Rethinking Regional Integration in Africa

AERC Senior Policy Seminar XX,

Kampala, Uganda

March 12-13, 2018

Seminar Report

African Economic Research Consortium
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About African Economic Research Consortium (AERC)

African Economic Research Consortium, established in 1988, is a premier capacity building institution in the advancement of research and training to inform economic policies in sub-Saharan Africa. It is one of the most active Research and Capacity Building Institutions (RCBIs) in the world, with a focus on Africa. AERC's mission rests on two premises: First, that development is more likely to occur where there is sustained sound management of the economy. Second, that such management is more likely to happen where there is an active, well-informed cadre of locally-based professional economists to conduct policy-relevant research. AERC builds that cadre through a programme that has three primary components: research, training and policy outreach. The organization has now emerged as a premier capacity building network institution integrating high quality economic policy research, postgraduate training and policy outreach within a vast network of researchers, universities and policy makers across Africa and beyond. AERC has increasingly received global acclaim for its quality products and services and is ranked highly among global development think tanks.

Rethinking Regional Integration in Africa – AERC Senior Policy Seminar XX Kampala, Uganda, March 12 –13, 2018: Seminar Report

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Abbreviations

AfDB	African Development Bank
AERC	African Economic Research Consortium
AGOA	African Growth and Opportunity Act
AU	African Union
CFTA	Continental Free Trade Area
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
ECOWAS	Economic Community of West African States
EU	European Union
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
ICT	Information Communication Technology
IMF	International Monetary Fund
IPDF	Industrial Policy Development Framework
IUMP	Industrial Upgrading and Modernization Programme
MNF	Most-Favoured-nation
MFIs	Microfinance Institutions
NTB	Non-Tariff Barrier
OECD	Organisation for Economic Co-operation and Development
OUP	Oxford University Press
PIDA	Programme for Infrastructure Development in Africa
RAPI	Regional Action Programme on Investment
RECs	Regional Economic Communities (RECs
RIDMP	Regional Infrastructure Development Master Plan
SADC	Southern Africa Development Community
SDGs	Sustainable Development Goals
SSA	Sub-Saharan African
SPS	Senior Policy Seminar
SQAM	Standardization, Quality Assurance, Accreditation and Metrology
UNCTAD	United Nations Conference on Trade and Development
UNECA	United Nations Economic Commission for Africa
WAIFEM	West African Institute for Financial and Economic Management
WTO	World Trade Organization

Preface

Regional trade and integration, by expanding markets and facilitating specialisation and scale economies in production, can be a powerful leverage for Africa's transformation, and ultimately, welfare of its citizens. Although there were efforts at regional integration as early as the 1960s, the Abuja Treaty of 1991 marked the most significant agreement about economic, social and political collaboration, coordination and convergence in Africa as it lays out the future of the continent with the establishment of an African Economic Community. The integration process, which has already achieved significant milestones, is set to run from 1994 to 2028.

The African Union recently developed the ambitious Agenda 2063 – a vision for an economic transformation of Africa that would produce "an integrated, prosperous and peaceful Africa, driven by its own citizens and representing a dynamic force in the global arena." Agenda 2063 envisages a continent where there is free movement of people, capital, goods and services, thus boosting intra-Africa trade and investment and by so doing strengthening Africa's position in global trade. The recent anti-globalisation drive makes intra-Africa trade a developmental imperative, with potential to boost industrialisation and employment, especially considering the youth employment challenge facing the continent.

The ultimate institutional framework for an integrated Africa is the Continental Free Trade Area (CFTA). The CFTA is intended to foster rationalization of regional integration processes, starting with the consolidation of the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA) and the Southern Africa Development Community (SADC) into the Tri-Partite Free Trade Area. The goal is to achieve a continental customs union by 2019, a common market by 2023, and an economic and monetary union by 2034. This will require, among other things, the creation of common institutions, agreement on how to allocate tariff revenues obtained from external tariffs, the creation of a common currency and associated central monetary institutions.

Regional integration has progressed well, with significant economic benefits already realised. Many countries have significantly reduced their average import-weighted applied tariffs on goods originating in REC partner countries and some RECs have boosted intra-regional trade. Afseborgor (2017) shows that ECOWAS and SADC have contributed significantly to intra-regional trade. The same is true of the East African Community (EAC), which has realised a substantial increase in intra-EAC trade, especially post-2010 when the customs union protocol was implemented, which increased intra-EAC exports by about 40 percent (Mayer and Thoenig, 2016). Other RECs have only a limited positive impact on trade, however, reflecting limited implementation of commitments to liberalize intra-REC trade flows.

African countries do not trade with one another as much as they should. Intra-Africa trade as a share of total trade (based on official trade data), is in the range of 12-15 percent, which is way below peer developing regions. While many African countries tend to export primarily natural resource-based products to the world, intra-regional trade has a greater share of foodstuffs, manufactures and services. Further, whereas commodity exports to the world tend to be large-scale and utilize well-established infrastructure and trade relationships, intra-regional trade involves smaller companies, smaller-scale shipments, and is much more sensitive to border delays, logistics disruptions, corruption, etc. (World Bank, 2015). Intra-regional trade has greater potential for employment creation and inclusive growth as small firms generally tend to be (low-skill) labour intensive – a resource that is abundant in Africa.

Trade policies (tariffs or the rules of origin that apply among countries that have free trade agreements), inefficient border management practices and nontariff barriers such as onerous compliance and conformity assessment processes, and restrictive regulations affecting the cross-border movement of products, trucks, traders, and services providers drive intra-Africa trade costs (Hoekman, Senbet and Simbanegavi, 2017). Low intra-Africa trade is also explained by structural factors: economic geography, similarity in sources of comparative advantage; limited trade complementarity; lack of supply capacity; infrastructure gaps, non-tariff barriers, enforceability of trade agreements, etc., (Geda and Seid (2015) and De Melo and Tsikata (2015). Transport costs are high for many African nations simply because of geography – making the efficiency of transport corridors and border crossings of paramount importance.

A key question confronting policymakers is to determine where and how regional integration can best help in addressing different sources of trade costs, whether due to policies or structural factors. An important dimension in this regard is assessment of what is being done to implement regional integration initiatives. Indeed, much is being done on both the policy front and in pursuit of initiatives to cooperate on improving infrastructure and related services. Much is also being done to reduce the trade-restricting effects of policies through trade facilitation initiatives. Lowering the costs of border clearance and transit can give a significant boost to bilateral trade, allowing for an increase in the number of products traded, and increasing aggregate welfare (e.g., Beverelli et al. 2015), and this is particularly important for small firms, who are less able to absorb the costs imposed by bureaucratic border clearance processes.

African Economic Research Consortium (AERC) senior policy seminars are forums designed specifically to bring together senior policy makers from sub-Saharan African countries to exchange experiences and deliberate on topical issues pertaining to sustainable development of their economies. Participants in these seminars are drawn from the highest levels of government, including the presidency, ministers, governors of central banks, heads of civil services, permanent secretaries and heads of government agencies and parastatals.

AERC is immensely grateful to the Government of Uganda for welcoming us to the country and for co-hosting Senior Policy Seminar XX. I also thank the authors who produced very high-quality papers, and the participants for their active participation in producing the seminar's policy recommendations that were shared with other African policy makers who did not find time to take part in this event. I am grateful to all those who made the seminar a success.

AERC appreciates the hard work of Dr. Charles Owino, Manager, Publications, for organizing the event and putting this publication together. Dr. Wilson Wasike, Collaborative Research Manager, and Dr. Owino again for their role as rapporteurs. Juffali Kenzi, ICT Manager, Pamela Kilwake, Accountant, Edith Mutui, Catherine Mwalagho, and Sheila Lyaga who assisted with logistics. To all of these and the many others who were involved, AERC extends its heartfelt gratitude. .

Prof. Lemma Senbet
Executive Director
African Economic Research Consortium

Rethinking Regional Integration in Africa

Introduction

African Economic Research Consortium (AERC) held its twentieth senior policy seminar from March 12-13 at the Lake Victoria Serena Hotel in Kampala, Uganda. The event was hosted in partnership with the Bank of Uganda. Rt Hon. Dr Ruhakana Rugunda, Prime Minister, Republic of Uganda was the Chief Guest at the opening of the Plenary. The welcoming remarks were by Prof. Lemma W. Senbet, AERC Executive Director, and Prof. Emmanuel Tumusiime-Mutebile, Governor, Bank of Uganda made the opening remarks. The conference featured five presentations by thought leaders about regional integration. There was a total of 115 participants from across Africa including high level policy makers in the rank of ministers, permanent secretaries, executive directors, managing directors of research institutions among other dignitaries.

The contributions in this meeting really heightened the understanding of regional integration for the benefit of African economic transformation. Records show that Africa is not doing too well on this front. Thus, there is an elephant in the room when it comes to grossly unsatisfactory outcomes of a myriad of regional initiatives in Africa. It is the political economy of execution even when the imperatives of economies of scale and synergy are well established. Realizing the ambitious intra-African trade integration agenda requires dealing with the political economy factors that have constrained greater progress in this area. Moreover, the ingredients for consolidation and integration of African stock exchanges are well known, but lack of political will and fear of loss of sovereignty have been impediments beyond capacity needs.

