SADC's own trade protocol gathers momentum, there is likelihood that intra-SADC trade will increase further.

ECOWAS ranks second with its intra-REC exports and imports of 17%. It has progressed well on its trade liberalisation program on traditional and artisan goods eliminating all tariffs, but not so well on industrial commodities, where the tariff reduction schedule is still facing problems. Its trade performance could thus have been boosted only by greater traditional and artisan trade. And given the 27 years that ECOWAS has been in existence, this performance cannot be considered very satisfactory. Many believe that much higher rates are possible if substantial progress can be made on the trade liberalisation program for

industrial goods—and if complete harmony can be established between UEMOA and ECOWAS to secure a more unified West African subregional economic market.

CENSAD's internal trade ranks third in exports (12.8%) and fourth in imports (10.5%). A fairly recent creation whose membership straddles several RECs, CENSAD has yet to develop full-fledged trade.

COMESA ranks fourth in Africa's total exports (9.3%) and fifth in imports (7.4%). These rankings may come as a surprise, given COMESA's reputation for its protrade measures.

The RECs have supported intra-industry trade through trade liberalization programs and other measures. But intra-REC trade in manufactures has remained infinitesimal (2–7%), and in some cases has declined as a proportion of total trade. RECs' measures to support the industrial sector are largely subsumed under their trade liberalisation programs.

And even though the private sector is considered to be the prime mover of industrial development, the RECs' treaties are mostly premised on having governments as key actors to get the sector moving. So, adjustments are required in the industrial cooperation provisions in the REC treaties to place more emphasis on the private sector (both indigenous and foreign) as the driving force and less emphasis on grandiose community industries anchored in governments.

Regional actions to enhance agriculture and assure food security are mainly concentrated on achieving the following objectives:

- Harmonising agricultural development policies and strategies.
- Promoting intraregional trade, including compensatory mechanisms.
- Implementing joint early warning systems for droughts, pests, and diseases.
- Developing efficient regional markets.
- Setting up institutions for joint research and capacity-building.

Another African reality is that much trade is in the informal sector, not captured by official records. If such trade were accounted for, intra-African trade would likely be much greater than the current 10%. There may also be more informal movements of capital than meets the eye. For these reasons, Africa's integration agenda needs to go beyond the formal economic links to capture the dynamics of the informal sector. The RECs should thus be encouraged to mainstream the informal sector in their policies and activities. For example, the East African Community is beginning to take notice of the informal sector, given the significant

cross-border activity within the Community. Many small subregional traders do business in Kenya, Tanzania, and Uganda, so policies that target big companies and investors should begin to look at small informal traders.

There thus are many problems to be addressed in the drive towards an integrated African market.

- First, most RECs seem to be operating as if they are independent entities rather than different arms of the same corporate body. Stage 2 of the AEC implementation scheme, expected to last to 2007, emphasises the need for coordination and harmonisation.
- Second, there is the problem of multiplicity of regional integration arrangements within the same region. This inevitably results in multiple country memberships, with the attendant burden of multiple membership costs and complications in applying rules of origin and the like.
- Third, implementing community protocols on trade and market integration may be undermined by concerns about diminishing national sovereignty and the independence of national policymaking—as well as possibly losing customs revenue and other intercountry trade-related charges. Moreover, the issue of nontariff barriers to intra-REC trade needs to be more seriously addressed across all the regional communities. Because of the diverse nature of what constitutes a nontariff barrier, there is less transparency in the implementation of this potentially important obstacle to intra-community trade.

***Macroeconomic policy convergence—still a mirage.*** UEMOA and CEMAC are making significant headway on this front, and ECOWAS, COMESA, and the EAC have established parameters for macroeconomic convergence to help orient their member states' efforts towards macroeconomic reforms and stability. But it has not been easy for many countries to climb to the desirable heights of macroeconomic convergence, and there is very little indication that all members are moving in tandem. So, it is difficult to assess how policy convergence, as a total package, is helping to generate macroeconomic discipline within the RECs and across Africa.

