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Infrastructure, Regional Integration and Growth in Africa

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I agree with Benno Ndulu, Lolette Kritzinger-van Niekerk and Ritva Reinikka that low capital accumulation, high price of investment goods, low productivity of investment and geographical disadvantages are indeed the set of challenges that slow African growth. It is true that investment in African countries is more expensive, 70 percent higher than for OECD or East Asia, and as a result Africa remains prone to losing 0.44 percent in average growth per annum. Geographical disadvantages, which include land-lockedness and poor infrastructure, have led to higher transport costs for capital goods, which are largely imported. These factors have exacerbated the prices of investment goods. It is agreeable, on the one hand, that the competitiveness of African enterprises and trade in global markets, income distribution and welfare depend on infrastructure, while regional integration has the solutions to mitigating Africa's geographical impediments, financing needs and growth on the other.

Infrastructure quality is a dominant explanatory factor of manufacturing performance and competitiveness. Infrastructure serves as a key component of the investment climate. Problems with roads, rail, ports, air transport, energy, telecommunications and other infrastructure are cited by the business community and African Finance Ministers as one of the chief constraints to economic growth in Africa. As much as 50 percent of the harvest is lost in many parts of Africa because farmers lack post harvest storage and are unable to get their goods to the market (Commission for Africa, 2005). To improve the quality of infrastructure, it is necessary to assess current and future priorities for infrastructure

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development and for establishing investments and policy interventions. The process should start with the analysis of enterprise level priorities for infrastructure followed by sector level cost analysis for providing necessary air, road, water, railway transport and electricity. To compete effectively in international markets African countries need good and efficient electrical power infrastructure. Power is required to move rapidly into resource based manufacturing and commodity processing as well as trade in services. The efficiency of agriculture can also be enhanced by provision of reliable energy supplies. With 3.1 percent of world power generation, Africa has the lowest electrification in the world. Only 23 percent of Africa's population has access to electricity (ECA, 2004). The bulk of the electricity supply is unreliable and subject to power rationing or unscheduled cuts. In a World Bank survey of 55 countries, 67 percent of the firms cited electricity as a business constraint (World Bank/UMACIS, 2004). Indeed as the previous chapter points out the cost of running generators during outages make the overall costs of poor power supply even higher. Africa's export diversification drive is being slowed by poorly functioning energy infrastructure. The promotion of regional and sub-regional integration in energy services will promote the development of Africa's power sector. Regional power development will help reduce power costs and minimise operating costs of existing sub-regional networks.

Indeed Africa contends with high transactions costs. At present the costs and difficulty of moving goods in Africa are far higher than in wealthier countries, leading to higher consumer prices. The burden of high transport costs is greater in land locked African countries than elsewhere in the world, for example in land-locked countries where transport costs work out to be three-quarters of the value of exports. In particular, transport charges represent the equivalent of 80 percent of the cost of cloth exported from Uganda. Moreover in many African countries quantities are not pooled for transport and storage so as to achieve returns to scale. By extension, the continent operates on a rudimentary, costly and risky transport set up (Fafchamps and Gabre-Madhin, 2001). Transport related impediments make it extremely difficult to deliver goods to the market at competitive prices.

The problem of excessive costs extends beyond land transport into clearance at ports. For example, it costs about the same to clear a 20-foot container through the port of Dakar as it does to ship the same container from Dakar to a north European port. Shipping a car from Japan to Abidjan costs $1,500 but shipping the same car from Abidjan to Addis

Ababa would cost $5,000. Delays at ports are another problem. It is estimated that every day spent in customs adds 0.8 percent to the cost of goods. Africa has the longest delays among the regions of the world. Customs delays in the whole of Africa average 11.4 days; while in sub-Saharan Africa the delays average 12.1 days. For individual countries the delays range from 14 days in Uganda to as high as 30 in Ethiopia compared to an average delay of 3.4 days in Western Europe (Dollar *et al.,* 2000; ECA, 2004). On the other hand, excessive bureaucracy, high insurance costs, cumbersome customs procedures and outright corruption by public servants using bribes, official and unofficial checkpoints escalate transport costs in Africa.