Despite the many (overlapping) RECs, trade is far from free in Africa. Intra-REC tariffs today range from a low of zero in the EAC and ECOWAS to a high of 7.4% in CEN-SAD (Karingi and Wilson, 2017). Although intra-regional tariffs have fallen within RECs, external tariffs often remain substantial. Average most-favoured-nation (MFN) tariffs are in the 12 to 18 percent range for many sub-Saharan African nations. Similarly, non-tariff barriers to trade between RECs are substantial and the same is true for barriers to trade and investment in services, and restrictions on the movement of people across borders (Dihel and Goswami, 2016). AfDB (2017) notes that, in over half of all country pairs, citizens of African nations need to obtain visas before traveling. Further, Africa does poorly in terms of the ease of trading services across borders (Karingi and Wilson, 2017).

Africa needs high and labour-intensive growth to create jobs for the millions of youth entering the labour market each year. Given the potential that intra-Africa trade holds in this regard, there is need to revisit this subject, with the objective of identifying the stumbling blocks to implementation. Like any other policy, policies to open up intra-Africa trade will have winners and losers within countries, and in addition, because of differences in initial conditions, some countries will benefit more than others. Thus, there is need to identify potential winners and losers from integration, and areas where policies are needed to complement regional integration so as to address adverse distributional effects. Further, the growing interdependence between manufacturing and services calls for market integration and trade policies that have the goal of removing obstacles to intra-regional exchange for both types of activities.

It is with this in mind that African Economic Research Consortium (AERC) convened the senior policy seminar on "Rethinking Trade and Regional Integration in Africa" to provide a platform for dialogue among African policy makers and between policy makers and AERC network researchers. The topics selected to anchor the discussions were: *The Political Economy of Regional Industrialization Policies,* by Dr. Bruce Byiers, European Centre for Development; *Greasing the Wheels of Regional Integration: Infrastructure as a Catalyst for Trade, Innovation and Growth in SSA,* by Dr. Chuku Chuku, African Development Bank, Cote d'Ivoire; *The Fiscal Foundations for Deeper Regional Integration,* by Prof Christopher Adam, Oxford Department of International Development; *Integrating African Services Markets,* by Prof Bernard Hoekman, European University Institute; and, *Eastern Africa Regional Integration Strategy,* by Chidozie Emenuga & Tilahun Temesgen AfDB.

The Political Economy of Regional Industrialization Policies

Session chair:	**Jean-Marie Gankou,** *Former Minister of Finance, Cameroon*
Presenter:	**Dr Bruce Byiers,** *European Centre for Development*
Discussant:	**Adam Mugume,** *Executive Director Research and Policy, Bank of Uganda*

The political economy of regional industrial policies in Africa

"The distinctive feature of recent developments is that even the wealthiest and most technologically advanced nations cannot hope to deal with the changes alone." Kagame, 2016, Report on the Proposed Recommendations for the Institutional Reform of the African Union. "I don't think Africa is short of policies. We must implement, that is where the problem is" Ex-Chairperson AUC, Nkosazana Dlamini-Zuma, OECD Forum on Africa, Paris, 6 October 2014. "That regionalism can solve a variety of collective action dilemmas is indisputable, but it is equally clear that it may sometimes be exploitative, reinforce asymmetric power relations or lead to a range of detrimental outcomes" Soderbaum, F., 2016, Rethinking Regionalism.

It is important to note that political interests affect implementation outcomes. This implementation heavily influenced by:

- 'Swing states',
- Private sector demand
- Partner finance and
- Historical trends
- Wider external factors

Industrial strategies - why now?

The return of industrial policy:

- De-industrializing' Africa?
  - SSA manufacturing output doubled 2005 to 2014
  - 3.5% annual manufacturing growth over past decade
  - Faster than global growth
  - But, share of MVA lower now than 1970s (Balchin et al., 2016)

- End of the commodity super-cycle
- Demographic growth
  - 'Getting prices right' not enough
  - Time for 'economic transformation' e.g. ECA 2013

Economic transformation is increasing productivity within sectors, and between sectors, thus industrial policy should be seen as a set of collaborative policies and procedures for detecting and responding to distortions in the economy. The three key 'market failures' to address: public inputs failure - limited ex-ante knowledge; coordination failures - simultaneous lumpy investments, first movers; self-discovery failures - what can be produced profitably, uncertain returns and process: consultation, learning, feedback loops, dialogue, "complex bundles of measures", plus a centralized budget.

What makes industrial policy work?

"Politics are central to understanding why governments pursue industrial policies, which sectors they target and with what kinds of policies, and how those policies are actually implemented" (Whitfield et al., 2015). This considers mutual interests among state bureaucrats, firms/farms, and ruling elites; pockets of bureaucratic efficiency; and ways of "learning for productivity"

Why regional Industrial policy should be considered?

- Same logic, larger scale...
- Economies of scale, fragmented markets etc
- Frustration with benefits from FTAs
- Supply side to benefit from market access
- From regional to global VCs

'Collective industrialization' in the past:

- ECOWAS 1975: promote cooperation and development, especially in industry
- LPA 1980: African states to "give a major role to industrialization in their development plans"
- Abuja Treaty 1991: harmonize industrial policies and adopt a common policy on industry
- COMESA 1993: "cooperate in the field of industrial development"
- EAC 1999: "develop an East African Industrial Development Strategy"

- SADC Trade Protocol (2000): an industrialization strategy to accompany implementation of the SADC FTA
- AIDA - 2008 - Accelerate Industrial Development for Africa - national and regional frameworks
- West Africa Common Industrial Policy 2010-15; 2015-20
- EAC Industrialization Policy 2012-2032, Action Plan 2012-17
- SADC
    - Industrial Development Policy Framework 2013;
    - Industrialization Strategy and Roadmap 2015-206;
    - Action Plan for the SADC Industrialization Strategy and Roadmap 2017
- COMESA Industrialization Policy 2015-2030; COMESA Regional Industrial Strategy 2017-2026.

Regional industrialization policies

Paraphrasing Hausmann et al., regional organizations can: assist the industrial sector through the provision of inputs: specific legislation, accreditation, R&D, transport etc.; help coordinate complementary investments... and improved policy coordination between different Ministries; help by offsetting the risk to entrepreneurs entering new markets; but do regional organizations play this same role? Or does industrialization promotion at a regional level imply different objectives and approaches? Where do political economy dynamics enter the equation?

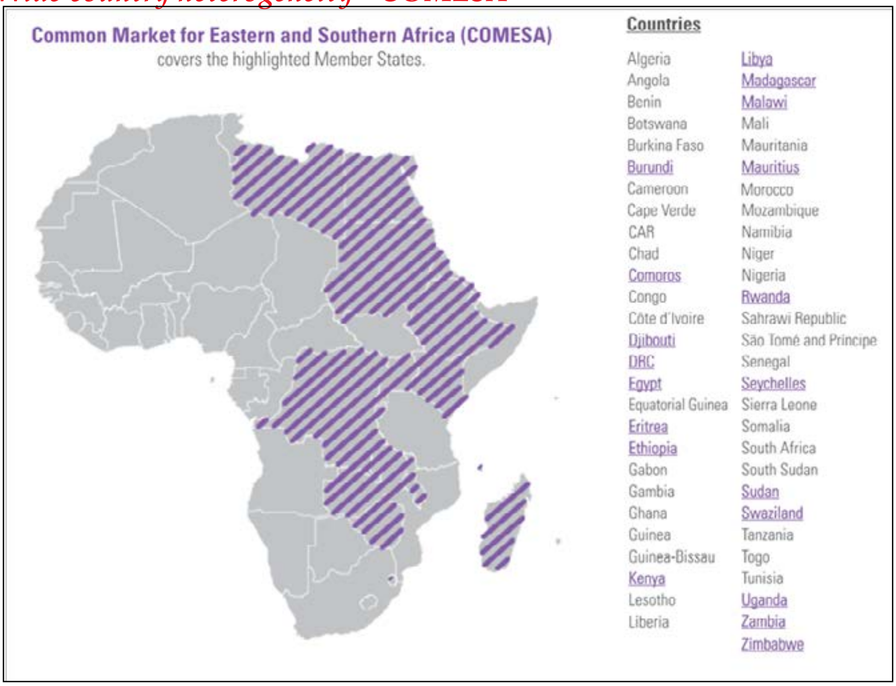
Regional objectives equal national objectives?

Going by SADC's example, the idea is to: double the share of manufacturing value added (MVA) in the region's GDP to 30 percent by 2030; increase manufactured exports to at least 50 percent of total SADC exports by 2030; build SADC's market share in the global market for the export of intermediate products to East Asian levels of around 60 percent of total manufactured exports; lift the regional growth rate of real GDP from 4 percent annually (since 2000) to a minimum of 7 percent a year; increase the share of medium-and-high-technology production in total MVA from less than 15 percent at present to 30 percent by 2030 and 50 percent by 2050; increase the share of industrial employment to 40 percent of total employment by 2030.

