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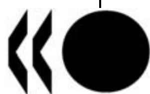

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RETHINKING THE (EUROPEAN) FOUNDATIONS OF SUB-SAHARAN AFRICAN REGIONAL ECONOMIC INTEGRATION: A POLITICAL ECONOMY ESSAY

By Peter Draper

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PREFACE

Before the global economic crisis, Africa experienced a decade long surge in cross-border investment and growth. On the occasion of a lecture at Renmin University, Beijing in China on 25 August 2010, South Africa's President Jacob Zuma pointed out, referring to the OECD Perspectives on Global Development 2010, that a decade ago OECD countries were his country's largest trading partners. "Last year," Zuma contrasted, "China became South Africa's largest trading partner."

Of course, the downturn brought this surge to a halt but Africa has managed to better weather the world's most serious recession since the 1930s than OECD countries. Africa's resilience is to be credited to improved macro-economic management as pointed out by the 2010 edition of the African Economic Outlook.

But the Outlook also ascribes this increased resilience to the increased diversity of the trading partners of African countries over the last decade in particular. Today, both domestic firms such as Nigerian and Moroccan banks and South African breweries, and emerging countries such as China, are playing a prominent part in the recovery. However, formal, "top-down" regional integration processes, it seems, can claim little credit. To wit, intra-regional trade, their traditional focus, hovers at an estimated 10% of total African trade.

In this Working Paper, Peter Draper takes stock of the last decade of African development from an African perspective. The author pleads for a recalibration of Africa's regional integration models, a process whereby "champion countries" spearhead a less ambitious, but more effective agenda that addresses the region's immediate development needs.

He goes on to argue that for Africa, the European model of regional economic integration—at least in the short term — is not useful. He makes the case for limited regional economic integration which steers clear of formal, institution-intensive arrangements as seems to be the norm in sub-Saharan Africa.

Our hope is that this piece triggers a constructive debate between African decision makers and their 'traditional' and 'emerging' partners alike.

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Director
OECD Development Centre
September 2010

RÉSUMÉ

Le soutien à l'intégration économique régionale en Afrique est fort au sein des partenaires au développement du continent et des élites africaines. Cependant, une intégration régionale à l'Européenne ne correspond pas aux capacités régionales, et dans certains cas, pourrai faire plus de mal que de bien. Cette lacune est exacerbée par les analyses techniques et théoriques basées sur les littératures de l'économie et des relations internationales. Cet article vise à reconceptualiser les fondations de l'intégration économique africaine en passant en revue les principaux débats au sein de chaque littérature, et en comparant les résultats de manière pluridisciplinaire. Globalement, nous concluons qu'une approche bien plus limitée est requise, mettant l'accent sur la facilitation du commerce et la coopération en matière de régulation dans des domaines relevant en premier lieu des affaires ; soutenue par un régime de sécurité soulignant l'agenda de la bonne gouvernance au niveau national. Une attention spéciale devrait être portée à l'organisation des programmes, afin d'éviter de créer des défis majeurs de capacité et de mise en œuvre d'Etats viables et légitimes. Ce faisant, la présence de leaders régionaux au poids économique important – l'Afrique du Sud dans le cas de l'Afrique australe – indique l'impératif d'une construction de ces accords économiques régionaux autour d'Etats stratégiques.

Classification JEL: F150

Mots clés: intégration; organisations du commerce international; intégration économique.

ABSTRACT

Support for regional economic integration in Africa runs high amongst the continent's international development partners and African elites. However, its expression in European forms of economic integration is not appropriate to regional capacities and in some cases may do more harm than good. This lacuna is exacerbated by technical and theoretical analyses rooted either in economics or international relations literatures. This paper sets out to reconceptualise the foundations of African economic integration through reviewing key debates within each literature and comparing the results across disciplinary boundaries. Overall, I conclude that a much more limited approach is required, one that prioritises trade facilitation and regulatory cooperation in areas related primarily to the conduct of business; underpinned by a security regime emphasising the good governance agenda at the domestic level. Care should be taken to design the ensuing schemes in such a way as to avoid contributing to major implementation and capacity challenges in establishing viable and legitimate states. In doing so, the presence of regional leaders with relatively deep pockets– South Africa in the Southern African case – points to the imperative of building such limited regional economic arrangements around key states.

JEL Classification: F150

Keywords: integration ; international trade associations ; economic integration

I. INTRODUCTION

The desire to integrate African economies on a regional, and ultimately continental, basis is strong. It is shared amongst African elites and their international development partners. Consequently many formal initiatives have been established to further this goal, under the over-arching umbrella of the African Union's plan to achieve a continental common market by 2028.

However, often the rhetoric does not match the reality. African economic integration suffers from a litany of problems, ranging from overlapping memberships (Dinka and Kennes, 2007; Draper *et al*, 2007; UNECA 2006 and 2008), through unfulfilled commitments, to unrealistic goals. Therefore, it is appropriate to reconsider the conceptual foundations on which such integration is based, and in particular their strong European roots. This is not to suggest that Europeans are somehow 'imposing' their model of regional economic integration on Africa, for example by pre-selecting African groupings with which to negotiate Economic Partnership Agreements. That is a charge which is often heard in civil society quarters, but to establish it empirically would require a different essay. Rather, my focus on Europe draws its inspiration from the dominance of Europe in sub-Saharan African *thinking* concerning regional economic integration. Again, this is not to suggest that Africans cannot learn from other models such as Asian; rather my focus is 'narrowly' on European influence on (Southern) African norms concerning regional economic integration.