UEMOA, CEMAC, ECOWAS and COMESA have put a high premium on macroeconomic convergence by agreeing on and introducing parameters to move their member states towards policy harmonisation and stability. But they are at different levels of progress in the design of their convergence criteria and in the compliance of their member states to them. UMA and SADC have not yet established their convergence parameters. These parameters—ranging from reduction of inflation rates as well as fiscal and budgetary deficits to lessening the burden of debt—are normally meant to assist member states in developing and maintaining a satisfactory level of macroeconomic stability.

In general, member states are making some efforts to abide by their RECs' convergence principles. Based on their average performance between 1994 and 2000, RECs are ranked as follows.

- For inflation, UMA (7%) ranks first, followed by UEMOA (10%), CEMAC (10%), ECOWAS (12%), SADC (31%), and COMESA (33%). It is worth noting that UEMOA has progressively reduced its inflation rate from double digits in 1994 and 1995 to an average of 4% during the last three years. SADC's and COMESA's inflation would have been 17% and 15% respectively excluding Angola and DR Congo.
- For the budget deficit, the ranking is UMA (0.2%) followed by CEMAC (-2.3%), UEMOA (-3.7%), SADC (-4.3%), ECOWAS (-4.9%), and COMESA (-5.7%). The external debt the ranking is similar to that for the budget deficit.
- FDI inflows to the continent grew at an annual average of about 1.2% between 1994 and 1999. FDI represents about 2.8% of ECOWAS's GDP, 2.0% of COMESA's, 1.9% of UEMOA's, 1.9% of CENSAD's, 1.8% of SADC's, 1.4% of IGAD's, 1.0% of ECCAS's, and 0.9% of UMA's. For Africa as a whole FDI constituted about 1.5% of GDP. During the same period SADC and CENSAD drew about 21% of total FDI inflows each, followed by COMESA (16.4%), ECOWAS (11.9%), UMA (5.4%), UEMOA (3.1%), IGAD (2.7%) and ECCAS (1.9%). The positive trends in capital market development across the continent are expected to lead to increased cross-border investments and catalyze the flow of FDI by establishing partnerships with foreign investors. Indeed, stock exchanges exist in all RECs.

***Inadequate infrastructure and physical integration—a serious bottleneck.***

Limited infrastructure availability and networks, particularly in energy and transport and communications, emerges as a serious bottleneck. That adds even more to the high cost of doing business, undermining the competitiveness of African products, domestically and internationally, and pushing away foreign investment. The cost of a telephone call within Africa can be 250% of that for one in Europe; the cost of a flight between Abuja and Bamako can be 250% of that for one between Amsterdam and New York; the cost of a shipment from Addis Ababa to Abidjan can be 350% of that for one from Tokyo to Abidjan.

For transport, several missing links of the Trans African highways conceived to integrate member states within and between the RECs have been realised. Railway interconnection projects in West Africa and Eastern subregions have been conceived, and resource mobilisation is under way to undertake feasibility studies. The road network has been improved through better road management initiatives and the establishment of appropriate institutions. SADC's development corridors and the spatial development initiatives view transport in a holistic manner—and could be replicated in other subregions to open land-locked countries.

The decision to gradually liberalise the access of the air transport markets in Africa—the Yamoussoukro Decision—has been adopted at regional level and reinforced at subregional level. The African Open-Sky Decision has precedence over any contradicting bilateral or multilateral agreement and removes most of the restrictions on granting of traffic rights, fixing aircraft capacities, and regulating tariffs. This will improve intra–African connections and services, introduce competition in a larger market, and offer better choices to consumers. It will also increase private participation and multilateral donor investment in the air transport industry.

For telecommunications there have been several efforts to integrate the continent.

- The RASCOM project, launched in 1992, is providing a wide range of telecommunications services to all areas of Africa, establishing direct links between all African countries, and supporting international connectivity and connections where others cannot go.
- The African Information Society, launched by ECA in 1995, aims to create a continentwide information and telecommunication network and link Africa with the rest of the world by improving the flow of new technologies.
- The African Telecommunications Union launched the African Connection Initiative to help member states be part of the information society through accelerated development of the regional information infrastructure and its use in socioeconomic sectors.
- COMESA has launched COMTEL to build a regional telecommunications network, and ECOWAS is setting up telecommunication regulatory organs to share experiences and harmonise regulations.