Wide country heterogeneity - SADC

South Africa = 60 per cent of regional GDP and less than two million people in the BLNS, Mauritius & Seychelles

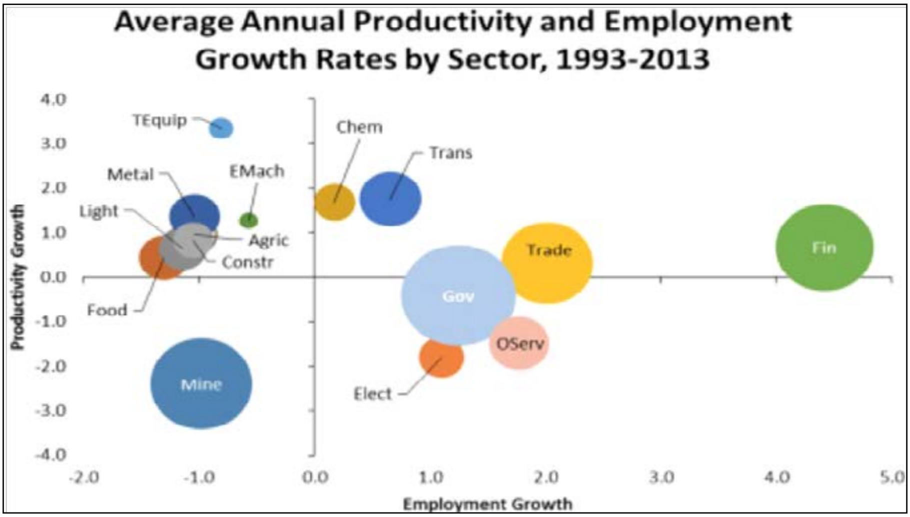
Wide country heterogeneity - COMESA



Between country interests

- Need to be "equitable" - EAC, COMESA
  - SACU industrial policy experience…
  - (Perceived) distribution of benefits key e.g. EAC - Kenya;
  - Africa (mainly SADC) the largest destination for manufactured exports from South Africa (> the EU in 2010)
- COMESA and SADC - "multinational investment projects"

Primacy of national interests e.g. Pipeline/port politics in EAC; Tanzania-Kenya trade wars e.g. dairy, import bans, restrictions; Protection of national sectors e.g. Nigeria import prohibition list, Angola on meat etc. and National challenges - employment/productivity e.g. Tanzania, South Africa



The SADC Industrialization Action Plan takes on other policies include: The SADC Trade Protocol; the Industrial Policy Development Framework (IPDF); Regional Infrastructure Development Master Plan (RIDMP); industrial Upgrading and Modernisation Programme (IUMP); protocol on Trade in Services; action Plan for Regional Manufacturing of Medicines and Health Commodities (African Union – AU); costed Action Plan for SADC Industrialization Strategy and Roadmap; Standardization, Quality Assurance, Accreditation and Metrology (SQAM) initiative; Regional Action Programme on Investment (RAPI); regional Agricultural Plan (RAP); mineral Linkages & Beneficiation Plan; digital SADC 2027; strategic Water Supply Infrastructure Development Programme and regional Green Economy Strategy and Action Plan for Sustainable Development.

What actual regional role?

Market-based measures	Kenya	Uganda	Tanzania	Rwanda	Burundi
Research and Development	+	+	+	+	+
Skills and Human Resources Development	+	+	+	+	+
Physical Infrastructure for Industrialisation	+	+	+	+	+
Supporting Market Development Ability (Both Domestic and Export)	+	+	+	+	+
Infrastructure provision for Special Economic Zones	+	+	+	+	+
Improving Regulatory and Legal Framework	+	+	+	+	+
Institutional Support and Development	+	+	+	+	+
Raw Materials and Industrial Input	-	-	-	+	-
Environmental Sustainability	+	+	+	+	+
Energy Development for Growth	+	+	+	+	+
Standards and Quality Infrastructure	+	+	-	+	+
SME Development	+	+	+	+	+
Promotion of Targeted Sub-sectors	+	-	+	+	-

Source: EAC Industrialization Strategy

Regional coordination failures

RVCs - cooperation to overcome PS barriers: EAC, SADC - "promote regional value chains"; ECOWAS "Business Opportunity Information Management System (ECO-BIZ)" - "industrial partnership network"; COMESA Market Information Network and SADC - promote firm linkages

- Priority sectors'
    - Agro-processing, minerals, pharmaceuticals...
    - Same as national priorities e.g. pharmaceuticals - francophone vs Nigeria
    - 'Align policies' e.g. COMESA, ECOWAS
- Private sector demand
    - Regional business associations?
    - ECOWAS Business council and engagement?
    - SABF representation

EAC Priority goods

Some of the East African Community priority good include Iron-ore and other mineral processing; note Uganda export ban; Fertilizers and agrochemicals; Pharmaceuticals; Petro-chemicals and gas processing; also note Kenya ban on Tanzanian gas; Agro-processing; as well as Tanzania ban on Kenyan milk products etc and Energy and Bio-fuels. To note as well is Mitumba ban - dividing interests too with Kenya's AGOA access. It is important, though to ensure regional policy complements national.

In regional coordination domestic politics key! In Tanzania rice and Zanzibar for instance, dairy import bans are about national objectives. In Nigeria import bans are on the following products: Live or Dead Birds including Frozen Poultry; Pork, Beef; Cement; Leather footwear. RSA and SADC Product-specific Rules of Origin about national industry as well as Uganda gas processing and domestic political prioritization

But what is the regional value added?

"The key challenge for corporate and government policymakers is to identify and prioritize entry points into value chains, which from a SADC perspective involves identifying tasks that can be undertaken competitively and how they might be shared within regional value chains in SADC."

Implications

If industrial policy depends on within country politics, that would be logical objective but, could lead to revise ambitions and scope, thus, Objectives need better defined. Regional coordination is necessary but harder, we therefore need to build on political interests; build on private sector needs/consultation, and this should be about investment not (just) policy coordination.

If industrial policy depends on within country politics, then industrial policy as a process should: identify problems; experiment; and learn and adapt. There are however, pockets of capacity - mutual interests like the state, elite, business. This comes either a genuine PS interest, or very sector/VC specific, remember ABC: Ambitions must be revised according to the politics; Brokerage between actors is key and Coalitions and champions will be needed

Greasing the Wheels of Regional Integration: Infrastructure as a Catalyst for Trade, Innovation and Growth in sub-Saharan Africa

Session chair:	**Hon. Onyoti Adigo,** *Minister for Agriculture, South Sudan*
Presenter:	**Dr Chuku Chuku,** *African Development Bank, Cote d'Ivoire*
Discussant:	**Prosper Hoagbode,** *Ministère de l'Economie et des Finances, Benin*

Infrastructure integration has become even more important in view of the recent wave of protectionism and populism around the world. It seems that the most strategic option is to rebalance growth towards intraregional trade, infrastructure integration is therefore the key.

The overall message is simple: Fast-track infrastructure integration to promote cross-border trade and investment, improve countries productivity and innovation, and raise regional output and competitiveness. Although there is general agreement on this, it is still not clear what it precisely means for SSA, how to go about it, nor the extent to which it could facilitate outcomes.

Hard and soft infrastructure

Hard Infrastructure is the stock of physical infrastructure that supports the economy and society. Soft Infrastructure are non-tangible aspects that support the development and operation of hard infrastructure. Infrastructure integration involves executing physical projects or policies that have a significant cross-border impact. By this, a large portion of national infrastructure is considered cross-border, since they constitute the building blocks.

While many RECs have been intensifying efforts toward stronger integration, it appears that these efforts are having only a marginal impact (see Ndulu, 2006). One likely explanation is because the progress has not been accompanied by commensurate efforts towards alleviating and integrating hard and soft infrastructure.

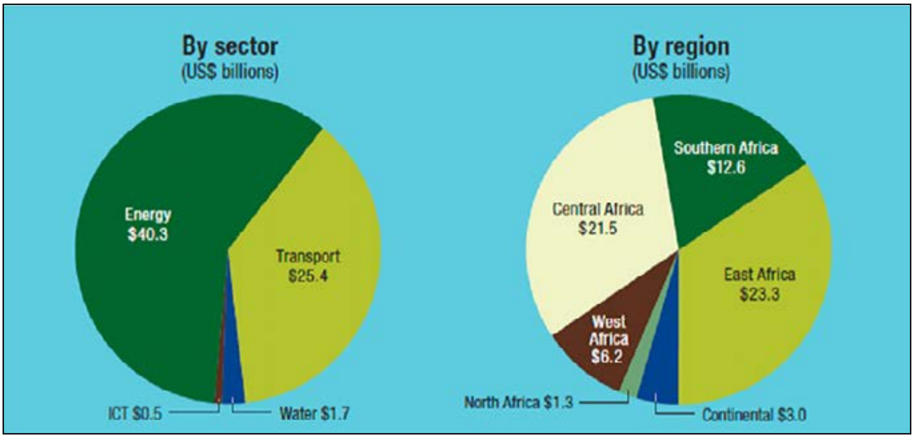
To assess the extent to which infrastructure development and integration can act as a catalyst for trade, productivity and income improvements; We identify RECs where infrastructure is working best in Africa; and examine some important issues and challenges related to infrastructure development and integration. Our approach is to use positive economic analysis—based on testable facts through, for example, regression analysis. And the normative economic analysis—based on subjective values, anecdotal evidence, and experience.

