Regional Integration: Concepts, Advantages, Disadvantages and Lessons of Experience[1]

1. INTRODUCTION

Regional economic integration has a fairly long history in virtually all parts of Sub-Saharan Africa (SSA). A number of leaders called for the integration of Africa already soon after independence, but it was only in the 1970s and 1980s that concrete steps were taken to re-launch or establish economic integration institutions in all sub-regions. The first generation regional integration schemes were motivated partly by the political vision of African Unity, but also as a means for providing sufficient scale to import substitution industrialization policies. This inward-looking regional strategy failed for the same reasons as the underlying national import-substitution policies[2]: (i) national markets were too small and too poor; (ii) high input costs adversely affected transformation and export, causing foreign exchange shortages and overvalued currencies; (iii) domestic monopolies and trade protection contributed to powerful rent-seeking and "nationalistic" lobbies, biased and organized against regional as well as global trade; (iv) nationalistic governments with spoken interest in regional cooperation gave token support to regional organizations, broke their regional commitments and implementation lapsed; and (v) there was excessive emphasis on joint public investments as opposed to creating a truly unified markets for private operators.

As countries progressively switched from import-substitution to open-door policies since the early 1980s, likewise the second-generation regional integration schemes in SSA have become characterized by open regional arrangements. There are also palpable signs of a renewed political commitment to sub-regional integration from governments and private operators alike throughout sub-Saharan Africa as well as from the international donor community and finance institutions.

Promotion of regional integration remains an important economic and political goal in Africa. In view of this, it is appropriate to briefly reexamine **why** regional integration is pursued, **what** is understood by regional integration and pre-conditions and principles for regional integration in sub-Saharan Africa. The discussion is concluded by a few observations on challenges facing regional integration in Eastern and Southern Africa (ESA).

2. WHY REGIONAL INTEGRATION

One of the most compelling arguments for regional integration in SSA is usually made on the basis of the fragmentation of sub-Saharan Africa, which has 47 small economies, with an average Gross Domestic Product (GDP) of US$4 billion, and a combined GDP equal to that of Belgium or 50% of the GDP of Spain. The small domestic markets, combined with generally high production costs and deficient investment climates result in limited investment (Africa attracts less than 2% of global foreign direct investment). Sub-Saharan economic growth achievements are disappointing. In 2003, 16 countries achieved an average economic growth rate of 3%, 16 countries growth of 3-5% and 18 countries more than 5%. The implication is that with the per capita growth rate being between 0-2% per annum, there is limited progress in poverty reduction and the achievement of many of the Millenium Development Goals (MDGs) seems to be elusive.

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2 See **Mistry, PS, 1996.** *Regional Integration Arrangements in Economic Development, Panacea or Pitfall?* FONDAD, The Hague.

From the literature[3] and experience, some traditional and non-traditional gains from regional integration arrangements could be identified, including:

2.1 Traditional Gains from Regional Integration Arrangements

Trade gains: If goods are sufficiently strong substitutes, regional trade agreements will cause the demand for third party goods to decrease, which will drive down prices. In addition, more acute competition in the trade zone may induce outside firms to cut prices to maintain exports to the region. This will create a positive terms of trade effect for member countries. However, the move to free trade between partners who maintain significant tariffs vis-à-vis the rest of the world may well result in trade diversion and welfare loss (Viner, 1950). The risk of trade diversion could be mitigated if countries implement very low external tariffs ("open regionalism" arrangements).

Increased returns and increased competition: Within a tiny market, there may be a trade-off between economies of scale and competition. Market enlargement removes this trade-off and makes possible the existence of (i) larger firms with greater productive efficiency for any industry with economies of scale and (ii) increased competition that induces firms to cut prices, expand sales and reduce internal inefficiencies. Given the high level of fragmentation in SSA, it is expected that market enlargement would allow firms in some sectors to exploit more fully *economies of scale*. *Competition* may lead to the rationalization of production and the removal of inefficient duplication of plants. However, pro-competitive effects will be larger if low external tariff allows for a significant degree of import competition from firms outside the zone. Otherwise, the more developed countries within the regional integration scheme would most probably dominate the market because they may have a head-start. On the other hand, current technology may be obsolete in these countries compared to current and future needs of the regional market. Firms may then decide to re-deploy new technology and relocate in other areas depending on factor costs. In this case, countries with the most cost effective infrastructure and human resources would be the beneficiaries.