Information and communications technologies are important for competitiveness and productivity and need improvement in Africa. Apart from encouraging developments in Botswana, Mauritius, Namibia and South Africa, the African region lags behind in the use of modern information technology in international trade. Limited use of information technology is explained by inadequate, inefficient and very expensive telecommunications services. Since Africa has the lowest Internet diffusion in the world, African countries are not yet making full use of e-commerce systems. Use of e-commerce is affected by deficient electronic infrastructure and the underdeveloped legal and regulatory framework. African entrepreneurs need training in the use of the Internet for business.

Trade Facilitation Initiatives

African countries have, from Seattle to Doha and Cancún, consistently expressed concern regarding the incorporation of issues of trade facilitation under the umbrella of the work programme of the World Trade Organization (WTO). At this stage, it is not productive to indulge on the polemics of the pros and cons of trade facilitation, but rather focus on the current status and future challenges. African countries recognise the importance of trade facilitation and the gains that can be made from a more efficient flow of goods and services as well as improved international competitiveness when transactions costs fall as result of improved trade facilitation processes. The importance African countries attach to trade facilitation has been reflected in numerous agreements at bilateral, sub-regional and regional levels as well as efforts made at the country level to facilitate the flow of goods and services. Such initiatives include trade facilitation measures being spearheaded within sub-regional organisations such as the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), the Economic Community for Central African States (ECCAS), the Economic Community for Western African States (ECOWAS), and the continental organisation, the African Union (AU), among many others. Despite these notable efforts to integrate Africa's economic space and improve its international competitiveness, most of the trade facilitation initiatives have yielded limited results. Transactions costs in many African countries remain high, as evidenced by high transport and communications costs; high charges and delays at numerous roadblocks; long customs and administrative delays at ports and border posts; and inefficient international payments systems.

Furthermore, non-compliance by some countries to agreed agreements on trade facilitation, poor programme implementation, lack of coordination among and between African countries, lack of coordination among relevant agencies within countries, inadequate skilled manpower and lack of a multi-sectoral approach to trade facilitation, have also contributed to the less than satisfactory outcomes on trade facilitation initiatives in Africa.

Regional Integration: Differences Between Poor and Rich Countries

The problem of multiple memberships of regional integration groups is discussed in the chapter by Ndulu, Kritzinger-van Niekerk and Reinikka. The nature of regionalism in Africa is that many countries are members of several RIAs. For example, within the five main regional economic communities associated with the African Union, ten countries belong to more than one regional grouping, with the Democratic Republic of the Congo holding three memberships. Multiple membership is only beneficial if the RIAs are compatible, which is not the case. Note that the option to form a trade bloc is exercised only if it increases the voter's utility further (Panagariya, 2000). This is not the case for Africa. Most of the RIAs have conflicting policies in treatment of third countries and sometimes-different regulations and technical standards governing the import of the same commodity from different sources. Indeed, overlapping memberships in the different regional groupings – and hence overlapping commitments – have resulted in duplication of effort and occasionally inconsistent aims in African regional integration initiatives (Masson and Pattillo, 2004). Ultimately, multiple memberships result in increased complexity, cost and uncertainty of trade (Schiff and Winters, 2003).

To solve these problems, African regionalism should move away from FTAs because they undermine members' own tariff structures and involve imposing rules of origin that are protectionist to forming customs unions in order to induce greater degree of integration and to increase trade gains. Indeed it appears to be more paying if small developing countries combine into a single market to reap economies of scale and enhance competition while raising revenue through tariffs on trade with the outside world.