First, by disaggregation, we can isolate the impact of specific infrastructure sectors on economic outcomes, which helps to set priorities right. Also, by benchmarking infrastructure impacts based on RECs, we can identify where infrastructure is working best (for use in a flying-geese development model). The normative economic analysis guides us in identifying and recommending strategies that work for fast-tracking.

Africa's Infrastructure diagnostics and prognosis

A thorough diagnostics of the state of Africa's infrastructure and a prognosis of the prospects and outlook for the next three decades was the result of a fruitful collaboration between the AUC, AfDB and UNECA, which culminated in the masterplan for Africa's infrastructure development—the Programme for Infrastructure Development in Africa (PIDA). Cursory benchmarking of Africa's infrastructure with other regions show that the state of Africa's infrastructure is abysmal.

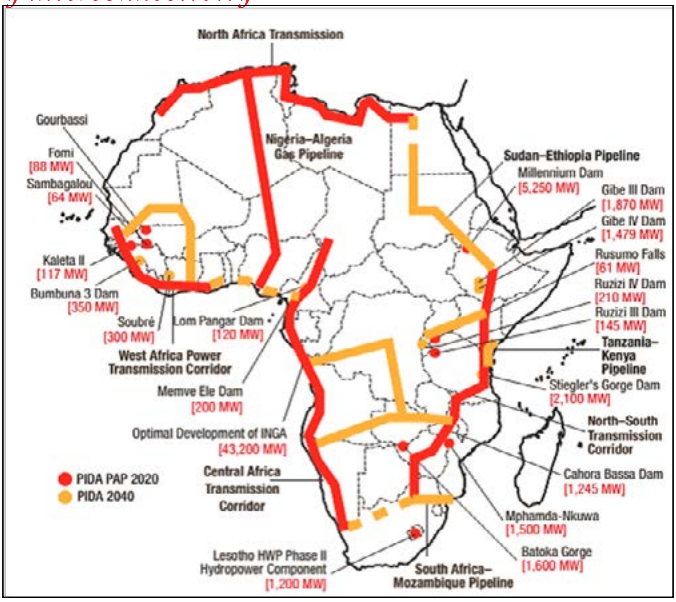
Cost of bridging gaps PIDA's PAP



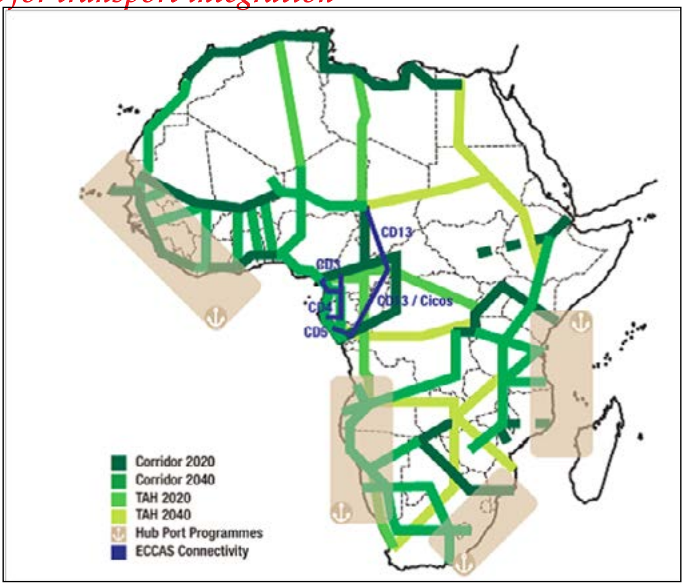
By sector, energy and transport take up more than 95%
By regions, Central Africa and East Africa take the larger percentage, about three-quarters combined

Masterplan for Energy and Transport Integration

Electricity interconnectivity



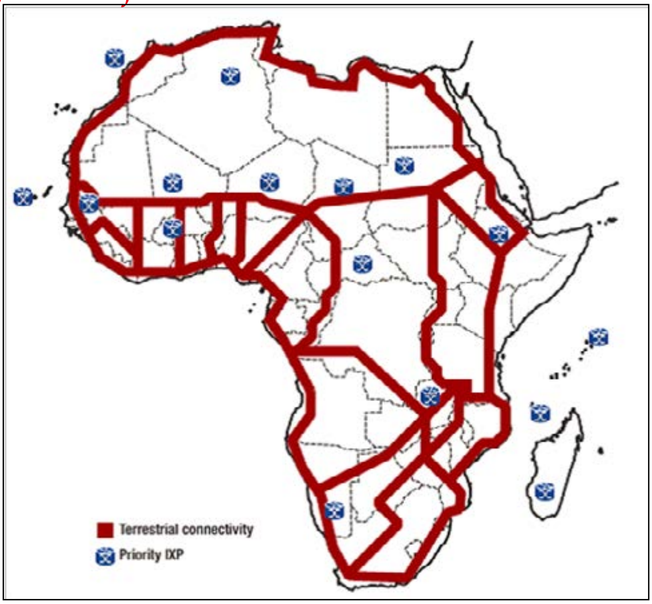
Network for transport integration



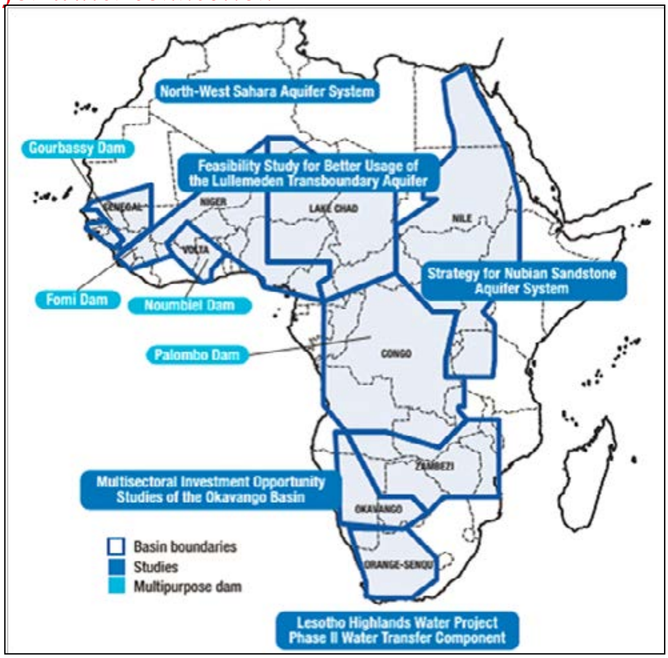
Source: PIDA, AfDB (2016).

Masterplan for ICT and Water Integration

Network for ICT infrastructure



Network for water connection



Source: PIDA, AfDB (2016).

Has Infrastructure Played Its Catalytic Role?

This is connected with the expenditure effect of infrastructure investments. The multiplier effects could have direct and downstream effects on income, employment and output. Although the recommended level of infrastructure investments for developing countries is 6.3% of GDP, it is below 3% for most African countries.

Infrastructure and income in Africa

This is more of a microeconomic effect that works to improve comparative advantage through the reductions of distribution margins. It is the trade facilitation role of infrastructure. Thereby improving integration, competitiveness, and market participation at the intensive and even extensive margins. Double virtue of sharpening trade via TOT effect.

Infrastructure as a Neoclassical catalyst

This can be seen in terms of "endogenous growth factors" i.e economic factors that when present, in themselves facilitate growth. This kind of infrastructure enhances productivity, technology diffusion, and human capital development.

Where is Infrastructure Working Best in Africa?

We unbundle the regional differences in the impact of infrastructure on economic outcomes, identifying the RECs with above or below average impact. We achieve this by interacting the infrastructure variables with dummies for the five RECs, and showing the impact for different

values of AIDI. This strategy helps to identify regions that are leading or lagging and hence require additional reforms and effort. Perhaps, by emulating the leading RECs others could catch up.

Some Issues in Africa's Infrastructure Integration

One challenge is the geographical and topographical diversity, which often implies significant differences in the appropriate types and specifications of infrastructure for different areas. Lack of proper cost-benefit analysis identifying externalities, such as the effect on greenhouse gases, forced migration, communicable diseases, smuggling, pollution, etc. Lack of unifying standards in regulatory policies, legal frameworks, and administrative procedures and endogenous conflicts related to distributional equity are also challenges as well as symmetric distributional costs and benefits. The role of neutral credible institutions to officiate, coordinate and drive the process is key. (WAIFEM, AfDB)

Market– or institution–led approach

We favour the combination of the two approaches, with more emphasis on the latter. Low intra-regional trade means a market-led approach would likewise, be low and lackluster. There is significant heterogeneity in the economic structure of many African countries, it is difficult to have a coincidence of economic fundamentals favourable to all. The idea is to pursue a top-down, government-led and market–creating approach, together with a bottom-up, market-driven approach.