The influence of the European model on (Southern) African thinking is discernible in at least two areas: political and institutional. At the political level, the underlying rationale is rooted in the 'liberal peace hypothesis', which asserts that closer economic integration constitutes 'ties that bind' which act to restrain member states from engaging in hostile military actions against each other. We explore this more deeply in Section III and show that it has limited applicability to (Southern) Africa. At the institutional level African regional economic communities (RECs) tend to mimic European Union forms, particularly in their predilection for Customs Unions.

My purpose in putting forward this analysis is not to engage in "Euro-bashing"; rather it is to as dispassionately as possible promote the need for alternative thinking on optimal design of RECs in (Southern) Africa. My approach to doing so is to explore the extensive literatures on regional economic integration emanating from two broad paradigms: security and economic. Too much writing on the subject is rooted in one or the other approach, which necessarily limits the applicability of conclusions reached. Therefore, it is necessary to explore motivations from both spheres in order to gain a holistic understanding of the possibilities and constraints. My paper sets out to redress this deficit by explicitly considering the political economy of African economic integration and proffering broad proposals for the normative foundations on which attendant

schemes should be built. My reference point is the region I know best and which I inhabit: Southern Africa.

The paper is divided into four parts. In Section II, I briefly outline key contours of "the" African development challenge, charting familiar territory for all those versed in the issue. The framework for this assessment is Paul Collier's (2007) influential "Bottom Billion" concept. The essential point is that the challenges are vast, whereas the means to address them confront enormous constraints. This sets the scene for a discussion of the politics of regional economic integration in Section III, which is cast in terms of the "liberal peace" paradigm derived from the European Union (EU) example. The rationale for this paradigm is explained and its applicability to African political conditions discussed. The basic conclusion reached is that the paradigm has limited ideological applicability to African conditions, whereas its institutional requirements are too onerous. This points to the need for more limited ambitions in the African context. This message is reinforced in Section IV where insights from economic theory concerning regional economic integration amongst poor countries are offered. Section V concludes with a set of propositions gleaned from the preceding analysis, whereby the case for less ambition in constructing African regional economic integration arrangements is framed and my appeal to consider an alternative approach is grounded.

II. AFRICAN DEVELOPMENT CHALLENGES

Sub-Saharan Africa contains a high concentration of least developed countries (LDCs); in the Southern African case 7[1] out of the global total of 49. Partly this is a function of political processes, discussed in Section III. Substantially it is a function of small domestic economies that are largely rural, subsistence-based, significantly informal, with weak productive capacities concentrated in extractive industries, and huge infrastructure or "supply-side" deficits that inhibit integration into the global economy. This picture is the basis for gloomier assessments of African development prospects, characterised as "development traps". Collier (2007, 7) sees these problems as being particularly concentrated in Africa, with 70% of the "bottom billion" being African, and living in countries that have been or are in one or another of these "traps". In Collier's formulation there are four such "traps" in which the countries he classifies as "the bottom billion"[2] are wedged:

1. **The conflict trap**. Essentially, wars and coups keep countries from growing and hence dependent on primary commodities. But because they are poor, stagnant, and dependent on primary commodities they remain prone to wars and coups (Collier, 2007, 37). In Southern Africa two countries have relatively recently emerged from prolonged conflict (Angola; Mozambique) whilst a third has managed to avoid overt conflict at the expense of chronic political and economic instability (Zimbabwe).
2. **The natural resources trap**. Resource rents make democracy malfunction by unleashing patronage politics in societies lacking sufficient restraints on such behaviour owing to pervasive institutional weaknesses. In his view this closes off economic development possibilities (Collier, 2007, ch3). Incidentally, he views this trap as not being confined to the "bottom billion", but also affecting middle-income countries which stagnate at that level. In Southern Africa three countries seem to have evaded this trap (Botswana; South Africa); others seem mired in it (Malawi; Zambia; Zimbabwe).
3. **The trap of being landlocked with bad neighbours**. Poor landlocked countries depend on their neighbours not just for their economic infrastructure and access to the sea, but also as export markets (in Southern Africa this includes a number of states: Lesotho; Swaziland; Botswana; Zimbabwe; Malawi; Zambia). Ironically, the problem is worse for resource-scarce countries (*e.g.* Lesotho) as they face

1 These are Angola, Lesotho, Malawi, Mozambique, Madagascar, Tanzania and Zambia.

2 The term refers to the combined population of countries on the lowest rung of the economic development ladder; in Collier's formulation these are concentrated in Africa and Central Asia (Collier, 2007, 3).

additional hurdles to development of infrastructure even if for resource extraction (Collier, 2007, ch4). These problems are compounded by agglomeration of economic activity in coastal locations (South Africa) with their easier access to global markets (World Bank, 2000, 51-61), a point I return to in Section IV.