Investment: Regional trade agreements may attract FDI both from within and outside the regional integration arrangement (RIA) as a result of (i) market enlargement (particularly for "lumpy" investment that might only be viable above a certain size), and (ii) production rationalization (reduced distortion and lower marginal cost in production). Enlarging a sub-regional market will also bring *direct foreign investment*, which will be beneficial, provided that the incentive for foreign investors is not to engage in "tariff-jumping". This advocates once again for the necessity to reduce protection and more specifically external tariffs.

2.2 Non-traditional Gains from Regional Integration Arrangements

The theoretical as well as applied literatures indicate that there are several "non traditional gains" from regional integration arrangements.

Lock in to domestic reforms: Entering into regional trade agreements (RTAs) may enable a government to pursue policies that are welfare improving but time inconsistent in the absence of the RTA (e.g. adjustment of tariffs in the face of terms of trade shocks, confiscation of foreign investment, etc.). There are two necessary conditions for an RTA to serve as a commitment mechanism. One is

[3] **Viner, J, 1950.** *The Customs Union Issue.* Carnegie Endowment for International Peace, New York. **World Bank, 2000.** *Trade Blocs.* A World Bank Policy Research Report. Oxford University Press, New York. **Schiff, M and LA Winters, 2003**. *Regional Integration and Development*. World Bank, DC. **Teunissen, JJ, 1996**. *Regionalism and the Global Economy, The Case of Africa.* FONDAD, The Hague.

that the benefit of continued membership is greater than the immediate gains of exit and the value of returning to alternative policies. The other is that the punishment threat is credible. Regional integration arrangements work best as a commitment mechanism for trade policy. But RTAs can also serve to lock the country into micro and macroeconomic reforms or democracy if (i) those policies or rules are stipulated within the agreement (deeper integration arrangements) and (ii) the underlying incentives have changed following the implementation of the RTA. RIAs may be an *instrument for joint commitment to a reform agenda*, but their effectiveness may be limited by the low cost of exit and difficulties in implementing rules and administering punishment. With respect to other macroeconomic reforms, one may argue that the degree of openness of RIAs may help discipline in macro policies (especially if the zone shares or target a common exchange rate).

Signaling: Though entering RTAs is costly (investment in political capital and transaction costs), a country may want to do so in order to signal its policy orientation / approach, or some underlying conditions of the economy (competitiveness of the industry, sustainability of the exchange rate) in order to attract investment. This may be especially important for countries having a credibility and consistency problem.

Insurance: RTAs can also be seen as providing insurance to its members against future hazards (macroeconomic instability, terms of trade shocks, trade war, resurgence of protectionism in developed countries, etc.). Given that countries are in the "same boat", the *insurance* argument may not be an important rationale for regional arrangements between developing countries. But with asymmetric terms-of-trade shocks (such as with oil in Nigeria and the rest of ECOWAS), "insurance" may become an important rationale for integration.

Coordination and bargaining power: Within RTAs, coordination may be easier than through multilateral agreements since negotiation rules accustom countries to a give-and-take approach, which makes tradeoffs between different policy areas possible. Since RTAs may enable countries to coordinate their positions, they will stand in multilateral negotiations (e.g. World Trade Organisation - WTO) with at least more visibility and possibly stronger bargaining power. The *collective bargaining power* argument is especially relevant for the poor and fractioned countries within a sub-region. It may help countries to develop common positions and to bargain as a group rather than on a country by country basis, which would contribute to increased visibility, credibility and even better negotiation outcomes.

Security : Entering RTAs may increase intra-regional trade and investment and also link countries in a web of positive interactions and interdependency. This is likely to build trust, raise the opportunity cost of war, and hence reduce the risk of conflicts between countries[4]. Regarding *security*, RTAs could also create tensions among member countries should it result in more divergence than convergence by accelerating the trend of concentration of industry in one or a few countries. On the other hand, by developing a culture of cooperation and mechanisms to address issues of common interest, RIAs may actually improve intra-regional security. Cooperation may even extend to "common defense" or mutual military assistance, hence increasing global security.

[4] In **Polachek, SW, 1992**. *Conflict and Trade: An Economics Approach to Political Interactions*. In Isard, W and CH Anderton, eds., Economics of Arms Reduction and the Peace process, he found that a doubling of trade between two countries lowers the risk of conflict between them by around 17%. However, this may not hold in cases where conflicts are often non-economic and intra national, although with significant spill over.