How about inverse infrastructure?

There is a paradigm shift in the way that is provided these days. From the old-fashioned elephant–sized, large–scale projects to a new-fashion mushroom-sized small-scale projects that are not owned by governments or centrally controlled. Instead, the new paradigm is for individuals and SMEs to own and manage mushroom-sized infrastructure, which would then

metamorphose into local, regional and even global infrastructure. E.g Google, Wikipedia, networks of privately-owned solar energy systems, Airbnb and citywide Wi-Fi networks. The key feature is that it is marked by bottom-up investments made by individuals or SMEs, not top-down government funding.

Methods that work: incentivization or coordination

The U.S is often presented as the typical example of a country that drives infrastructure integration through the incentivization. The idea is to provide incentives (financial, administrative, technical) at the macro level, so it gets taken up at the micro. APUC could be used to govern cross-border infrastructure. Providing regulatory and social oversight functions to protect consumers and prevent unhealthy monopolistic competition.

Germany has used the coordination method to integrate its infrastructure within Europe. It involves integration through interactions (vertical and horizontal) between governments at all levels.

Conclusion and the Key Takeaways

Our findings show that the single most important infrastructure sector in terms of economic impact is ICT, followed by the transport, electricity, and lastly, the water sector. Secondly, our findings show that infrastructure has had the strongest impact on economic outcomes in the SADC region. Therefore, SADC is identified as the flying-geese, which could provide exemplary leadership for other RECs to emulate. One important change in paradigm that we advocate here is the utilization of "inverse" infrastructure for integration in sub-Saharan Africa (SSA).

Building Fiscal Foundations for Deep Regional Integration: From Customs Union to Economic and Monetary Union

Session chair:	**H.E. Dr. Anthony Motae Maruping,** *Former Commissioner for Economic Affairs, AU*
Presenter:	**Prof Christopher Adam,** *Oxford Department of International Development*
Discussant:	**Dr. Gibson Chigumira,** *ZEPARU, Zimbabwe*

The promise of ever closer union

Some of the economic gains from integration

Supporting a security agenda

- Interlocking economies can make conflict more expensive
- Regional obligations –a form of external 'agency of constraint'
- Solidarity: regular political contact builds trust and reduces the cost of cooperation

Leverage power in global markets

- Small countries acquire 'external voice' and may enjoy scale in accessing resources.

With aggregate gains come distributional tensions

Consumption gains are diffuse, but production and income effects are concentrated and cumulative

- Agglomeration and clustering advantages accrue to 'first movers'
- Trade Creation and Trade Diversion
- CET changes affect internal terms of trade depending on location.
- Cumulative forces integration favours certain locations, which attract FDI, public investment, skilled workers, becoming increasingly favourable.
    - "Recall the Tariff of Abominations" and the American Civil War 1860s; The Irish Famine in 1840s; Collapse of EAC I in the 1970s; Centrifugal forces: why fiscal institutions are required

Policy coordination in a Monetary Union

Managing two externalities and choice between centralized monetary policy and decentralized fiscal policy is on the table.

- The consensus single-country functional assignment of monetary policy stabilization and fiscal policy growth and debt sustainability comes under stress when former is supra-national, and latter is national.

Resolving the tension

I: Proceed 'with all deliberate speed'

– "Incomplete" monetary unions cannot be stable economic or political union.

  - Go forward 'with all deliberate speed' or 'retreat' to single market and/or customs union.

Evidence from History and elsewhere?

– History…the Bank of England question

– Elsewhere…few examples of 'communities of equals'…except Eurozone

Deep integration: the logical end point?

"The only governance that can be sustained in the Eurozone is one where a Eurozone government backed by a European parliament acquires the power to tax and spend. This will then also be a government that will prevail over the central bank in times of crisis and not the other way around. This will also be a government that has the political legitimacy to impose macroeconomic and budgetary policies aimed at avoiding imbalances. Put differently, the Eurozone can only be sustained if it is embedded in a fiscal and political union"

Paul de Grauwe (2016) "European Monetary Unification: A Few Lessons for East Asia" *Scottish Journal of Political Economy* **63** (1), pp1-17.

Resolving the tension

Managing divergence

– Investment in capacity, credibility and governance (at national and supranational levels).

– Investment in effective surveillance and enforcement is critical

– Structural instruments (to address deep core-periphery issues) and

– Stabilization instruments (to ensure efficient adjustment to shocks)

Monetary Policy -stabilization

The main monetary policy mandate is to anchor inflation and stabilize output in the face of shocks, while fiscal Policy focuses on solvency, growth and distribution. Fiscal policy has a dual mandate, it also anchors long-term debt sustainability.

Macroeconomic policy coordination

The 'StackelbergGame'
If central bank has clear and credible mandate, fiscal authorities anticipate central banks reaction and will internalize this reaction in its policy setting (on the deficit).

The Walters Critique and the need for activist fiscal policy

Single common monetary policy will not only be generally suboptimal for any individual country but may also be positively destabilizing. Excess credit growth / fiscal deficit overheating local inflationary pressure real interest rate needs to rise to stabilize the economy. But, if interest rate doesn't increase (because country is small and/or shock asymmetric) then rising inflation makes r fall, stoking excess demand and creating divergence!

Fiscal Requirements for Monetary Union: The trade-off

Walters Critique: Fiscal policy needs to be flexible enough –at the union-wide or national level –to offset the loss of national monetary policies and lean against tendencies for divergence.

Free-rider problem: Fiscal policy needs to be under-pinned by credible fiscal rules. Deep flexibility (automatic stabilizers and factor mobility) can reconcile the tension to some extent, but these factors are rarely strong enough.

The Institutional Response

Structural Funds – financed directly from members' budgetary contribution (supported by regional development bank) – to lean against pressures for divergence, and to support structural adjustment in response to long-term changes in terms of trade. The European Union (EU) Budget is approximately 1% of GNI of which 40% in Structural Funds (as at 2015).

Key Institutions

Stabilization Facility
Rotating, risk-sharing mechanism are adopted to support adjustment to shocks when monetary policy and fiscal policy are constrained. As per IMF – "to facilitate adjustment to temporary shocks when internal devaluation is costly." Fast, flexible, discretionary, but under clear framework of surveillance and conditionality. Well-resourced and credibly mutual – genuine insurance mechanism are preferred, and not a 'transfer union.' What about the cost: European Stabilization Mechanism has resources of 4.5% Eurozone GDP, small paid up capital, callable balance and bond-financing.

Lender-of-last-resort

Single central bank means national banks lose seigniorage powers – they cannot generate liquidity on their own 'local currency' debt becomes equivalent of foreign currency debt. If financial sector and government are closely linked in domestic debt markets, it raises risk of 'doom loop'; fiscal and financial crises become entwined. The lender-of-last-resort then becomes 'circuit breaker.' If successful, lender of last resort is never used; it provides confidence not cash "in a crisis instead of staring into an abyss, investors and financial institutions can see a floor".

Key Policy Lessons and Priorities for Deeper Regional Integration in Africa

- Despite problems with Eurozone, lessons on policy coordination are valuable.
- Original Eurozone fiscal architecture was incomplete.
- Need to learn from recent European developments.
- Slow but eventual development of stabilization funds and Lender of Last Resort
- Resource costs for stabilization are sizeable
- Resource costs of effective surveillance and monitor are substantial

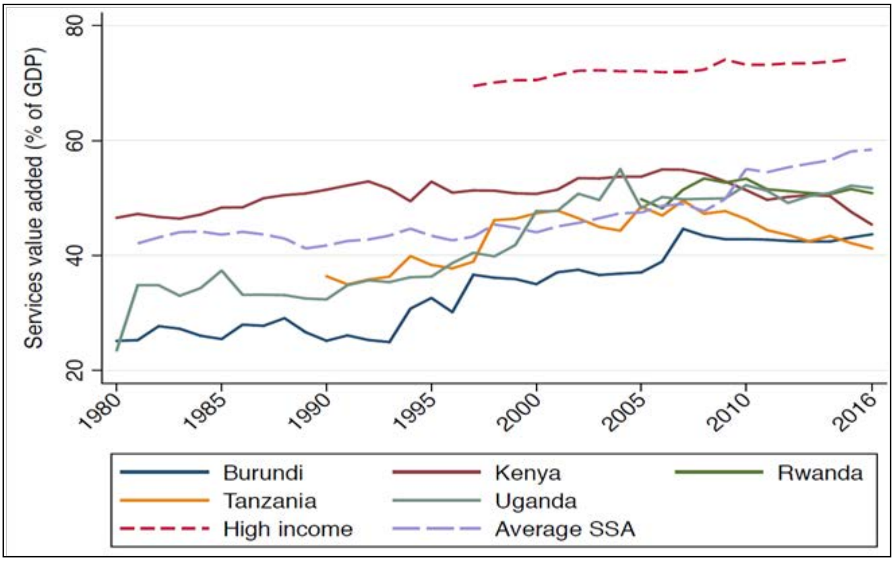
Integrating African Services Markets

Session chair:	**Bernard Kibesse,** *Deputy Governor, Bank of Tanzania*
Presenter:	**Prof Bernard Hoekman,** *European University Institute*
Discussant:	**Prof. Wautabouna Quattara,** *Director, African Integration, Cote d'Ivoire*