For hydropower, ongoing projects include Kariba South Power Station between Zambia and Zimbabwe, the Ruzizi II hydroelectric station between Burundi, Rwanda, Democratic Republic of Congo, the Nangbéto hydropower station of the Communauté Electrique du Benin between Benin and Togo, and the Manantali hydropower project of the Senegal River Basin Development Organisation between Mali, Mauritania, and Senegal, also in the West Africa region.

For electricity grids, energy pooling through interconnection of electricity grids has already taken place in SADC region with the establishment of the Southern African Power Pool in 1995 to link the SADC member states into a single electricity grid. The Pool, probably the first significant attempt to establish a free trade zone for energy in Southern Africa, is a model for consideration in other parts of Africa. Power pooling is also taking place in ECOWAS with the West African Power Pool. In the East African Community one of the priorities is the



completion of the EAC Power Master Plan as part of the overall Regional Energy Master Plan, and Kenya, Tanzania and Zambia are considering the interconnection of their electricity grids. This would improve the reliability and security of power supply for EAC member states because of their access to the Southern African Power Pool, with its surplus electricity-generating capacity.

For oil and gas pipelines, energy pooling is already developed with the Transmed linking Algeria to Italy via Tunisia, and the Maghreb-Europe Gas Pipeline linking Algeria to Spain via Morocco. The West African Gas Pipeline Project is to supply Benin, Togo, and Ghana with natural gas from Nigeria by 2004–05. The Mozambique-South Africa Natural Gas Project developed by the South African synthetic fuels company, Sasol, is expected to be completed by early 2004. The Mombasa-Nairobi petroleum products pipeline will be extended from Eldoret in Western Kenya to Kampala in Uganda, with significant cuts in prices for petroleum products to Uganda, and other land-locked regions of northwestern Tanzania, Rwanda, Burundi, and the eastern Democratic Republic of Congo.

### ***Highlights from the African integration indicators***

The African integration indicators are the first empirical assessment of regional integration, based on an examination of how each REC is performing in relation to its goals, the pace of advance, and the progress in relation to other RECs (box 1). The coverage of the indicators starts in 1994, the year the Abuja Treaty came into force.

### **Box 1. Measuring integration**

The African Integration Indicators, and the African Integration Indexes constructed from them, are new. They thus presumably have limitations in design and in measurement. But they are a start, and they will be refined in future years.

Think of the Human Development Index, launched in 1990 as a complement to GNP per capita as a measure of development. The HDI started from modest beginnings. But continually refined, it was soon regarded as a useful basis for comparing the performance of countries and even parts of countries. The same is hoped for the African Integration Indicators and Indexes. Even though they are new and may have some limitations, they can provide a useful basis for discussion, and with time they will be refined to make them even more useful.

The indicators have been assembled for eight sectoral clusters of activity:

- Trade and market integration.
- Monetary, fiscal, and financial integration
- Transport
- Communications
- Industry
- Energy
- Food and agriculture
- Human development and labour markets

Each sectoral cluster itself comprises a subset of variables, with the trend calculated as a weighted average of the components of the subset. For example, the trade indicator is a weighted average of intra-REC exports and imports.

The individual REC performances are measured against the best performers for each sectoral cluster. Scores are assigned based on technical and statistical criteria, where the best performance is set at 10. Those scores are used to calculate indexes for each REC, with weights for each of the sectors. For example, trade and market integration has a weight of 34%, transport a weight of 15%. The integration indexes are then calculated as averages, weighted by GDP, of each REC's score.

There naturally will be a lot of discussion over the choice of variables, the scoring, and the weights. The intent here is to provide a very broad picture of how integration is proceeding in the various sectors for each of the RECs and for all of Africa.

Overall, there is a discernible move towards greater integration, with a burst through 1996, and a general slowdown thereafter (table 2). The average pace towards integration in 1994–99 was 4.7%, faster than the region's economic growth. But 1994 may have been a trough year, setting up rebounds in 1995. If so, the real pace of integration was only 1–2%. Also clear is the backsliding since 1997.