3. WHAT IS REGIONAL INTEGRATION?

Regional integration can be defined along three dimensions:

(i) **geographic scope** illustrating the number of countries involved in an arrangement (variable geometry),
(ii) the **substantive coverage** or width that is the sector or activity coverage (trade, labor mobility, macro-policies, sector policies, etc.), and
(iii) the **depth of integration** to measure the degree of sovereignty a country is ready to surrender, that is from simple coordination or cooperation to deep integration.

3.1 Geographic scope of regional integration arrangements

Membership of a regional integration arrangement is a political choice of any one country, whether based on political, social, geographic and / or economic considerations. A key characteristics of ESA is the existence of seven overlapping RIAs, spanning twenty-seven countries from South Africa to Egypt. There are three main RIAs with overlapping membership and independent integration agendas, SADC, COMESA, and the EAC. They, in addition, contain or are straddled by smaller or single purpose groupings, namely, the Southern African Customs Union Agreement (SACU), the Multilateral Monetary Agreement (MMA), the Indian Ocean Commission (IOC) and the Inter-Governmental Authority for Development (IGAD). The RIAs are supplemented by the Regional Integration Facilitation Forum (RIFF) an offspring of the former Cross Border Initiative (CBI). Except for Mozambique and Somalia, most of the countries belong to at least two regional groups.

Eastern, Southern and Indian Ocean Countries' Membership in Selected Regional Integration Arrangements

	SADC	COMESA	SACU	EAC	IOC	IGAD	MMA	RIFF
Angola	•	•						
Botswana	•		•					
Burundi		•						•
Comoros		•			•			•
Congo, Dem. Rep.	•	•						
Djibouti		•				•		
Egypt		•						
Eritrea		•						
Ethiopia		•				•		
Kenya		•		•		•		•
Lesotho	•		•				•	
Madagascar		•			•			•
Malawi	•	•						•
Mauritius	•	•			•			•
Mozambique	•							
Namibia	•	•	•				•	•
Reunion					•			
Rwanda		•						•
Seychelles	•	•			•			•
Somalia						•		
South Africa	•		•				•	
Sudan		•				•		
Swaziland	•	•	•				•	•
Tanzania	•			•				•
Uganda		•		•		•		•
Zambia	•	•						•
Zimbabwe	•	•						•

3.2 Substantive coverage or width of sector or activity

First, it may be important to distinguish what (sub-) regional goods / activities are. (Sub-) regional activities (as opposed to national ones) typically seek to enhance the supply of ***subregional public goods*** (reducing that of common bads), or capture subregional externalities; and, they require the commitment - and most often the involvement - of more than one country. The key characteristics of such goods are that: **(i) *benefits/costs "inescapably" spill over national borders; and thus (ii) effective supply requires shared commitment and collective actions*[5].** Three broad classes may be distinguished, depending on the nature and the scope of the externality involved.

Goods/activities with spillover. This includes common goods (i) that are associated with joint and non-rival consumption[6] or (ii) that are predominantly country based but with significant spillover to others. For this class of goods, because countries may not reap the full benefit in the absence of a cooperative scheme, too few of the "common goods" will be supplied in the absence of cooperation. Likewise, because countries do not suffer all costs, too many of the "bads" are supplied. Examples of the former category include vector-born diseases such as Onchocerciasis, and other infectious diseases such as Malaria. These goods/bads know no boundaries except natural conditions**,** so that containment effort from one country may fail if others don't join. Examples of the later class include water resources, highly specialized education, basic research and development applied to sub-regional issues (desertification, deforestation, agriculture, etc). Another example is national conflicts, which are the result of specific group actions within countries, but with consequences that transcend borders

Goods/services which prosper from scale and competition: These are national goods in nature, but where small market size due to fragmentation reduces the scope for competition and economies of scale. By implication, supply becomes more cost-effective in larger sub-regional markets thanks to scale and competition. Many goods/services in this class have been traditionally supplied by "natural monopolies", and have known little or no trade in the past. However, with current technology and national market liberalization, sub-regional trade becomes possible and is likely to be boosted by sub-regional market integration. *In some cases* (ex: air-transport, financial markets*), competition and scale mutually reinforce one another*. These services would typically be supplied by multinational corporations, and most effectively on a larger sub-regional market, which allows competition and permit optimal choice and deployment of technology and capacity. *Another case is where competition is the overriding factor*, and market size mostly a mean for fostering competition. This is the case for telecommunication and labor markets. *The opposite case is when scale is the predominant factor.* This is true for power-pooling. The broader the space and the more complementary the sources of power (ex: hydro and thermal), the more reliable and cost-effective energy supply.