4. **The bad governance trap**. Countries in the bottom billion that also have bad governance and bad policies are most likely to end up as "failed states", in which reform initiatives are quickly overwhelmed by those who benefit from disorder (Collier, 2007, ch5). However, he qualifies this by arguing that even good governance and good policies cannot propel a country into rapid growth if it does not have opportunities to grow.

In Collier's view it is possible for countries to break free of these traps, but he sees the current global economic environment characterised by China and East Asia's manufacturing dominance as being much more hostile to new entrants now than in the past; hence breaking free and sustaining the path is, in his view, much more difficult. Clearly this constraint has been rendered even more challenging as the global financial crisis continues to unfold.

Collier's thesis concerning development traps essentially asserts that the onus for underdevelopment lies outside of the country concerned in circumstances beyond the inhabitants' control (after all they are "trapped") and therefore seals the case for external subsidies or "development assistance" and trade preferences. The trade preference argument fits with the role of hegemons in underwriting liberal international regimes, which I discuss in Section III. The development assistance prescription is the subject of heated debate. Given the importance of this issue in the African context, and since I have outlined Collier's broad case in favour of it, it is worth quoting a counterview expressed by Bauer (2000, 44) in detail:

> Throughout the world and throughout history, countless individuals, families, groups, communities, and countries have emerged from poverty to prosperity without donations and often did so within a few years or decades….The hypothesis is also disproved by the existence of developed countries, all of which started poor and developed without subsidies. If external subsidies were indispensable for economic advance, mankind would still be living in the Old Stone Age.

By this logic development is fundamentally a domestic affair. This highlights the role the state should play in development processes - which is a matter of longstanding academic and policy debate. For now it is important to note that the development challenges which Southern Africa in particular faces are serious, so it is scarcely surprising that regional economic integration should be widely seen to offer part of the solution to addressing them. Next I address the politics of (Southern) African economic integration; Section IV focuses on the economics.

III. POLITICS OF (SOUTHERN) AFRICAN ECONOMIC INTEGRATION

The political case for building regional economic integration is centred primarily on security considerations. The reference point is principally European, specifically the origins of the European Community centred on managing Franco-German relations in order to avoid a rerun of the first and second World Wars. Their subsequent construction of an elaborate European institutional edifice aimed to enmesh its constituent states into a web of economic relations or "regimes".[3] Within this progressively deeper economic integration was an essential element, with the central objectives being to manage resource competition amongst the constituent states and promote mutual wealth creation, which in turn required curtailment (not necessarily abandonment) of mercantilist thinking regarding management of international economic relations (Draper *et al*, 2006, 213). The establishment of democratic governance in Germany was also an essential prerequisite. Thus the European regional integration regime was constructed on the basis of three ideological foundations (Kelly, 2005, 75-77) designed to promote pacification: democracy or "Republican Liberalism"; commerce and trade or "Commercial Liberalism"; and institutions or "Regulatory liberalism". At the global level the General Agreement on Tariffs and Trade (GATT) was constructed on similar ideological foundations, with a core of Western democracies driving the agenda.

The role of strong states (the US in the GATT; France and Germany in the EU) was essential to the success of both regimes. This gave rise to the theory of hegemonic stability (Gilpin, 2000, 93-97) which posits that a hegemon is central to maintaining adherence to liberal international economic regimes, and by extension liberal peace, through underwriting the costs of maintaining the regime (*e.g.* by providing access to its own market) rather than coercion. But in both regimes member states retained domestic "policy space"[4] so that the overall enterprise constituted what John Ruggie (1982) termed an "embedded liberalism" compromise. In other words, both regimes remained fundamentally intergovernmental rather than supranational, the variable institutional forms being determined by sovereign nation states taking the lead in complex interactions with domestic interests (Gilpin, 2000, 357). In the EU's case this has meant a greater degree of supranationality, particularly with respect to regulation of the common market.

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3 In terms of which member states are prepared to construct collective norms and regulations in order to facilitate compatibility amongst themselves and prevent individual states from engaging in actions destructive of economic activity, in the interests of maintaining (regional) peace. These norms and regulations constitute what Keohane (1984) termed an international "regime", which he regarded as essential to preserve and stabilise the international economy.

4 The Europeans in order to construct domestic welfare states; the US Congress in order to retain autonomy over US trade policy.

The constituent states, primarily the developed world, retained a strongly state-centred perspective to varying extents premised on "Economic realism" notions, in terms of which the survival of the state is the central concern. Kelly (2005, 74-75) notes that concerning trade this encompasses two views: that trade can enhance or undermine the security of the state. The latter perspective leads to a desire to promote economic autarky in order to minimise dependence on foreign powers. This reinforces the point that whilst it is necessary to yield some sovereignty in order to maintain the international regime as a public good, there would always be tensions regarding how much sovereignty to yield (Kelly, 2005, 76) and therefore a presumption in favour of inter-governmentalism. Furthermore, the view that trade can enhance state security is built on mercantilist notions, in terms of which the economy is the foundation for national power and states deploy trade (and other) instruments to accumulate economic gains at their rivals expense in order to keep them in check. This resonates with "strategic trade theory", the essence of which is that industries which experience oligopolistic market structures, increasing returns to scale and cumulative knowledge processes can benefit from state support to enhance their share of global markets at the expense of their rivals. In this view trade is a zero-sum game, a view at odds with the beneficial expansion of international trade in the post World War Two period – associated as it was with far-reaching trade liberalisation in the developed world particularly.