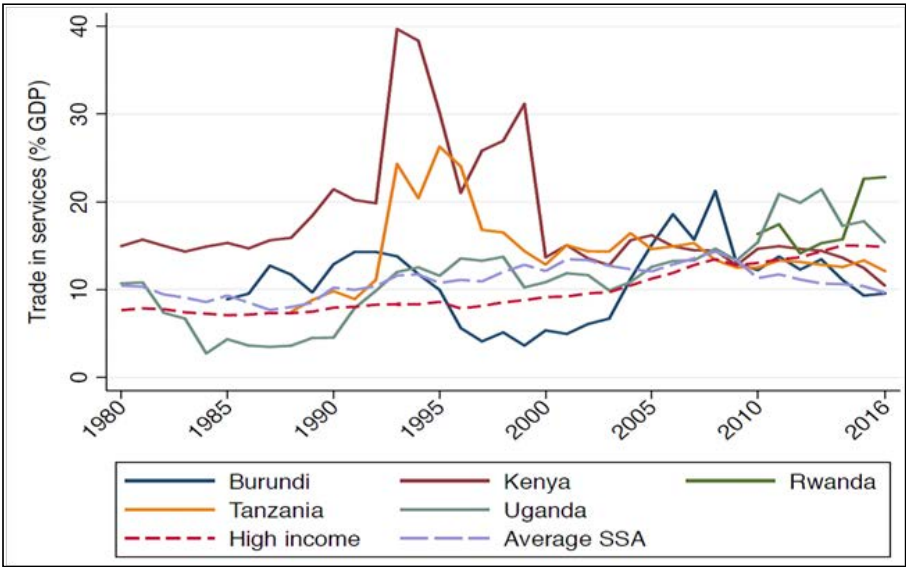
Stylized facts

- For any level of per capita income, services more important today than in the past
  - ICT and digitization of products; servicification of manufacturing
- Services ≥ 50% of GDP → growth requires productivity improvements in services
- Services account for significant share of production costs of firms
  - Logistics services key element of lower trade costs
  - Especially important for SMEs that confront higher burden in overcoming fixed trade costs
- Many SDGs require better performance of services sectors
  - Health, education, finance, transport, ICT services
  - Issues of quality, access, distribution on supply side

Service share in GDP

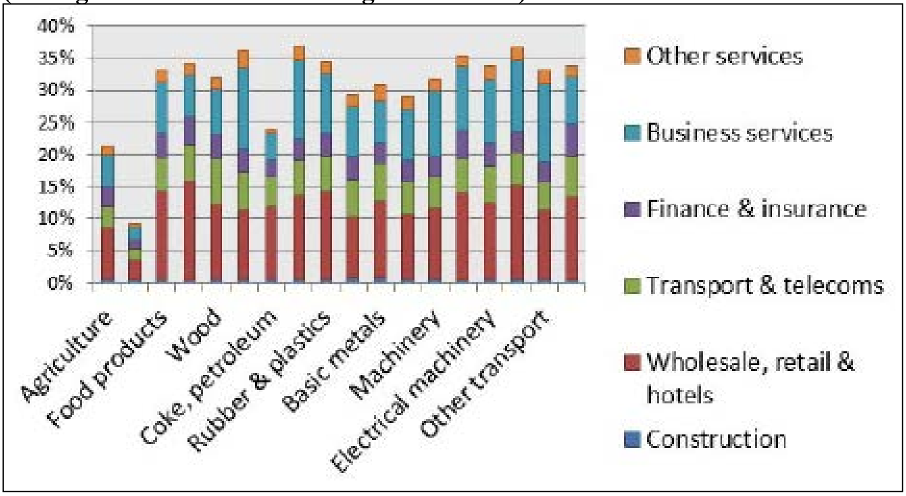


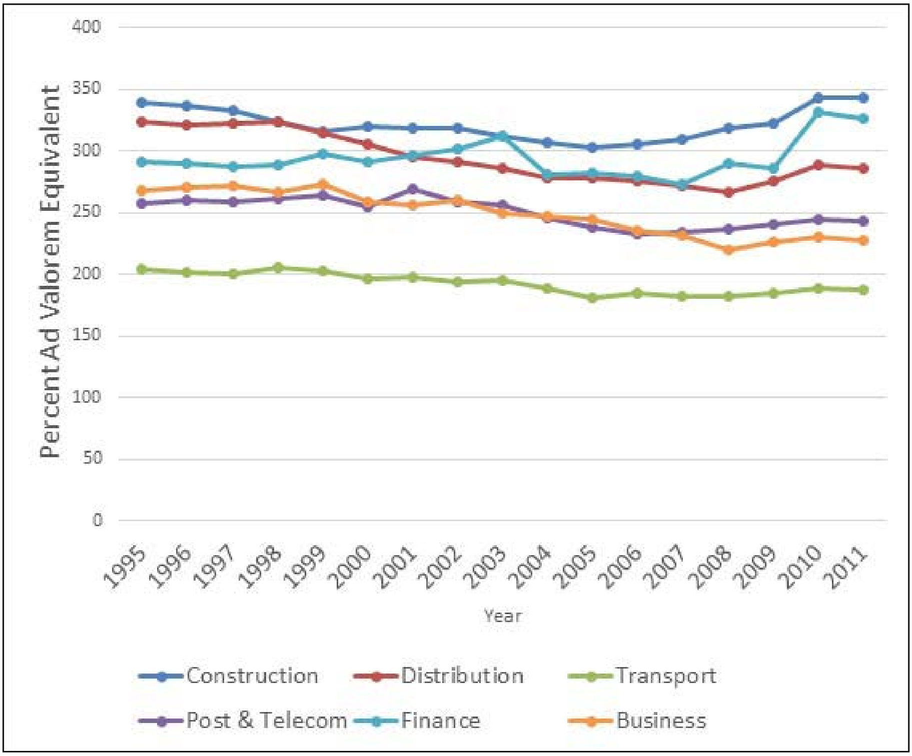
Services trade/ GDP ratio



Services & economic transformation

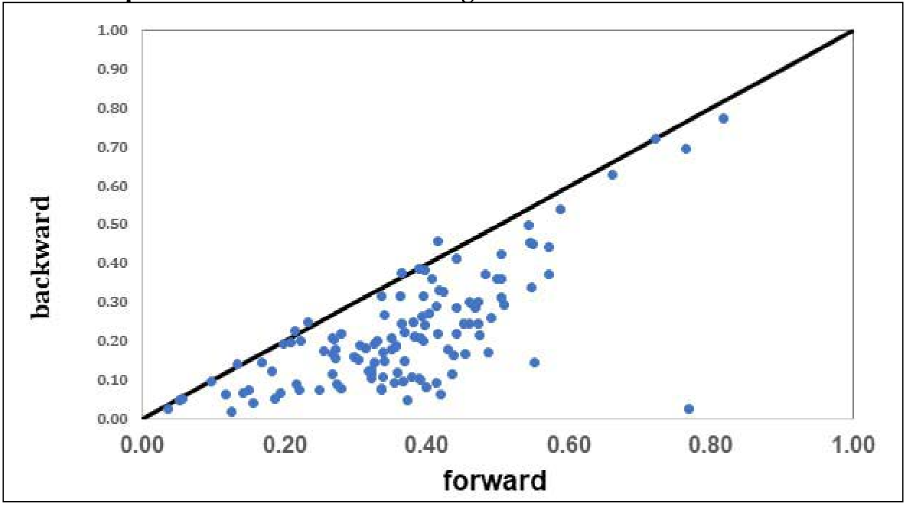
(average share in manufacturing value added)