Activities which strive from consistency and credibility: These are activities that a country may unilaterally undertake, but where commitment and consistency are important for credibility, hence for maximum effectiveness. Macroeconomic policies (monetary, fiscal), trade and investment policies, regulatory and legal reforms are example of this class of activities. Joint commitment may be more or less effective, depending upon the degree of economic interaction and the concomitant opportunity cost of exits (financial, economic and intangibles such as loss of trustworthiness and prestige) and the credibility of the punishment. Current state of affairs in West Africa suggests that a traditional North-South type of arrangements (ex: CFA-Euro fixed exchange rate mechanism) entails a much higher exit penalty and is

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[5] For more on this, see **World Bank, 2000**. *Accelerating Integration in West Africa: A Discussion Paper*, World Bank, , 2000.

[6] No one can effectively be excluded from consumption or exposure (non-excludability), and consumption by one individual country does not affect availability to other countries (non-rival ness)

therefore more credible than south-south arrangements[7]. It is important to note that from the operational side, this class of activities is typically the domain of national administrations. By implication, harmonization or integration of these activities would need public supra-national organizations.

Even if we distinguish the nature of a sub-regional activity, then RIAs still differ to the extent of their substantive coverage of sectors and issues (e.g. trade, labor mobility, macro-policies, sector policies, etc.). This could be illustrated by the following examples:

- Diffferences in sectoral coverage: the two most significant regional integration agreements in terms of membership, COMESA and SADC, are following very different approaches to regional integration. Since its inception as the PTA, COMESA has been following an approach based on classical Vinerian arguments, looking at the benefits of regionalisation to derive almost exclusively from a trade angle. Its integration programmes are thus centred on trade, e.g. removal of tariff and non-tariff barriers; programmes embodied in the concept of trade efficiency; and other trade-related issues such as trade and investment, trade and competition policy, trade and labour migration (not labour standards yet), trade and finance (payments and settlement systems, currency convertibility, trade finance, etc.), trade and procurement policy, etc. In contrast, SADC, stemming from the economic independence desires and political security needs of the Front Line States, has had a development approach to regional integration. For it, the strongest argument for regionalisation has been hinging on issues other than trade, with structural weaknesses being regarded as the critical constraint to intra-regional trade. Thus, up till recently, it has followed largely a sectoral cooperation approach to regional integration.
- Differences in the depth of issue / sectoral coverage: As barriers to merchandise trade have come down and trade expanded, policymakers and trade negotiators have turned their attention to services and trade-related regulatory issues. Of these, services, investment, intellectual property, and temporary movement of labor are among the most important to developing countries. Agreements on all or some of these issues are now becoming common in bilateral and some regional trade agreements.

3.3 Depth of integration

Important differences in the nature of activities imply that different multicountry collaboration schemes may be required. Therefore, one also needs to distinguish varying intensity (‘depth") of regional cooperation. Forms of cooperation may be characterized according to the scope of activities (from discrete projects to programs, policies and institutions), and loss of sovereignty (from full country control to full delegation to a supranational entity).

- **Cooperation** may be the weakest and issue-focused arrangement. Countries may cooperate for a joint development project. They may also do so for facilitating exchange of information and best practices. They may also cooperate “à la G7” on monetary and exchange rate policy issues. They retain full control and if needed, may opt-out of the arrangement with relative ease. Except for narrow issues calling for joint development, cooperation signals the lowest level of multilateral commitment. It may be most effective for addressing many common causes that require regular exchange and consultation, but no supranational body to make decision. “Sub-regional common goods” would typically be the subject of some form of joint development and management scheme (ex: River Basin Initiatives) or specific sub-regional initiatives (ex: HIV, Malaria, Conflict Prevention and Resolution). This is also the case for issues related to governance, knowledge and best practice sharing, etc
- **Harmonization/coordination:** They imply a higher and more formalized degree of cooperation and commitment, hence a more effective lock-in arrangement as compared to simple cooperation. Typically, harmonization is intended to address inconsistency in policy content, whereas coordination is used to solve time-consistency issues. Harmonization may best apply to tax policy, trade policy

[7] By implication, a Ghana-Nigeria stand-alone monetary system will lack credibility, unless both currencies or the common currency is anchored on an international reserve currency such as the dollar or the Euro.