The European Union's success in managing inter-state conflict, understandably, is proffered to developing countries. This is particularly influential in the African context owing to that region's historical and existing links to Europe via trade, investment, and development assistance. Yet as discussed in Section IV the economics of integration amongst developing countries is not obviously conducive to maintaining good relations amongst the states concerned, particularly if it leads to polarised development. Furthermore, there are some examples of members of developing country regional economic groupings resorting to armed conflict to settle their differences (Brown *et al*, 2009, 9) thus proving that regional economic integration does not automatically eliminate conflict.

Nonetheless, Hammerstad (2005) notes that in recent years there has been a global revival of interest in the role RECs can play in building security. This has been marked by a shift from traditional realist conceptions in which security of the state, and amongst states, are the key issues, to one centred on people where domestic governance is the pivotal concern. This shift was driven by the end of the Cold War with its myriad of proxy conflicts, to a world where internal fragmentation and state failures have moved to the forefront.[5] The logical regional corollary is that states are increasingly concerned with security risks generated by their neighbours arising from poor governance leading to cross-border instability. Therefore, in her view regional security communities in Africa are increasingly willing to replace "hard sovereignty". In terms of which interference in other member states' affairs is expressly forbidden, with regimes that allow for foreign intervention under defined circumstances (Hammerstad, 2005, 10). [6]

5 In Africa in the 1990s and in this decade inter and intra-state conflicts broke out in West Africa (Liberia, Sierra Leone, Cote d'Ivoire), Central Africa (the DRC, Rwanda, Burundi, and Uganda, involving also Angola, Zimbabwe and Namibia), and the horn of Africa (Somalia, Ethiopia and Eritrea).

6 The Kenyan then Zimbabwean political deals reached in 2008 and 2009 respectively, imperfect as they are, attest to this new paradigm.

Clapham (2001) agrees that establishing such structures at the regional level is essential to constructing a broader "good governance" agenda, which in turn provides the basic precondition for enabling economic growth. However, he argues (Clapham 2001, 64) that establishing such structures require that the constituent states share a "common idea of the state"[7], in other words ideological congruity, by which he refers to the liberal foundations of the European experience. He argues that failure to do so will seed conflict. Since these conditions are difficult to meet in the African context he asserts that the "liberal peace" paradigm represented by the European Union is a very challenging proposition for African states (Clapham 2001, 66), a view largely supported by the economic literature analysis in Section IV. Clapham's pessimism is rooted in the host of governance challenges African states confront. Furthermore, the current character of many post-colonial African states does not obviously lend itself to constructing a "liberal peace"; many are managed by former liberation movements or authoritarian, effectively single party governments.[8] Of course if a small core of relatively democratic 'liberal' states with a regional hegemon at the centre was able to construct a viable REC then potentially this could be expanded to include others; the recent expansions of the EU to include former communist states may offer some hope in this regard. However, this scenario seems unlikely in the short to medium term.

In this light it is important to contextualise the debate over the role of African states in the development of their countries and the associated "good governance" agenda. The danger of embarking on discussions of this kind is that we run the twin risks of engaging in "Afro-pessimism", which at worst is akin to racism connected with alleged continued imperial domination (Adebajo, 2009); or indulging in what Mkandawire (2001) terms the "impossibility thesis" by which he identifies an implicit view in the "good governance" agenda that African states are serially incapable of managing their own affairs owing to the nature of African politics, and therefore should not attempt to construct "developmental states" in the mode of East Asian models. Therefore it is important to take account of Mkandawire's (2001) argument that the trouble with the "good governance" paradigm is that it comes embedded in "neoliberal" policy prescriptions in terms of which African state capacities have been denuded in line with purportedly[9] liberal conceptions of the "minimalist" or "night-watchman" state. In this light it is interesting and perhaps ironic that the same multilateral institutions which pursued the "structural adjustment" agenda in the 1980s and 1990s, with its attendant "good governance agenda", also promoted forms of regional economic integration which require relatively strong states to implement them.

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7 Encompassing: the basis for its foundation and identity; its territorial extent; and the nature of its domestic government.

8 In Southern Africa the only exceptions to this generalisation seem to be Lesotho, Malawi, and Zambia.

9 Sally (1998, 28) argues that this conception of the state's role is alien to those steeped in the classical liberal political economy tradition, as opposed to its modern descendant in formalised, mathematical, neoclassical economics. He argues that the classical liberal tradition accords a central role to the state in establishing and enforcing the basic rules of the game for market participants, but draws the line at state intervention designed to propel specific market outcomes. Naturally the latter conception is at odds with Mkandawire and other adherents to the "developmental state" paradigm.