**Table 2. Composite Regional Integration Index**

Averages	1994	1995	1996	1997	1998	1999
Simple average	100.0	113.1	121.4	124.1	123.0	120.1
Weighted average	100.0	115.8	126.4	128.4	126.3	124.6

Source: ECA staff.

Of the individual RECs, SADC, COMESA, CENSAD and ECOWAS appear to have made good progress through 1997, with their momentum weakening with the rest of the continent after that (table 3). UEMOA, the clear star in integration, appears to have been consolidating and building on earlier success, particularly in macroeconomic discipline. Lagging behind were CEPGL, ECCAS, IOC and MRU, given the instability in those regions (table 4). The full Report, when released later this year, will present much more detailed information on the sectoral performance in each REC—and on REC performance in each sector.

**Table 3. Composite Integration Index, by REC**

REC	1994	1995	1996	1997	1998	1999
CEMAC	100.0	127.5	133.8	134.1	132.5	122.0
CEPGL	100.0	91.0	89.9	95.1	91.0	87.3
COMESA	100.0	110.1	123.0	125.2	127.2	118.3
EAC	100.0	114.7	120.3	118.5	120.5	119.2
ECCAS	100.0	124.6	128.1	132.0	126.8	121.7
ECOWAS	100.0	117.3	132.2	131.0	137.7	134.2
IGAD	100.0	112.4	116.4	119.5	120.8	119.2
IOC	100.0	116.2	126.2	118.3	123.8	109.6
MRU	100.0	90.2	96.4	119.3	109.3	117.1
SADC	100.0	113.7	124.8	127.2	133.2	132.9
UEMOA	100.0	117.4	130.5	132.3	134.7	136.2
UMA	100.0	112.3	125.0	124.8	119.2	121.7
<b>Average</b>	<b>100.0</b>	<b>113.1</b>	<b>121.4</b>	<b>124.1</b>	<b>123.0</b>	<b>120.1</b>

Note: CENSAD not included, given its recent formation.

Source: ECA staff.

**Table 4. Pace of integration, by REC**

Above average	Average	Close to average	Erratic
UEMOA 6.6%	CEMAC 4.7%	EAC 3.7%	CEPGL
ECOWAS 6.3%	CENSAD 4.6%	IGAD 3.7%	ECCAS

SADC 6.0%	UMA 4.2%	COMESA 3.6%	IOC
			MRU

Source: ECA staff.

## The way forward

### ***Today's balance sheet***

Africa's integration is beset with problems, some of which may be attributed to overly ambitious goals relative to resource requirements and capacities. But when considering the many factors that Africa must overcome to maintain a respectable growth rate, the lack of significant achievements to date is not surprising. The same systemic problems that beset the development of the continent's national economies are the very ones that impede rapid progress towards its integration.

But with much energy and goodwill, and with the recent efforts to achieve results, African integration is generally on course. Greater political commitment and resources are nevertheless indispensable for better results. So far the most visible efforts have been trade and market integration. But establishing an African Economic Community and the African Union also requires significant inroads in the key growth-enhancing sectors of energy and transport, within the RECs and across the continent. It is also essential to draw in the private sector, which has so far been largely peripheral.

### ***Key outstanding issues***

***Macroeconomic policies for regional integration.*** Many RECs are encouraging their members to improve their macroeconomic framework for development and deeper integration. The main parameters for convergence include interest rates, inflation, FDI flows, budget deficits, debt-to-GDP ratios, and economic growth rates. But convergence criteria differ from REC to REC, because of their different levels of development. Problems are particularly evident in budget deficits and debt.

- What is the best possible approach to ensuring rapid movement towards policy convergence among members of the integration groupings? Is there a core set of macro policies for convergence in the current vintage of reform programmes?
- Should Africa's integration groupings be given supranational authority to enforce decisions commonly agreed on and to impose sanctions for noncompliance? Or should they remain loose frameworks for steering their respective integration processes, depending on the best efforts of their member states to make progress?