(tariff and trade facilitation), as well as legal (business law) and regulatory framework (standard rules and procedure for licensing, quality control, etc). Although it implies a higher degree of joint commitment, harmonization doesn't necessarily need a joint administration or supra-national entity. For example, countries may harmonize tariff and tax policies, and agree to use a common legal framework, but still retain national custom, fiscal and judicial administrations.

- **Integration** implies a higher degree of lock-in and loss of sovereignty, and also tends to apply to a broader scope, although it could as well be limited to a specific market. It may imply more united markets for goods (FTA and custom unions), factors (common markets), and also a common currency such as in the European Union. A deepest form is a federated union such as the United-States, which includes political as well as economic integration, including in infrastructure-related services (telecom, air-transport). Typically, high degree of economic interactions – trade, investment, etc. - could make integration more cost effective as opposed to simple harmonization/coordination, as the opportunity cost of exit rises. Also, the scope of integration and the concomitant complexity call for countries to relinquish sovereignty to a supra-national agency, the purest form being a federal government.

4. PRE-CONDITIONS AND KEY PRINCIPLES FOR SUCCESSFUL REGIONAL INTEGRATION

Suffice to say that successful regional integration is premised on a number of **pre-conditions**. As far as politics is concerned, these relate to the existence of: (i) domestic peace/security in countries; and (ii) political and civic commitment and mutual trust among countries. With regard to economics, there is a need for (i) a minimum threshold of macro-economic stability and good financial management in countries (price stability, realistic real exchange rates, etc.); and (ii) sufficiently broad national reforms to open markets.

Furthermore, whatever the scheme, successful integration has to be guided by **principles**, which would assure that the subregional and the national programs are compatible and mutually reinforcing. One such principle, "open-regionalism", seeks to insure that a subregional strategy is bred in the same ideological paradigm as national reform policies. The other, "subsidiarity", provides guidelines for dividing responsibilities between countries and regional organizations for facilitating the integration process. Another principle, "pragmatism/gradualism", indicates how, given differences in countries conditions, integration may proceed realistically so as to build on demonstration cases and minimize the frequency of policy reversals. In more detail:

4.1 Open Regionalism[8]

This is by far the most central principle for assuring consistency and complementarity between national reform programs and the sub-regional agenda. *Sub-regional programs must be bred in the same (i) outward-oriented, (ii) market driven and (iii) private sector-led development philosophy that has constituted the heart of national reform programs, especially since the 1980s*. It is precisely the need to reinforce these national programs that has led to the current resurgence of regionalism worldwide. Broadly speaking, open regionalism would mean coordinated integration rather than collective retreat from the world economy for countries of the sub-region.

- First, this implies ***outward-orientation**, meaning that subregional policies must contribute to lowering and eliminating obstacles to global trade and investment, including tariff and non-tariff*

8 "Open Regionalism" originates from APEC. The idea is that member states liberalize intra-bloc trade while at the same time lowering external trade barriers on imports from the rest of the world. This is a sort of "Concerted Unilateralism" whereby regionalism becomes a means for accelerating joint liberalization of trade and investment. Here the concept denotes a region-wide market economy that is also opened to the outside world.

barriers. Experience worldwide indicates that economic diversification and expansion of non-traditional exports to the rest of the world remain the best – if not the only – strategies for accelerated growth in the subregion. High levels of protectionism not only raise costs for both producers and consumers, they systematically discourage investment in export-oriented activities and inhibit economic transformation[9]. Thus, lower and more uniform tariffs, the total elimination of non-tariff barriers and concomitant reforms of domestic taxation must remain in the menu of regional programs[10].