Forward linkages dominate

Services inputs matter for manufacturing…and for other services



Empirical literature

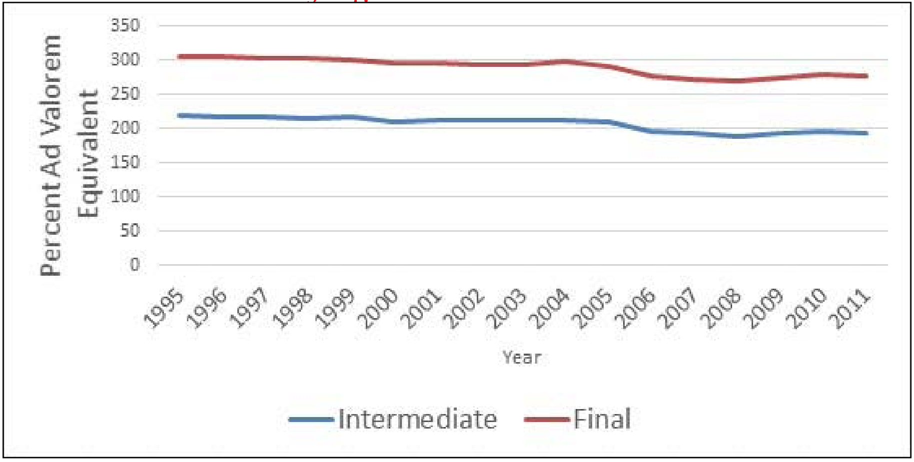
- Services performance is a determinant of aggregate productivity growth
- Numerous cross-country studies using firm and sector level data show impact of services productivity on downstream industries, controlling for intensity of services use
- Intra-services sector innovation/specialization as a driver of aggregate productivity growth
  - Business services; distribution services…
- Intra-firm servicification as a driver of productivity and performance differentiation within manufacturing
- Services are not 'stagnant': productivity growth ≈ other sectors (e.g., Young, AER 2014)

Already have substantial regional trade in services

- Tourism and ICT-enabled services get most attention
  - ICT/software-enabled: Ghana, Kenya, Nigeria, Senegal …
- But also see intra-regional trade in professional, financial, and health & education services

- COMESA case studies: 16% of interviewed firms in professional services activities export to neighboring countries (Dihel and Goswami, 2016)
- Barriers generate informal trade and reduce productivity—but reveal there is demand/potential
- Not just barriers at the border but include restrictions on foreign entry (e.g., professional associations)

Services trade costs very high

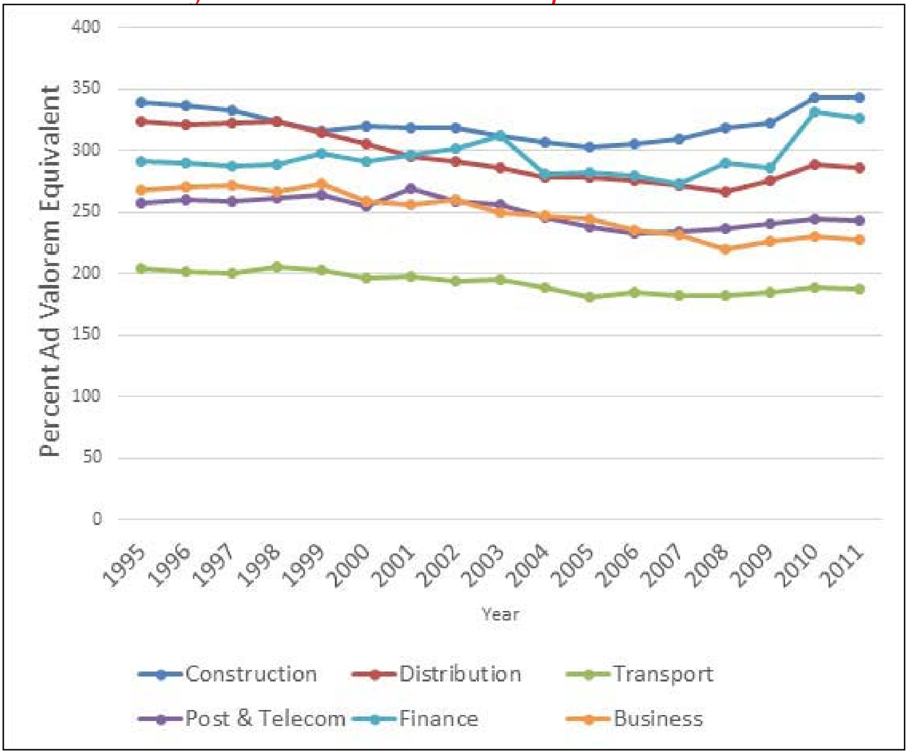


Source: Miroudot and Shepherd, 2015

Services trade costs

- Costs not just high but generally have been declining more slowly than trade costs for goods
- In part a function of characteristics of services—they are more difficult to trade
- But policy is often a reason for high trade costs
- Two dimensions of policy:
    - Regulatory requirements that apply to all firms
    - Explicit discrimination against foreign providers – protection of domestic firms

Discriminatory services trade/investment policies



Source: World Bank STRI database

How much do services trade restrictions matter?

- Research: lower services trade and investment barriers has both direct and indirect positive effects on productivity
  - within services and on downstream firms that use services
- FDI a major channel for gains from services trade reforms
  - Foreign participation a mechanism to foster competition (entry & exit)
  - Francois and Hoekman (2010) Journal of Economic Literature

Quantification exercises

- Impact of removal of services trade and investment barriers for four producer-services:
  - finance, telecommunications, transport, and professional services

- Condition on the quality of domestic economic governance quality (World Bank indicators)
- Productivity impact of lower(ing) STRIs is a function of economic governance quality
  - Rule of law; control of corruption; regulatory quality
  - Sectoral regulation

Impact of STRIs on downstream manufacturing – conditional on governance quality

Country	Sector	Impact on labor productivity (%)		
		Institutions (National)	Institutions (Botswana)	Institutions (Denmark)
Botswana***	Furniture/nec	34.3	-	62.2
Burundi	Agribusiness	-1.6	27.8	50.4
Ethiopia	Agribusiness	20.1	98.1	177.8
Malawi	Agribusiness	6.4	26.6	48.3
Mauritius***	Textiles	14.2	18.5	33.5
South Africa**	Agribusiness	34.7	55.2	100.1
Tanzania	Agribusiness	14.1	41.6	75.4

*** Statistically significant at 1% level; **: 5% level
Beverelli, Fiorini & Hoekman (JIE, 2017)

Facilitating trade in services

- Regional integration efforts should not neglect services
- African REC do include focus on services
  - E.g., EAC: positive list-based liberalization, starting with business/professional, transport, tourism, communications, distribution, education and financial services
- Integration of services markets a core dimension of reducing trade costs – make it a key part of trade facilitation agenda
- Leverage trade facilitation initiatives by including a strong focus on services
  - Include transport; logistics; etc. stakeholders in the mandate of National trade facilitation committees
- Include focus on FDI – investment facilitation
- And on movement of service suppliers: visas!

Facilitating trade in services

- Involves reducing both discrimination (market access barriers) and improving regulatory institutions/outcomes

- EU experience: this is hard! Focus on barriers to entry & establishment, including related to licensing
- Domestic regulation / international integration agenda centers in part on identification of good practices
  - Lessons from APEC, EU, others
  - Is this happening? Are regional organizations playing this role?
- But also centers on accepting some regulatory heterogeneity
- Challenge: determining areas where national objectives are very similar and regulatory regimes are equivalent
  - Calls for deliberative mechanisms between regulators (trust is key)
  - Include inputs/participation by private sector and stakeholders
- Must recognize and address political economy factors

Facilitating trade in services

- Connect to the potential winners – both manufacturing and services providers – mostly (very) small firms. (> consultations)
- Analysis – who gains from the status quo? Opportunity cost of status quo? (Role for AERC…?)
- "Knowledge platforms" – local stakeholders and global expertise
- Leverage global mechanisms for regional integration—e.g., WTO initiatives on e-commerce, investment facilitation and micro SMEs
  - Why the limited interest in – indeed, opposition to – engaging in such activities at WTO level?
  - Investment facilitation: only includes Benin, Guinea, Liberia, Nigeria & Togo. Why only West Africa?
  - MSME group: Kenya only African member (out of total of 58)
  - E-commerce: Nigeria only African member (out of total of 43)

Policy Roundtable

Session chair: ***Dr. Louis Kasekende,*** *Deputy Governor, Bank of Uganda*

Panellists:

- ***Dr Rose Ngugi,*** *Executive Director, Kenya Institute of Public Policy and Analysis (KIPPRA);*
- ***H.E. Dr. Anthony Mothae Maruping,*** *Former Commissioner for Economic Affairs, African Union;*
- ***Dr Nahoua Yeo,*** *Directeur de Cabinet, Ministère du Plan et du Développement (MPD);*
- ***Bwalya K.E Ngandu,*** *Deputy Governor, Bank of Zambia;*
- ***Dier Tong Ngorchoi,*** *Deputy Governor, Bank of South Sudan;*
- ***Specioza M. Mashauri,*** *Tanzania Chamber of Commerce Industry & Agriculture;*
- ***Frances R. Deigh Greaves,*** *Voice of the Voiceless, Liberia;*
- ***Luscious Kanyumba,*** *Former Minister, Malawi*
- ***Amb. Kheswar Jankee,*** *Embassy of the Republic of Mauritius, Germany*

Policy Roundtable Discussions

1. Africa is yet to fully exploit the benefits of intra-Africa trade. In your view, what are the factors that constrain greater intra-Africa trade? How can policy makers minimise and/or address these constraints to intra-Africa trade? What steps have been undertaken by RECs such as ECOWAS, EAC, etc., to foster intra-block trade?