What then are the essential features of the "good governance critique? Chabal and Daloz (1999) provide the archetype for pessimistic analyses of the nature of the African state. They begin by arguing that the nature of politics in "black Africa" needs to be understood in its own terms rather than through the prism of Western models. In their view the failure to do so has led to "historically unrealistic expectations … in terms of the development potential of a modern independent Africa" (Chabal and Daloz, 1999, 142). Central to their perspective is the notion that whereas Western modernisation theories see development as a chiefly linear process of advance along largely Western lines towards technological and bureaucratic sophistication or "order", and liberal societies, in their view (black) African societies have acquired the instruments of technological advance whilst remaining "obdurately traditional" in their organisational and political arrangements (Chabal and Daloz, 1999, 145).[10] They argue further that "success" in the African context is equated with personal material advance linked to neo-patrimonial relations rather than economic growth and "development" linked to an ascetic ethic in the Western (Protestant) sense (Gerth and Wright Mills, 1948, Ch XII). In this framework short-term micro perspectives dominate political action, rather than long-term macro perspectives (Chabal and Daloz, 1999, 145-162), impelling political elites or "big men" to prioritise their networks of influence over national development priorities. So, in their view whilst the trappings of modern bureaucracy are often in place, conduct within them remains traditional and personalised rather than bureaucratic and ordered. Thus, as the title of their intriguing book suggests politics tends towards disorder and undermining of state institutions, largely owing to the prevalence of neo-patrimonial politics across the sub-continent (Chabal and Daloz, 1999, 147). They conclude that this political dynamic is inimical to development.

This pessimistic perspective resonates with Herbst's (2000) analysis, in which African states barely control the territory within national borders, never mind a concerted development process. This arises from a context where African states are geographically large whilst populations are predominantly small, rural, dispersed, physically disconnected, ethnically heterogeneous, and institutions are characterised by pervasive weakness. In his view this confluence renders internal political authority tenuous; hence rulers are primarily concerned with maintaining their authority (generally by controlling the capital city) rather than with "development". In this formulation the extent to which they are prepared to cede control to others, internal or external, is sharply limited; whilst in some cases authoritarian instincts compound this dynamic.

This pessimistic literature probably overstates its case. In Southern Africa there are arguably at least three states that function reasonably effectively, albeit not without problems: Botswana, Namibia and South Africa. In all three cases strong institutions exist side-by-side with weak and ineffective ones, showing that neo-patrimonial relations, even if the dominant form of politics, need not necessarily be determinative.

Nonetheless, as this brief exploration of the social and political constraints on (Southern) African development illustrates, building viable national states, never mind intra or inter-regional organisations, is a challenging proposition. So, whilst UNCTAD (2009, 1) argues that

10 They note that Asian societies, by contrast, have generally acquired the technological and bureaucratic forms often without acquiring political openness.

regional integration can promote better institutions and intra-regional cooperation, the challenges in the (Southern) African context are formidable. Furthermore, in light of the relative "youth" of states in the region (de-colonisation being a very recent historical process) it is not surprising to find that leaders in many countries are reluctant to really yield their prerogatives to regional institutions. Instead, regional forums, particularly those comprising Heads of State, can provide both a refuge from domestic concerns and a source of external legitimacy. So it is not surprising to find gaps emerging between pronouncements made at Heads of State level and translation of those pronouncements into practical implementation requiring actual surrender of sovereignty. Therefore regional economic integration efforts have been hampered by a litany of problems, albeit with some successes sprinkled in-between.

These problems highlight the obvious fact that regional economic integration in (Southern) Africa ought to be primarily inter-governmental, with a minimum of supra-national aspirations. Furthermore, as the theory of hegemonic stability suggests strong leadership is required in order to drive the construction of even a minimalist agenda. But what should be the content of that agenda? This brings the argument to the economics of (Southern) African economic integration.

IV. ECONOMICS OF (SOUTHERN) AFRICAN INTEGRATION

Sub-Saharan African countries generally trade mainly with developed countries (see Tables 1 and 2) from which inward investment is also primarily sourced (UNCTAD, 2009, 56) albeit there has been some diversification towards emerging markets, especially China, in recent years. Within this the bulk of extra-regional exports are undifferentiated commodities that are generally not needed in regional supply-chains owing to the serious underdevelopment of manufacturing industry. Therefore it is not surprising to find that aggregate levels of intra-regional trade in Africa remain the lowest in the world, at around 10% (UNCTAD, 2009, 23). This is the familiar story of African trade.

Table 1. **Sub-Saharan Africa's exports by region and growth rates, 2006**

Region	USD* (2006)	% Share (2006)	%CAGR[11] (2000-2006)
Southern Asia	2 735 507.8	1	-10
Eastern Asia	31 108 719.4	15	25
Western Asia	3 892 807.9	2	19
South-Eastern Asia	4 416 036.4	2	13
NAFTA	55 580 004.3	26	16
MERCOSUR	5 441 987.1	3	24
EU	58 015 406.4	27	11
Rest of the World	51 286 158.1	24	11
Total	**212 476 627.4**	**100**	**13**

Source: SAIIA's calculations from UNCTAD's data.