- Second, it implies a ***market-driven integration process,*** *meaning that governments must not develop national monopolies, nor should they collude at the subregional level to develop multinational monopolies*. National monopolies constitute restraints on competition, free trade and investment; and the thrust of national reform programs is, among other things, to eliminate them. But as the market expands beyond national boundaries as part of the integration process, the subregion must guard against the appearance of subregional monopolies, which the larger scale does not necessarily prevent and may even make more attractive. Instead, countries must cooperate to expand markets and competition across borders. This is obviously the very idea of a common market. But this must go beyond traditional goods market integration (FTA, custom unions, etc), and extend to infrastructure services, which have traditionally remained the domain of national monopolies and which are now the targets of national privatization and liberalization programs.
- Third, ***private sector involvement*** *is implied by the very idea of a well-functioning market. Ultimately, integration is for the benefit of the people of a sub-region; they should be the critical actors, and governments and regional organizations only facilitators through appropriate choices and policies.* Enhanced production and trade of goods and services are dependent on improved performance of private firms and farms, and private operators and consumers will be the main beneficiaries of larger markets and investment opportunities. This also means that private operators have to be involved in the design and the implementation of regional activities, which would also help change the widespread perception that regional organizations are simply remote outgrowths of government bureaucracies rather than an instrument for empowering the private sector region-wide.

4.2 Subsidiarity

This is a second important principle and a term made popular by the European Union. Subsidiarity simply means that *regional institutions should be responsible only for those activities that are not better handled at the national level*. In return, government must be *selective* and *parsimonious* in creating sub-regional organizations and initiatives. Respecting subsidiarity is important for two reasons: to avoid overloading already scarce sub-regional administrative capacity and resources; and to assure that there is sufficient commitment and trust so that the key sub-regional agencies will be given the authority and the means to implement the sub-regional agenda. If these conditions are not respected, the sub-regional effort loses credibility, which in turn risks undermining future integration efforts.

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9 **Collier, P and JW Gunning, 1995.** *Trade Policy and Regional Integration: Implications for the Relations between Europe and Africa.* World Economy 18:387-410. **Sachs, J and A Warner 1995.** *Economic Reform and the Process of Global Economic Integration.* Brookings Papers on Economic Activity August, pp.1-118. Their research have shown that “trade restrictions reduce growth and that they have done so more catastrophically in Africa than in any other region”, partly because of higher trade barriers, but also because of tinier markets.

10 It is worth stressing these points because without outward-orientation as an explicit goal, many regional integration arrangements may have the tendency of raising rather than lowering external tariffs, partly the results of the consensual internal decision making process, or the by-product of increased power of lobbies. For example, in a Custom Union where each member country has an interest in raising protection in one sector and reducing it in all others, the consensual internal decision process may lead to a classic “prisoners” dilemma outcome with high protection in all sectors, even though each member country would be better off with low protection in all sectors. Protectionism may also arise as the result of increased power of lobbies, as the larger scale of activities may also increase stakes and hence raises the opportunity value of lobbying. (For a detailed discussion of these points, see *Trade Blocs*, World Bank Policy Research Report, World Bank, 2000).

4.3 Pragmatism and Gradualism:

Accelerated integration means, fundamentally, credible integration, built on pragmatic, gradual steps that reinforce trust and commitment, and make the process self-perpetuating. It is certainly valuable to have a clear vision of what regional integration should ultimately mean in a sub-region, but experience also strongly suggests that it would be wise to move forward in a pragmatic, gradual fashion, by building blocs and with timetables and targets that are credible and realistic. Declarations that are not achieved lead to missed targets, frustrations, and disappointments and, in the end, reversals. Here again, the challenge is poised by the very issue integration is sought to address, namely the diversity, in about every geographic, linguistic, political and economic sense, of countries of the sub-region. In this context, a strategy combining ***variable geometry*** (or sequencing integration in geographic space, allowing subsets of countries to move faster and deeper in certain areas), and ***variable scope***[11] (seizing opportunity to advance integration in areas where conditions are propitious), is probably the most appropriate and effective for most of the sub-regions in SSA. Gradualism provides low risk opportunities to progressively build experience and mutual trust, which are essential for integration to move forward and deeper over time.

One other important facet of pragmatism and gradualism is "***open access***"[12], meaning that regional arrangements must remain open to new membership from countries of the sub-region. A core group of countries may get on board; but they must keep the door open for other neighbors to join if and when they meet certain criteria. Another aspect is the question of ***adjacency***. Even though integration may proceed by building blocks, ultimately, the entire sub-region must become a set of contiguous countries, providing a "unified" geographic base for markets, especially factors and infrastructure services. For example, the fact that WAEMU does not comprise Ghana and Guinea makes the union a disjointed and sub-optimal space, and progress toward an integrated ECOWAS would remove this handicap.