2. A significant share of cross border trade in Africa is informal, and thus is largely not captured in official statistics. Has this affected the design and implementation of policies and interventions that support trade expansion and associated investment and employment creation? How can authorities access informal trade data to enhance policy making? Give specific examples where possible.

3. It is generally argued that the geography of Africa partly explains the low intra-Africa trade, and that infrastructure can serve as a catalyst for regional trade. What do you think ought to be the key considerations in the development of regional infrastructure projects if these infrastructures are to deliver greater intra-Africa trade? How can regional infrastructure projects contribute to industrialization of the continent? How should such projects be financed?

4. What's the status of integration of financial markets in Africa? What are the current impediments to achieving deeper, more growth-enhancing financial markets in Africa (give examples where possible)? In your opinion, what can be done to address these challenges?

5. Fear of losing out, and the political consequences therefrom, may explain the apparent inertia by countries to completely open up their markets (i.e., growing use of non-tariff barriers). What potential market integration ramifications do you think are the stumbling blocks to deeper integration in Africa? What can be done to reduce the perception or reality of losses arising from more integration? What can Africa learn from regions such as the EU in this regard?

6. What is the impact of multiple and overlapping REC memberships on market integration? In your view, does multiple membership raise compliance costs for countries when implementing agreements? What policy steps are required for Africa to move to a continental free trade area (CFTA)? How can institutions like AERC support these policy efforts?

Key Policy Issues and Recommendations

- Challenges that Africa is facing, especially demography (esp. youth employment challenges), geography (many landlocked countries), empowerment of women, climate change, limited diversity of African economies, among others;
- Regional integration is lagging the Abuja Treaty time lines;
- Regional integration should be thought of in its broadest and dynamic sense, including among other things, integration of goods and services markets, financial markets, labour markets and at all levels of society;
- Deepening regional economic integration in Africa will require concerted and coordinated efforts, considerable financial resources, communication and sensitization efforts, particularly private sector and civil society and strong political will and commitment from African governments, subsidiarity and readiness to share accountability and responsibility;
- Commended the vision and commitment of African Heads of State and Government to the integration agenda, as affirmed by their adoption of the Abuja Treaty of 1991, which became effective in 1994, that lays out the path to an integrated Africa;
- Extolled the African Union on its drive for a Continental Free Trade Area (CFTA), free movement, and single air transport market;
- Noted the progress made to date in regional integration, beginning with the formation of the eight Regional Economic Communities (RECs) which have greatly enhanced trade and integration within the blocks, and that will serve as building blocks for the African Economic Community;
- Need to prioritize and harmonize policy, regulatory and governance frameworks across the continent, and the need to implement agreed integration pacts;
- Private sector ought to be at the centre of regional economic integration, and underlining the need to foster alliances between states, private sector, women, youth and civil society actors in order to enhance economic governance for job creation;
- Although deepening integration generates large economic gains overall, there is need to ensure the benefits are shared equitably to ensure inclusive growth and development, thus requiring mechanisms and institutions to shield vulnerable groups and populations, including women and youth;
- The fact that all African countries are members of at least one regional economic block is important,

- Regional integration is a fundamental pillar for Africa to realize her development aspirations as articulated in the SDGs and the African Union Agenda 2063;
- The need for political and economic stability and harmonious regulatory frameworks and governance mechanisms to deepen regional integration, especially enhancing regional infrastructure (roads, rail, energy, ICT, water), easing movement of goods and services across borders, facilitating movement of people and service providers across national boundaries;
- The critical role of African Economic Research Consortium (AERC) in capacity building for promoting evidence-based policies and generating the knowledge basis for decision making on such key economic policy issues as regional integration is commended;
- Many well-meaning declarations and strategies have largely not been fully executed, in part owing to the absence of mechanisms and institutions to address the varying and differing interests, costs and benefits, call for immediate action, and a sense of urgency in deepening African integration.
- Financial integration is essential for regional integration, thus the need for consolidation of disparate financial markets, including stock exchanges to finance major integration projects, and recognition of the central and enhanced role and leadership of regional development banks;
- Committed to undertake policy dialogue and consultations within our own governments, private sector institutions and civil society organizations to identify and address all barriers to intra-Africa trade (including trade in services), improve trade logistics, and ease movement of persons to scale up intra-African cooperation and boost regional industrialization and trade, and thus improve the welfare of our people.

ANNEX A

Seminar Papers

- ***The Political Economy of Regional Industrialization Policies*** by ***Dr Bruce Byiers,*** *European Centre for Development*
- ***Greasing the Wheels of Regional Integration: Infrastructure as a Catalyst for Trade, Innovation and Growth in SSA*** by ***Dr Chuku Chuku,*** *African Development Bank, Cote d'Ivoire*
- ***The Fiscal Foundations for Deeper Regional Integration*** by ***Prof Christopher Adam,*** *Oxford Department of International Development*
- ***Integrating African Services Markets*** by ***Prof Bernard Hoekman,*** *European University Institute*
- ***Eastern Africa Regional Integration Strategy*** by ***Chidozie Emenuga & Tilahun Temesgen*** *AfDB*

ANNEX B

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ANNEX C

Seminar Programme

Sunday 11 March 2018		
16:00–18.30:00 Hrs		**Registration**
Monday, 12 March 2018		
09:00 –10:30		**Official Opening Session**
	Welcome remarks:	**Prof Lemma Senbet,** Executive Director, African Economic Research Consortium (AERC)
	Opening remarks:	**Prof. Emmanuel Tumusiime-Mutebile,** Governor, Bank of Uganda
	Session chair:	**Dr. Louis Kasekende,** Deputy Governor, Bank of Uganda
	Chief Guest Speech:	**Rt Hon. Dr Ruhakana Rugunda,** Prime Minister, Uganda
10:30 –11.00		*Tea/Coffee Break*
11:00 –12:30		
	Session 1:	**The Political Economy of Regional Industrialization Policies**
	Session chair:	Jean-Marie Gankou, Former Minister of Finance, Cameroon
	Presenter:	Dr Bruce Byiers, European Centre for Development
	Discussant:	Adam Mugume, Executive Director Research and Policy, Bank of Uganda.
	Floor Discussion	
12:30 –14:00		*Lunch Break*
14:00 –15:30		
	Session 2:	**Greasing the Wheels of Regional Integration: Infrastructure as a Catalyst for Trade, Innovation and Growth in SSA**
	Session chair:	**Hon. Onyoti Adigo,** Minister for Agriculture, South Sudan

Presenter:	**Dr Chuku Chuku,** African Development Bank, Cote d'Ivoire
Discussant:	**Prosper Hoagbode,** Ministère de l'Economie et des Finances, Benin

Floor Discussion

15:30 –17:00

Session 3:	**The Fiscal Foundations for Deeper Regional Integration**
Session chair:	**H.E. Dr. Anthony Mothae Maruping,** Former Commissioner for Economic Affairs, African Union
Presenter:	**Prof Christopher Adam,** Oxford Department of International Development
Discussant:	**Dr. Gibson Chigumira,** ZEPARU, Zimbabwe

Floor Discussion

17:00 –17:30	*Tea/Coffee Break*
19:00 – 21:00	*Dinner*

Tuesday, 13 March 2018

8:30 –10:00

Session 4:	**Integrating African Services Markets**
Session chair:	**Bernard Kibesse,** Deputy Governor, Bank of Tanzania
Presenter:	**Prof Bernard Hoekman,** European University Institute
Discussant:	**Prof. Wautabouna Quattara,** Director, African Integration, Cote d'Ivoire

Floor Discussion

10:00 –10:15	Tea/Coffee Break

10:15 –11:45

Session 5:	**Eastern Africa Regional Integration Strategy**
Presenter:	Chidozie Emenuga & Tilahun Temesgen AfDB

Floor Discussion

11:45 –13:15

Sessions 6: **Policy Roundtable**

Session chair: **Dr. Louis Kasekende,** Deputy Governor, Bank of Uganda

Panellists:

- Dr Rose Ngugi, Executive Director, Kenya Institute of Public Policy and Analysis (KIPPRA);
- H.E. Dr. Anthony Mothae Maruping, Former Commissioner for Economic Affairs, African Union;
- Dr Nahoua Yeo, Directeur de Cabinet, Ministère du Plan et du Développement (MPD);
- Bwalya K.E Ngandu, Deputy Governor, Bank of Zambia;
- Dier Tong Ngorchoi, Deputy Governor, Bank of South Sudan;
- Specioza M. Mashauri, Tanzania Chamber of Commerce Industry & Agriculture;
- Frances R. Deigh Greaves, Voice of the Voiceless, Liberia;
- Luscious Kanyumba, Former Minister, Malawi
- Amb. Kheswar Jankee, Embassy of the Republic of Mauritius, Germany

13:15 – 13:25	**Vote of Thanks - Director of Research, AERC**
13:25 –14:25	*Lunch Break*
18:00 – 20:00	*Cocktail Reception*