- Are integration groupings effectively involved in national economic reform programmes (such as structural adjustment and successor programmes) to ensure consistency with regional policy objectives? Should their involvement be institutionalised for all economic reform negotiations, such as those between the country and the IMF and World Bank?

**Trade.** The majority of the RECs have yet to attain full-fledged free trade areas and custom unions. Elimination of barriers to intraregional trade is generally incomplete as some member states are behind in their tariff reduction obligations. Tariff reductions pose difficulties for several countries because of the impact on revenue. Other difficulties come from the uneven distribution of benefits and costs because of differences in the size and capabilities of member states. In almost all the RECs, intra-REC trade, particularly intra-REC exports, has been the preserve of only a few dominant economies.

- How can we identify asymmetries in the gains and losses from trade liberalisation schemes and other programmes for member states?
- Is establishing or agreeing on a “compensation mechanism” the right approach? What other redistribution mechanisms are needed to ensure that benefits and costs are shared more evenly and acceptably? And how can integration groupings best deal with asymmetries within blocs?
- Is Africa’s integration process putting too much emphasis on the creation of free trade areas and customs unions when production capacity is so rudimentary? Shouldn’t integration proceed with a more cautious approach to liberalisation? Shouldn’t the supply-side constraints be rigorously addressed first?

**Physical integration through infrastructure development.** Upgrading the infrastructure for energy, transport, and telecommunication is essential for developing Africa’s economies and reducing poverty. Much remains to be accomplished in completing various missing links within RECs and across Africa, especially in roads, and in exploiting the potential of trade in energy through such initiatives as Power Pools, which seem to be working quite well in SADC.

The RECs possess very limited capacities to drive infrastructure and other sectoral programmes, if not aided by other external players. So the extent to which RECs should continue to involve themselves in massive infrastructural undertakings needs to be addressed.

- How can we accelerate the financing of missing links in transcontinental networks? Is there a need for specialised institutions to finance such projects (such as a funding mechanism and an investment guarantee mechanism)?

- How can governments balance competing demands on their limited resources with the necessity to provide adequate support to integrated infrastructure programmes?
- What conditions including effective land and property rights, need to be met to ensure the effective participation of the private sector in infrastructure development?

***Strengthening the regional economic communities.*** Largely home grown, the RECs have been developed by the countries themselves through a complex and often protracted process of negotiation. Although implementation has not been perfect, with periods of inaction and backsliding, the system has led to solidarity among its members—and to progress towards an eventual economic union.

But the current setup, with 14 regional economic communities, is seen to waste efforts and resources. Given the many overlapping memberships, it has often been suggested that the integration process would be more effective if there were fewer RECs and if member states were limited to membership in only one. To ease the eventual fusion of the RECs into the African Union will require special efforts at harmonisation and coordination.

- How can the structures of the RECs be rationalised?
- What mechanisms are needed for countries and RECs to coordinate and implement agreed policies?
- How can political support—and that of NGOs and civil society—be solidified to ensure the financing and development of capacity and institutions?
- In setting priorities, how can the RECs emphasise what they're best at, deemphasising things better left to national governments, other African institutions, and bilateral and multilateral organisations?

### ***Building the African Union***

The African Union is the most ambitious political program for Africa since independence, and establishing it will place considerable demands on the existing institutional and financial infrastructure. Indeed, the challenges faced by the African Union are the same as those faced by the OAU and the RECs: clarity of mandate, strength of mechanisms for dealing with countries, and adequacy of resources to deliver on mandates. Many new institutions are to be created; the current reflections should articulate action plans for setting priorities or spelling out functions.

- What should be the timing and sequencing for establishing the African Central Bank, the African Monetary Fund, the African Investment Bank, and the many other institutions envisaged?
- What should be the priority areas for states to begin to cede sovereignty of some aspects of decisionmaking and share power with the AU?
- What will the AU's operations cost, and where will the resources come from?
- What would be the capacity requirements to design, manage and run the AU's many institutions?
- How will the AU reinforce and complement the activities of the RECs and other regional bodies, such as the ADB and ECA?
- How will the AU work with national governments? With civil society organizations? With the private sector?