DEBILITATING BORDERS: WHY AFRICA CANNOT COMPETE WITHOUT REGIONAL INTEGRATION

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For the vast majority of Africa's economies, the lack of globally competitive industries and services is a powerful threat to their future growth. The last 40 years have not been good for structural change in Africa. By many measures, Africa has actually "deindustrialized" over the past few decades. Without major changes in its economic structure, Africa will not be able to create enough good jobs and will remain vulnerable to shocks and to a likely long run decline in commodity prices.

In 2011 and beyond, Africa's future prospects for industrialization appear brighter. If China and India continue their rapid growth, the fundamentals of location and labor costs should favor a shift in labor intensive manufacturing toward poorer countries. However, this does not guarantee that it will move to countries in Africa. The region will have to compete with both poorer areas in the existing manufacturing powerhouses and with poorer economies in other places.

Changes in the structure of global manufacturing may help shift some manufactured production to African countries. Since around 1980, manufacturing for many products has been broken up into "tasks", each of which can be undertaken where costs are the lowest. Recent industrializers such as Vietnam have exploited this opportunity to break into global markets. African countries need to do the same and insert themselves into task trade. However, the borders between African countries will be a key determinant of success or failure in this endeavor.

REGIONAL INTEGRATION MATTERS

Regional integration matters for Africa's industrialization in part because Africa is the continent with the largest number of landlocked countries. For exporters in these economies, poor infrastructure in neighboring coastal economies, incoherent regulations, inefficient customs procedures and "informal" taxes in transportation corridors slow transit times and raise costs. Task-based production is particularly sensitive to high transport and logistics costs. Without much deeper integration with their coastal neighbors, Africa's land locked economies will find themselves locked out of trade in tasks.

Paul Collier and Tony Venables suggest that borders limit the prospects for industrialization of Africa's coastal economies as well. The problem is that Africa's coastal cities may be too small to be globally competitive. Cities generate powerful scale economies. One rule of thumb is that each time the size of a city doubles, the productivity of the activities within it increases by around 4 to 8 percent. This implies that a firm operating in a city of 10 million people has unit costs of around 40 percent lower than if it operated in a city of only 100,000.

Small countries have small cities and Africa is a continent of small countries. A comparison of India and Africa makes this point. India has two cities of over 20 million people while the typical African capital city such as Nairobi has a population of only around 3 million. Africa's borders have inhibited the growth of mega-cities. To overcome this problem, integration that permits the free movement of goods, capital and people across national borders allowing the formation of regional cities across Africa is essential.

STRENGTHENING REGIONAL INTEGRATION

The political rhetoric aside, very little real progress has been made in achieving the deep integration needed for industrial development in Africa. Tangible progress to improve trade logistics has been slow. Investments in Africa's regional infrastructure are hampered by the complexity of multi-country projects and the time required for decisions by multiple governments. Institutional reforms—such as common standards, regulations and one stop border facilities—have also failed to materialize.

The reason for this failure is simple: regional investments and institutions require collective action. In many cases, infrastructure that gives market access to landlocked countries mostly benefits the landlocked, yet the costs accrue disproportionately to the coastal countries. Regional agreements that either require coastal countries to spend money on market access for landlocked neighbors or create a mechanism by which the landlocked countries can compensate the coastal countries for their expenditures are needed.

Regional city formation will call for a form of political integration in Africa that is considerably deeper than what currently exists. Durable regional rules and institutions will be needed to support large population movements across national borders. Regional agreements may also need the scope for large fiscal transfers to mitigate the pattern of winners and losers that will come from large population movements with gains concentrated in mega-cities.

AN AGENDA FOR ACTION

For Africa's leaders, the political will to solve the collective action problems that hamstring regional agreements will be crucial. During the past 10 years, regional initiatives have tended to focus on politically visible, but practically limited gestures—such as commitments to the creation of a common currency, a common market or a common policy. Instead, regional leaders need to start at the beginning with common power pools, trans-border infrastructure, improved regional institutions and working arrangements for the free movement of goods. Well-functioning regional investments and institutions need to be the first priority.

Africa's development partners are also part of the problem. Aid agencies continue to prefer dealing with national rather than regional authorities in Africa. The European Union through its economic partnership agreements should be well placed to support deeper regional integration in Africa, but it has largely squandered the opportunity. The eligibility criteria of the Africa Growth and Opportunity Act discourage the formation of regional value chains in Africa. Despite their dedicated regional lending windows, the multilateral development banks have also been slow to meet the challenge of strengthening regional integration in Africa.

In 2011, new ideas, resources and instruments will be needed to reduce the debilitating impact of borders so that African countries can compete in global manufacturing.

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