Note: *At current prices in millions.

11 Compounded annual growth rate (CAGR) measures the average annual growth rate of exports from 2000 to 2006.

Table 2. **Structure of Sub-Saharan Africa's exports, 2006**

Product Group	USD*	% Share
Fuels	109 418 241.41	51.5
Ores, metals, precious stones and non-monetary gold	37 967 769.44	17.9
Food Items	18 808 988.36	8.9
Other manufactured goods	17 387 011.93	8.2
Machinery and transport equipment	14 823 967.36	7.0
Agricultural raw materials	7 043 301.86	3.3
Chemical products	6 039 335.19	2.8
Other	988 011.84	0.5
Total all products	**212 476 627.4**	**100.0**

Source: SAIIA's calculations from UNCTAD's data.

Note: *At current prices in millions.

However, in its most recent report on the subject of African regional economic integration UNCTAD (2009, 24) notes that if resource exports are stripped out of the intra-African trade data then the picture changes dramatically: 7 out of 52 countries count Africa as their main export market and 25 count Africa as their second most important export market. This is closely associated with the emergence of regional growth poles and consequent acceleration of intra-African trade centred on them, particularly South Africa, but to a lesser extent Kenya and Nigeria in the sub-Saharan context. UNCTAD's (2009) data show that there is strong evidence of economic concentration, or agglomeration, a theme we develop below. Nonetheless, UNCTAD (2009, 32) argue that for 80% of African countries manufactured products represent a larger share of exports to Africa than they do in total exports, which indicates some potential for building value-added in manufacturing in regional economic arrangements.

Whilst the UNCTAD report offers some reason for optimism, albeit relatively small, the overall picture still stands in stark contrast to the European Union, where levels of intra-block trade are much higher, typically around 70% of the total. This contrast is important since African RECs typically emulate the European model, a process encouraged and supported by various European donor agencies. In the EU's case regional economic integration is rooted in intra, rather than inter-industry trade, and is based on complex specialisation amongst large and widely diversified economies. And since EU tariff levels (barring agriculture) are low – a testament to the success of the GATT and construction of the common market - the danger of trade diversion resulting from reductions in the common external tariff (CET) of the customs union is low.

In the African case economies are small and, allowing for a few exceptions in the form of regional growth poles, trade is oriented towards northern markets rather than neighbours and specialisation is rooted in basic comparative advantage. Thus the economic basis for meaningful exchange and complex specialisation, so crucial to ensuring distribution of the gains from constructing RECs, remains small in sub-Saharan Africa. Furthermore, whilst major unilateral tariff reductions have been made across the sub-continent in the last two decades, they still

remain relatively high compared to developed country levels. Consequently, without the opportunities for complex specialisation in intra-bloc trade the danger of trade diversion resulting from intra-REC tariff decreases is substantially higher than in the European case.

Furthermore, proponents of the "New Economic Geography" advance strong arguments against promoting south-south economic integration schemes amongst poor developing countries (World Bank, 2000). The theory predicts that whilst all countries in such schemes have a comparative disadvantage in manufacturing relative to the global economy, there will be one with less of a disadvantage than the others (*i.e.* the regional growth pole). Hence industrial activity will tend to relocate to the relatively advantaged country at the expense of the others. This effect will be aggravated by agglomeration economics, whereby industrial concentration in the relatively advantaged country (consider South Africa and Kenya in Southern and Eastern Africa respectively) will be promoted at the expense of its neighbours. Furthermore, as tariff levels decline overall within the regional economic community (REC) so those countries suffering from industrial relocation will also experience trade diversion effects - importing relatively expensive goods from the growing industrial centre (*i.e.* their neighbour) rather than more efficient global producers, thereby lowering their overall welfare. Meanwhile, the favoured country will gain as regional industry relocates to its soil and real wages rise as a result. Clearly these effects would generate substantial political tensions over time[12] which in turn would undermine integration processes.[13] They also raise substantial question marks concerning the limits to strong regional leadership in driving economic integration in (Southern) Africa.

Offsetting this negative view, there are economic problems associated with the current political fragmentation of states in Africa. Collier and Venables (2008) highlight three: increasing inequality in the distribution of natural advantage; costs due to the loss of scale economies in production; and loss of public goods as the scale of political cooperation is reduced.

Concerning their first point Collier and Venables (2008) note that political fragmentation inhibits migration of people to where resources and markets are concentrated[14], which in turn lowers aggregate efficiency and curtails development of urban production centres of sufficient scale to drive productivity increases.[15] Moreover, nobody knows how much informal and unrecorded trade takes place across national borders in Africa. Partly this is because borders are not firmly under control, whilst there is also an element of corruption at play. This perspective is important because, as Bauer (2000, Ch1) notes, substantial economic activity in poor countries happens below the radar of official statistics which, as it is not formally captured and amenable to modern policy analysis, often suffers from poorly designed policies predicated on the notion

12 This process was a substantial factor behind the unravelling of the original East African Community, as Kenya attracted manufacturing investment and relocation at the expense of Uganda and Tanzania. It also partly explains why South Africa continues to "compensate" its customs union partners for their membership of SACU.