It seems that globalisation took African countries by surprise. Initially, Africa's regional integration seemed to have started out of fear to be left out. It was not economic prospects but the "bandwagon effect" that drove Africa into regionalism. If everyone is doing it, shouldn't we? The rich countries had and still have a clear agenda for regional integration especially with the Africa countries namely to create an expanded and secure market for the goods and services produced in their territories, to enhance the competitiveness of their firms in global markets (Schiff and Winters, 2003).[1] This should be the same agenda for African regionalism and should be pursued vigorously.

Regionalism in Africa is more focused on attracting FDI and forming trade bargaining blocks for increased trade gains in WTO negotiations. On the other hand, many RIAs in Africa are political in origin (Schiff *et al.,* 2000). The benefits of regionalism are likely to depend on finding the best partner. The notion of "natural" trading partner should be dropped and is no longer useful. The obvious tendency is for trade blocs to form around neighbouring countries, including the desire to reduce trade costs by relaxing or abolishing boarder formalities and to facilitate collection of tax revenues. Most likely, this development will result into trade diversion rather than trade creation because of discriminatory or restricted liberalisation (Fafchamps, 2001). It is argued that a developing country does better in pursuing regionalism with a larger country than with a smaller one. This is because in trade terms a large rich country is likely to be a more efficient supplier of most goods and a source of greater competition for local producers. However, in the case of Africa, several conditions need to be met to make this argument a reality.

[1] Schiff and Winters (2003) indicate the relevance of following agreements (a) North American Free Trade Agreement (NAFTA), FTA, Article XXIV; extension of 1989 Canada-United States Free Trade Agreements (CUSF-TA), Article XXIV. 1994, Canada, Mexico, United States, (b) Group of three (G3), FTA, Enabling clause. 1995, Colombia, Mexico, Venezuela (c) European Union (EU), Common Market, Article XXIV; formerly European Community (EC).

Trade: Competitiveness and Diversification

Trade has been a key driver of economic growth over the last 50 years for the rich western countries and for some developing countries, particularly in Asia. Asian countries have used trade to break into new markets and change the face of their economies. This has not been the case for Africa. The last three decades have seen stagnation in African countries and a collapse of their share of world trade from 6 percent in 1980 to about 2 percent in 2002 (Commission for Africa, 2005). Yet the composition of Africa's exports has remained essentially unchanged. Dynamic and competitive regions have made major shifts into manufacturing, Africa has been left behind and the task of catching up is harder. On the other hand, Africa does not produce enough goods to trade, at least not of the right kind or quality, or at the right price. At the same time, Africa faces indefensible trade barriers, which, directly or indirectly, tax its goods as they enter the markets of developed countries. The way forward suggests that Africa needs urgent, sustained, coherent and large-scale investment in transport and ICT systems, standardisation of cross-border procedures, establishing and strengthening of institutions to improve functioning of markets and to expedite the flow of goods. However, the effectiveness of the proposed investment will largely depend on what Africa is doing and willing to, particularly, in the area of trade governance. African governments should address weak management of trade issues, provide facilitation, incentives and motivation for individuals to get things right. Increasing the volume of trade by producing enough goods, with the right quality and at the right price will enable African countries to penetrate new markets and to grow at 7 percent by the end of the decade and sustaining it thereafter. Therefore, Africa must overcome obstacles of discouraging the investment environment to release her entrepreneurial energies.

African countries should increasingly cooperate in handling trade issues so that the volume of trade and trade gains increase. The current level of trade between them (individually) and between African trade blocs is still very low. The challenge to African policymakers is to encourage competitiveness and diversification towards higher value-added goods and services with greater technological content. Competitive countries export a broader range of products; likewise, Africa must save and invest more, enhance its human capital stock and achieve more dynamic export performance. Concentrating on production of low weight/high value produce and service exports is more likely to be cost-competitive, and that understanding transport logistics, keeping airports efficient, and reducing transport cots in all sectors, will be important in maintaining external competitiveness.

In conclusion, while the authors do not provide a definitive answer to the direction of causality between infrastructure and growth, they nevertheless bring attention to the critical issue of infrastructure development in Africa and the vital role that regional integration could play in tackling problems that are common to a number of African states.

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