AFRICA REGIONAL INTEGRATION AND CHALLENGES OF GLOBALISATION: A REVIEW OF THE NEW PARTNERSHIP FOR AFRICA DEVELOPMENT (NEPAD)

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ABSTRACT

Essentially, globalization has meant different things to different people. Some view it as a beneficial process, with potential to boost productivity and living standards everywhere. Others believe that it increases inequality within and between countries, threatens employment and living standards, and thwarts social progress. The opportunities are no doubt many: global markets; exposure to new ideas, technology and products; economies of scale in production; gains in efficiency in the utilization of productive resources; greater specialization between nations; better quality products and wide option for consumers; increased competitiveness and increased output; and ability to tap cheaper sources of finance internationally. But most developing countries, especially the poorer countries, have very weak capacities to take advantage of a global market. The governments of African countries need to embrace globalization in the full awareness of these opportunities as well as the attendant risks. Developing, and operating within the framework of, strong regional and sub-regional economic groupings are one desirable response to the powerful forces of globalization. Such groupings should, however, be predicated on competitive production and investment. Regional integration will enable African countries to establish joint large-scale efficient and competitive enterprises and regional infrastructures. But then, to make regional integration an effective vehicle for beneficial integration within the world economy, African countries must overcome the perennial problem of lack of political will to integrate, and work towards greater institutional and economic policy convergence. It is only in this context that the new Initiatives – African Union and New Partnership for African development (NEPAD) – will make the desired impact.

INTRODUCTION

Globalization has become a very important issue for discussion in various fora. It is a worldwide phenomenon which refers to the growing interdependence of the world's people. Globalization is about increasing inter-connectedness and interdependencies among the world's regions, nations, governments, businesses, institutions, communities, families and individuals. Globalization fosters the advancement of a "global mentality" and conjures the picture of a borderless world through the use of information technology to create partnerships to foster greater financial and economic integration. However, it is not just a process which integrates world economies but also the culture, technology and governance. It also has religious, environmental and social dimensions. National policy-making has also been globalised as a result of the liberalization of financial markets, developments in technology and activities of global institutions such as the World Bank, the IMF and World Trade Organization.

Although the political, cultural, social and environmental aspects of globalization are no doubt important, the economic aspect is perceived to be at the heart of the (globalization) process. It has tended to receive greater attention, especially in view of its rapid pace since the past five decades, and has remained a powerful force shaping world economies, for good or for ill. Economic globalization refers to the process of change towards greater international economic integration through trade, financial flow, exchange of technology and information, and movement of people. Openness and markets constitute the platform of globalization while trade, finance and investment, and entrepreneurs are the heart. The countries most active and benefiting most from globalization are the same ones with the largest share of global trade and investment. Trade and investment remains the principal key for creating and distributing wealth among and within nations. Therefore, countries lacking the institutional capacity for global trade and investment find it difficult to meaningfully participate in economic globalization and reap the benefits thereof.

This paper, outlines the globalization challenges facing Africa and suggest the desired policies that will facilitate Africa's participation in the globalization process, with particular reference to the New Partnership for Africa Development (NEPAD) as a potent policy option. The rest of the paper is structured into four sections. Following this introduction, Section II outlines the benefits of globalization and why Africa has lagged behind, while Section III prescribes policy options for Africa's participation in the globalization process. Section IV highlights the objectives of the New Partnership for Africa's Development (NEPAD), with particular reference to Agriculture which is one of the priorities, while Section V summarises and concludes the paper.

THE BENEFITS OF GLOBALIZATION AND WHY AFRICA HAS LAGGED BEHIND

Greater integration with the world economy through trade and capital flows has afforded some developing countries the avenue to partake in the opportunities and benefits of globalization, to develop their comparative advantages and gain access to newer, more appropriate technology, while financial liberalization has increased their access to international private capital, permitting them to realize much higher rates of economic growth. The spectacular economic performances of the East Asian countries before the 1997/98 financial crisis reflected significant benefits from globalization. But the same thing cannot be said of African countries, many of which are the world's poorest. While economic growth rates in East Asia and the Pacific averaged 7.2, 7.1 and 6.7 percent in 1981-90, 1991-99 and 2001-2002, respectively, those in sub-Saharan Africa (SSA) were just 1.8, 2.0 percent, respectively. Furthermore, while the SSA's GDP per capita which was US$515.0 in 1999 dropped to US$450.0 in 2002, thus recording negative growth rates. In East Asia, per capita incomes have been moving quickly toward levels in the industrial countries since 1970 averaging US$960 in 2002(World Bank, 2004).

Related to the issue of poor growth performance is the incidence of poverty in Africa, which is not only high but rising. The magnitude and dimension of the problem as well as the grave threat it poses to economic, social and political stability make it one of the biggest challenges facing the continent. Poverty is highly visible in most African countries. Overcrowded settlements in major urban areas without basic social services and remote and isolated rural areas are major concentrations of the poor. Compared with other developing regions, Africa suffers from more severe and persistent poverty. Approximately 45 percent of Africans are income-poor (measured according to a poverty line of $1 a day) and 42 percent suffer from the incidence of human poverty (defined by life expectancy, educational attainment and living conditions). In 2002, life expectancy at birth was 45 years for men in Sub-Saharan Africa compared with 68 percent for East Asia and Pacific and 75 percent for High Income countries (World Bank, 2004).