13 North-north integration schemes will not suffer from agglomeration since intra-industry trade is a strongly established feature of such arrangements; similarly in north-south schemes inter-industry trade is the basis.

14 To use the terminology contained in the latest World Development Report issued by the World Bank (2009), developing "density" in urban conurbations is retarded.

15 However, they also note that whilst reducing border barriers amongst contiguous states with small markets would favour development of a few urban centres, at the national level it would reinforce the agglomeration impacts highlighted in the previous paragraph.

that the informal economy is unproductive. Furthermore, he argues that contrary to popular belief what we think of as "subsistence production" actually embodies substantial capital investment, albeit off a low base. In this regard regional trade facilitation measures can help to increase the level of formality in such trade and increase the volume of trade at the same time (Lesser and Moisé-Leeman, 2009).

Regarding their second point Collier and Venables (2008) note that African markets are very small considered individually, whereas pooling markets through regional economic integration in principle affords greater economies of scale and the potential for regional production sharing, albeit it runs the twin risks of diverting trade and agglomeration.[16] And since small markets are vulnerable to monopoly/monopsony capture, which may discourage investment in them, widening the market may minimise this problem by offering the prospect for greater competition; although this will again be limited by the nature of existing production structures. Nonetheless, if supported by appropriate trade facilitation measures the productivity gains through widening regional markets could be potentially substantial. This increases the potential for capturing dynamic gains from trade liberalisation associated with increasing the division of labour (Sally, 1998, 46-48).

Collier and Venables' third point is particularly relevant in the African context where states are weak (discussed further below) and their fiscal bases small. In this context regional provision of public goods (ODI, 2008) notably in the spheres of policy and/or regulatory coordination but particularly provision of network services infrastructure (energy, finance, telecommunications, transport) grounded in a trade facilitation agenda has an important role to play in addressing the development challenges briefly discussed in Section II.

Overall, whilst regional economic integration in Africa could yield net benefits, it is not likely to drive economic development in the manner of East Asian economic growth. Rather, it must be buttressed with north-south economic integration which plays to the region's comparative advantages, should promote income convergence, and over time should also promote knowledge transfers from developed to developing countries.[17] Whilst this approach at first sight would seem to "condemn" African countries to the status of perennial suppliers of primary products to northern markets, this conclusion assumes that comparative advantage is static – which is clearly not the case (Sally, 1998, 40-50). Rather, it is arguably through trade and commercial contact with dynamic regions of the world that developing countries grow and diversify their economies (Bauer, 2000, ch1). In the final analysis the major obstacle to economic diversification in the African case is the very low level of economic development to begin with. Integrating with neighbours that also suffer from this problem may mitigate it to some extent by promoting specialisation in commodities trade, and encouraging subsistence farmers and nascent manufacturers to produce for wider markets, but does not hold nearly as much potential to overcome it as integration with dynamic and large external markets.

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16 Adherents to strategic trade theory would add that it also offers the potential to build regionally, and potentially globally, competitive industries. However, since this theory concerns industries that are global in nature, in my view it has very limited (if any) applicability to the African context.

17 The accession of relatively poor countries into the European Union in various waves provides strong evidence of such convergence effects.

How does the global economic crisis affect these dynamics? The answer is – not much. It is not intra-regional trade that is driving recessionary impacts on the continent; rather it is Africa's connection to the outside, principally developed, world that is to blame. The flip side is that regional economic integration does not offer much of an alternative in the medium term since neighbouring markets are generally small and trade levels are low. Furthermore, capital inflows are sourced primarily from outside the region. And seeking to build deeper regional economic integration doesn't mean it is necessarily going to happen, given the economic and political obstacles. Consequently, African countries will remain locked into current trading relationships with external partners for the foreseeable future.

These dynamics point to a limited regional economic integration agenda, tailored to regional capacities. To sum up this agenda should comprise three essential elements: promoting productivity gains through widening regional markets by establishing free trade areas (FTAs); trade facilitation; and provision of regional public goods, especially network services infrastructure. Furthermore, it is likely that over a period of time a small set of regional leaders will emerge around which regional economies will increasingly concentrate. The key question then is how those regional leaders can be supported and boosted, with a long-term view to pulling their regions up with them.

V. LESSONS FROM "AFRICAN" POLITICAL ECONOMY FOR AFRICAN ECONOMIC INTEGRATION

What conclusions can be drawn from the preceding analysis? From the discussion concerning the politics of regional economic integration in Africa I draw four principle conclusions:

1. There is a major disjuncture between the (admittedly generalised) ideological character of states in sub-Saharan Africa and those in Europe which sharply curtails the possibilities for constructing a "liberal peace" agenda using the instruments of economic integration.
2. Many states in sub-Saharan Africa do not have the capacities to manage development processes, never mind engage in complex institutional forms of economic integration along the lines of the EU model.
3. The role of regional leading states is critical; however, with the probable exception of South Africa none would seem to have the capacity (in its broadest sense) to underwrite relevant RECs and secure the "liberal peace" agenda.
4. Nonetheless, there is some willingness to replace "hard" sovereignty with "soft" sovereignty, which lends itself to a "good governance agenda" even if that is controversial to some. However, if this is the foundation stone upon which sustainable RECs could be built, that in turn should be on the basis of inter-governmentalism, not supranational structures that demand major sovereignty concessions. This highlights the need to explore alternative models to the EU.