5. CONCLUDING OBSERVATIONS ON REGIONAL INTEGRATION IN EASTERN AND SOUTHERN AFRICA

From the World Bank's work in and knowledge of Eastern and Southern Africa (ESA), there are some issues that cut across or are common to the various regional integration arrangements. These need particular attention if regional integration ESA is to become realistic prospects. Some of the major areas of concern include the following:

5.1 Major Common Challenges

At least three critical challenges in ESA, namely **political stability**, **water vulnerability** and the **HIV/AIDS pandemic**, although not directly related to regional integration are sufficiently serious in geographical scope and developmental impact to be *ipso facto* major obstacles to the process of integration. **Internal political insecurity serves** as both a driving force and threat for cooperation and integration in the sub-region. On the regional level, the mandates of SADC, COMESA, IGAD and the EAC all include peace and security aspects. However, it is over the past few years, that intra- and inter-

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11 For example, assuming that a shared goal is a Custom Union for ECOWAS, variable geometry would imply that blocks of countries (say WAEMU, Nigeria-Ghana tandem) may move forward at different pace. Variable scope implies that countries – all or by blocks – may decide to unify the air-transport, the telecommunication or the energy markets, or integrate the currency system and monetary policy, etc.

12 "Open Access" means that any country willing to abide by the union's rules may join. An example of Open Access with light requirements is the Eastern and Southern Africa Cross-border Initiative (CBI). The EU provides an example of restricted access, as acquiring full membership is a rather tortuous and difficult process as the UK has experienced and as Turkey is experiencing.

regional political security has been assuming increasing importance in the regional cooperation agendas of RIAs in ESA and they are actively institutionalizing their mandates in some form or another. Despite the recent laudable sub-regional peace-making and -keeping efforts, regional cooperation on politics, security and defense has yet to result in significant ‘regional peace dividends’ as well as political convergence through a lock-in of all countries into commitment to democracy, respect for human rights and ‘good governance’ in general. Of a different nature, with ESA, and particularly Southern Africa, having the highest HIV/AIDS prevalence rate in the world, the **HIV/AIDS pandemic** is threatening the development gains made up till now and posing severe challenges to the ability of the region to meet its future economic growth and poverty reduction goals. Third, **water vulnerability**, no less due to wide climatic variability and limited storage and water management infrastructure, has major macroeconomic and development impacts and exacerbate the perennial food insecurity situation experienced in the sub-region. Given that all significant river basins are also shared by two or more countries, it seems that the countries in ESA may have to accelerate cooperation in this area in order to prevent and manage conflicts that may arise from competing demands for water.

5.2 Overlapping Membership Issues

The ESA sub-region remains a fluid operating environment due to evolving regional and international trade agendas. The future shape and speed of regional integration within ESA will be determined by a combination of internal and external factors. Internally, SADC, COMESA and the EAC have expressed their intention to establish customs unions, COMESA and the EAC by 2004 (although it is doubtful whether both will achieve these target dates) and SADC by 2010. Countries that are members of more than one arrangement will be required to choose between them as it is impractical to claim membership of different customs unions. In addition, the five member countries of SACU have recently signed a new agreement, broadening the scope and decision-making practices of the existing arrangement.

Externally, a range of new trade agreements threaten to drive a wedge between Southern and Eastern African states. SACU has commenced negotiations with the USA towards an extensive free trade agreement, which is scheduled to conclude by 2005/6. Discussions with Mercosur are also under way and South Africa has expressed a willingness to lead SACU into bilateral trade agreements with Nigeria, China and India. These agreements will help to cement SACU as a regional block but will make it more difficult for its members to participate in other regional trade arrangements.

At the same time, the African, Caribbean and Pacific (ACP) states have started to negotiate reciprocal trade agreements with the EU in terms of the Cotonou Agreement. The current Economic Partnership Agreements (EPAs) membership within SADC and an Eastern and Southern Africa Group, respectively, raises the possibility that EPAs could act as the catalyst for reconfiguring the membership of existing regional groupings.