Also, in SSA, one of the fall-outs of globalization is the very heavy external debt burden on the economies. In the context of relatively open economies and significant progress in liberalizing their exchange and trade regimes within the framework of World Bank and IMF-supported structural adjustment programmes or regional arrangements, many African countries have continued to stagnate and be frustrated under the burden of heavy external debt obligations. SSA countries are among the most indebted of developing countries considering standard debt indicators and income levels. In the year 2000, out of 34 countries classified by the World Bank as severely indebted low-income countries, 28 are in Africa. Thus, Sub-Saharan African countries are not only among the poorest, they also suffer the biggest debt burden. The debt problem is intimately related to openness and the countries' weak capacity for competitiveness and beneficial globalization. The heavy debt burdens may also not be unconnected with poor governance and corruption. The poor countries of Africa are characterised not only by low per capita incomes, but also by low social indicators (high illiteracy, infant mortality, poor health, etc), poor infrastructure and low economic diversification. In addition, they are afflicted by the problems of low rates of domestic saving and investment, endemic poverty, high unemployment, series of policy errors and excessive dependence on primary commodities. They are thus ill-equipped to benefit much from the process of globalization. With the globalization process having been uneven and unbalanced, with uneven participation of countries and people in the expanding opportunities, globalization to poor countries is a force of inequity and marginalization. They have yet to partake in the benefits of globalization in the global economy.

Africa has remained poor and lags behind other regions in exploiting the benefits of globalization, namely, increasing the resources available for productive investment, and enhancing efficiency of their use and facilitating the transfer of technologies. A number of mutually reinforcing factors account for the wide gap between Africa's economic integration with the world markets and its potentials, and its stagnation/underdevelopment at large. These relate to the structure of production and export, and the policy and institutional environment. Also, there is the issue of weak initial conditions reflecting lack of domestic economic capacity, and weak social infrastructure following the colonial experience. African countries have been made weaker by low export prices and significant terms of trade decline as well as the heavy burden of external debt servicing. Besides, is the issue of dictatorial regimes and poor governance characterized by abuse of power and economic mismanagement, all of which undermined the development process? Not least are SSA countries' lack of or weak bargaining and negotiating power in international economic relations.

For instance, many African countries depend heavily on primary commodities for the bulk of their export receipts, and this has often caused serious problems for economic management. This is because primary commodity prices tend to be volatile and are subject to long-term cycles as well as to short-term booms and busts. In 1997, primary commodities (food, agricultural raw materials, fuels, ores and metals, etc) accounted for 42 percent of developing countries' total merchandise exports, compared with 19 per cent for high-income countries. In SSA, primary commodities in the exports of individual countries often exceed 90 percent (World Bank, 2004). Not only are African economies heavily dependent on primary commodities, most of them are also monocultural. Nigeria presents an extreme case with its dependence on one commodity – crude oil – for over 95 percent of export earning and over 80 percent for domestic revenue. The two features of monoculture and concentration in primary commodity export have mutually interacted to hinder Africa's effective participation in the globalization process.

The corollary of Africa's heavy dependence on primary commodity exports is the insignificant nature of manufactured exports. Africa currently accounts for less than 3 percent of the world trade in manufactures and slightly less in services – approximately less than half of its 1980 level (Sachs and Sievers, 1999). Yet, manufactured exports have been key to the effective participation of the countries in East Asia in the globalization process and the spectacular growth rates and poverty reduction levels achieved. In 1975, some 57 percent of their population was in poverty. By the mid 1990s, after two decades or more of rapid export growth, their headcount rate of poverty was 21 percent (U.K. – DFID, 2000). Therefore, under globalization, the economies need to be diversified by using modern technology to create high-value-added goods and services sold to the world market. Though African countries have the advantage of low real wage levels compared to most other regions including Asia, their manufacturing has been uncompetitive internationally. And so, the continent has continued to miss out on the process of labour – intensive manufactured exports that has been an important engine of development elsewhere. The policy environment along with institutional factors has not been favourable to manufactured exports in relation to other types. In other words, the national business climate has not promoted a high level of competitiveness of African economies while many other factors raise transactions costs and inhibit manufactured exports. The high transactions costs are important because they raise the costs of inputs and lower the firm gate price of output. Some of the inhibiting factors to African competitiveness and manufactured exports include:

- High tax rates and numerous regulations.
- Infrastructure failings, reflected in poor roads and rail networks, epileptic power supply, inadequate and chaotic telecommunications system, inadequate water supply, etc.
- High level of corruption and inflation, which increase the cost of doing business and uncompetitiveness, respectively. Businesses consider bribery to get things done as a tax.
- Policy instability and political instability.

Under the circumstances, even an efficient manufacturing activity tends to have a low ratio of value added to product price.