From the discussion concerning the economics of regional economic integration in sub-Saharan Africa I draw five principle conclusions:

1. Widening regional markets could, on balance, promote dynamic economic development through increasing the possibilities for expanding the division of labour and associated specialisation.
2. Similarly, pooling capacities to provide regional public goods which would otherwise be under-provided in domestic markets offers substantial promise, particularly where this is linked to the core development constraints on the supply-side. This revolves around constructing network services (energy; finance; telecommunications; transport) and integrating them in regional markets.
3. This reinforces the centrality of a trade facilitation agenda in its broadest sense, and a focus on regulations linked to network infrastructure, rather than integrating

policy approaches *per se*. The current approach of integrating through formal arrangements, particularly customs unions and their common external tariffs, poses substantial policy coordination challenges to states with often diametrically opposed industrial interests and very limited capacities to harmonise industrial policies in particular.

4. These dynamics sharply limit the extent to which regional leaders or hegemons can drive economic integration in (Southern) Africa. Furthermore, given the agglomeration problem and prevalence of "economic realism" thinking in Africa and elsewhere, the question is whether such states will be seen as acting in the regional, rather than narrow national, interest. Therefore regional leaders need to show good faith by underwriting the REC, notably through providing preferential access to their markets. Outside of Southern Africa the challenge this imperative confronts is that the regional leaders (*e.g*. Kenya; Nigeria) are also mired in poverty meaning their domestic lobbies are unlikely to buy into such an agenda.
5. These challenges again suggest that a different approach may be more appropriate (Gilpin, 2000, 355) rather than formal, EU-style, institutional integration. Furthermore, regional economic integration is not a panacea for African states; therefore continued economic integration with northern partners in order to capture the dynamic gains from increased openness remains essential.

Bringing together the political and economic insights, it seems to me that there is a case for a limited regional economic integration agenda which steers clear of formal, institution-intensive arrangements that parrot European forms, as seems to be the norm in most sub-regional groupings in sub-Saharan Africa. The European "model" may be useful as an aspiration, but given its unique geopolitical foundations[18], complex governing institutions, elaborate coordination mechanisms, and levels of internal economic integration that developing countries can only dream about, it is very difficult to see how African political economy circumstances could replicate it. Rather, a much more limited approach is required, one that prioritises trade facilitation and regulatory cooperation in areas related primarily to the conduct of business[19]; underpinned by a security regime emphasising the good governance agenda at the domestic level. Care should be taken to design the ensuing schemes in such a way as to avoid contributing to major implementation and capacity challenges in establishing viable and legitimate states at the national level.

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18 Gilpin (2000, 355) notes that North American economic integration, whilst more intense in the degree of economic interactions than Europe's, has not acquired the latter's institutional forms. He ascribes this difference to geopolitical factors, specifically the need to bind France and Germany after the Second World War and the relative absence of such an imperative in the North American case. It is difficult to imagine intra-African security conditions approximating those of post-War Europe.

19 A limited parallel here is the long-standing, if stalled, Asia-Pacific goal of "open regionalism". According to Garnaut (1996, 27-28), this approach is based on three premises: (1) non-discriminatory reduction of protection in economies which have the capacity to expand trade as a result of high complementarities or low bilateral transactions costs; (2) expanded provision by governments of regional public goods to lower transactions costs; and (3) market integration.

Since the funding to construct such regimes is most likely to be externally sourced this suggests a lower level of buy-in to the scheme in question than would be the case if local resources were used. Hence the presence of regional leaders with relatively deep pockets– South Africa in the Southern African case – points to the imperative of building such limited regional economic arrangements around key states. Furthermore, constructing RECs in sub-Saharan Africa must be premised on the strong likelihood that levels of buy-in are likely to be relatively low to begin with since sovereignties are newly acquired. Besides, the politics of patronage probably limit the extent to which regional institutions can promote political careers that are driven primarily by local, not supra-national, conditions. To overcome this constraint strong leadership at the Presidential level is probably necessary, as seems to have been the case in the recently re-established East African Community (Braude, 2008, ch14). However, this runs the risk of creating a democratic deficit which, in turn, may undermine good governance and potentially the integration scheme itself (Jonyo, 2005) for relatively little economic return. Since democratic or liberal governance has relatively shallow roots across the sub-continent there are substantial limits to promoting a "liberal peace agenda" premised on security concerns. Furthermore, Presidential prerogatives must be backed up by strong technocratic capacity at the regional and national levels. Yet such institutional preconditions are difficult to meet in "bottom billion" states.

Nonetheless, the institutional and policy motives for constructing RECs are important particularly where they reinforce sound economic governance at home. On balance therefore the effort is worth making.

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