As the dominant economy of Southern Africa, South Africa’s participation is critical in any regional group. But South Africa has already concluded a reciprocal trade and development agreement (TDA) with the EU, which in practice extends to the other SACU member countries. SACUs lesser developed neighbors may look to improve on the terms of the TDA for their own EPAs and may resist joining in an EPA with Botswana, Lesotho, Namibia or Swaziland (BLNS) for fear of leakage from the TDA. On the other hand, SACU revenues and trade are of such importance to the BLNS that eventually they may not break from the new SACU to negotiate an EPA with the other SADC or COMESA members. All of these developments could raise (trade) barriers between SACU, COMESA and the remaining SADC members and thus are threatening to divide SADC.

5.3 Institutional Issues

The Regional integration organizations have limited institutional capacities for regional integration and international relations: All of the RIAs and their respective organizations are important implementers of NEPAD. However, their capacities to do so are limited in various ways. They have limited capacities for implementation and monitoring of their own regional integration agenda and no less for aligning these with NEPAD. At the same time they are involved in onerous trade and development multilateral and bilateral negotiations. On the side of the RIAs this has implications not only for their choices in what they are doing and how they do these, but also for the international partners, e.g. in the complexity of and differences in operational procedures for applying their funds.

At this time, the evolution of the institutional architecture for regional integration is not clearly visible. This is not surprising if one considers the changing configuration of similar institutions in other parts of the world, not least in Europe. What seems to emerge with a degree of certainty is that the region will not evolve toward a unified institutional arrangement but rather will gradually seek to strengthen the existing arrangements while developing stronger cooperative links between them. At the same time these arrangements will form, together with those in Central Africa and West Africa, the 'pillars' of the future African Unity and the framework for NEPAD initiatives. Within each arrangements, primarily SADC, EAC, COMESA, the trend is equally toward stronger institutions although not supranational, or apex organizations, possessing a notable degree of sovereign power. National governments remain the main if not sole actors for the foreseeable future, while the regional "secretariats" serve as cooperation facilitators, monitoring agencies as well as 'think tanks' and within their respective regional domains.

5.4 Policy Design Issues

Ambitious regional integration agendas and unclear prioritization and sequencing of programs and activities: Socio-economic performance and outcomes in the sub-region are attributable to both policy reforms and other influences. Exogenous influences such as adverse changes in climatic conditions, political instability and deteriorating risk perceptions as well as the global economic environment and commodity markets have been driving a wedge between domestic economic policies and outcomes. In addition, other non-policy factors operating in the sub-region's economies such as their weak institutional, financial and physical infrastructure and administrative capabilities may also explain the observed discrepancies between policies and outcomes and the shared failures in terms of low economic growth, unemployment and poverty. These issues raise a question for intensified cooperation on macroeconomic policies at regional level as to whether such cooperation would necessarily result in better outcomes for individual countries or the sub-region as a whole? At the same time, one of the preconditions for successful regional integration is macroeconomic stability. It is clear, that for some of the countries in the region this remains an elusive objective, while for a number of others their indebtedness renders macroeconomic stability not necessarily sustainable in the absence of the necessary grant flows and or other financial flows. The answer to the question is not clear. However, these issues clearly point to strengthening cooperation on underlying structural issues, which are weakening the link between policies and outcomes. These structural weaknesses are observed in all countries in the sub-region, albeit to different extents, and include weak financial systems, infrastructural inefficiencies, and insufficient human capital and institutional capabilities. What does this imply for prioritizing and sequencing of the regional integration agenda as pursued in ESA?

5.5 Risk of Polarization

ESA, but particularly Southern Africa, faces a difficulty inherent in the composition of the subregion: The Republic of South Africa's relatively developed economy and dominance of the regional market holds a risk of economic polarisation within the region, while the pace of South Africa's economic reforms could accelerate or delay regional integration initiatives. To accommodate sub-regional objectives such as 'balanced development' there is a need for counterbalancing or countervailing mechanisms, but none of the predominant countries is sufficiently wealthy for consideration of introducing outright compensatory mechanisms. Furthermore, South Africa, and implicitly SACU, could possibly have an incentive to strengthen economic relations and cooperation with developed countries and markets rather than in South-South regional cooperation with the countries in the region and their intractable internal problems. The question is: how can a regional integration strategy accommodate the disparate levels of development in Southern Africa, which from South Africa's perspective resembles more a North-South relation. Within Eastern Africa, Kenya in the EAC and Egypt in COMESA could also be regarded as serving a potential catalyst role in regional integration, while simultaneously posing risks for the constituent countries in their respective RIAs.