Investment is significant to an economy in the same way as blood is significant to the human body. It provides a basis for economic growth and poverty reduction. Yet, investment ratios are far lower in Africa than in other regions. For example, over the 1993-97 period investment as a percentage of GDP averaged 19.5 percent in Africa compared to 26.9 percent for all developing countries, 32.6 percent in Asia, and 23.5 percent in Europe. In 2002, gross private investment as a percentage of gross domestic products had declined to 15.3 percent for Sub-Saharan Africa (World Bank, 2004). Under the circumstances of low savings and investment in SSA, it is hardly surprising that growth rates have been low, the pace of integration into the world economy slow, and the incidence of poverty very high.

While domestic investment remains the most important source of investment in Africa and other developing countries, foreign private capital flows can provide an important source of investment contributing to faster economic growth. Yet, Sub-Saharan Africa has had very little access to private capital flows, in sharp contrast to the experiences of developing countries in Latin America, South East Asia and, recently, Eastern European countries. The economic and business environment/climate in SSA has tended to be deterrent to capital inflow with its characteristics features of high external debt burden, macroeconomic instability, inconsistent and conflicting policies, political instability, ethnic conflicts and civil strife, insecurity of lives and property in a number of countries and uncertainty that plagues decision-making, weak institutional and physical infrastructure, non-transparent rules and regulations, weak human capital development, and poor governance, particularly pervasive corruption.

POLICY OPTIONS FOR AFRICA'S PARTICIPATION IN THE GLOBALIZATION PROCESS

In the light of the foregoing, Africa needs to address a number of challenges if it is to accelerate its integration into the world economy, maximize the benefits of globalization and minimize the risks of marginalization, as well as promote rapid economic growth and achieve substantial poverty reduction. The policy options include the following:

- Developing a strong production base predicated on value-added products and opening up of the various economies through adopting and maintaining a fairly liberal trade and investment regime;
- Diversification of export structures and development of manufactured export capability. The challenge is how to use the traditional exports as the basis for

diversification, which countries like Malaysia have successfully done. Diversification does not relate to products alone, but also to trading partners;

- Development of adequate human and institutional capacity, physical infrastructure, access to markets, capital and technology, necessary for integration into the world economy.
- Designing and implementing sound economic policies to be able to sustain the confidence of financial markets and square up to the increasingly stiff competition in trade; and
- Developing and operating within the framework of strong regional and sub-regional economic groupings such as ECOWAS, SADC, etc, as a credible response to the powerful force of globalization. Today's world, under the current of the powerful forces of globalization, is divided into regional trading blocks. Thus, we have in Europe (European Union); North America (NAFTA), Asia (ASEAN), Pacific Rim (APAC), Africa (COMESA, ECOWAS, SADC). These regional groupings have generally worked towards promoting openness, competitiveness and trade. Essentially, these are the issue being addressed by the New Partnership for Africa's Development (NEPAD).

THE NEW PARTNERSHIP FOR AFRICA'S DEVELOPMENT (NEPAD)

The New Partnership for Africa's Development is a pledge by African Leaders, based on a common vision and a firm and shared conviction, that they have a pressing duty to eradicate poverty and to place their countries, both individually and collectively, on a path of sustainable growth and development, and at the same time to participate actively in the world economy and body politic. The Programme is anchored on the determination of Africans to extricate themselves and the continent from the malaise of under-development and exclusion in a globalizing world. The programme is a new framework of interaction with the rest of the world including industrialized countries and multi-lateral organizations. It is based on the agenda set by African peoples through their own initiatives and of their own volition, to shape their own destiny.

To achieve these objectives, African leaders will take joint responsibility for the following:-

- strengthening mechanism for conflict prevention, management and resolution at the regional and continental levels, and to ensure that these mechanisms are used to restore and maintain peace;
- promoting and protecting democracy and human rights in their respective countries and regions by developing clear standards of accountability, transparency and participatory governance at the national and sub-national levels;
- restoring and maintaining macro-economic stability, especially by developing appropriate standards and targets for fiscal and monetary policies, and introducing appropriate institutional frameworks to achieve these standards;
- instituting transparent legal and regulatory frameworks for financial markets and auditing of private companies and the public sector;
- revitalizing and extend the provision of education, technical training and health services, with high priority given to tackling HIV/AIDS, malaria and other communicable diseases;
- promoting the role of women in social and economic development by reinforcing their capacity in the domains of education and training; by the development of revenue – generating activities through facilitating access to credit; and by assuring their participation in the political and economic life of African countries;

- building the capacity of the states in Africa to set and enforce the legal framework as well as maintaining law and order;
- Promoting the development of infrastructure, agriculture and its diversification in the agro-industries and manufacturing to serve both domestic and export markets.

Sub-Regional and Regional Approaches to Development

Most African countries are small both in terms of population and per capital incomes. As a consequence of limited markets, they do not offer attractive returns to potential investors, while progress in diversifying production and exports is retarded. This limits investment in essential infrastructure that depends on economies of scale for viability. These economic conditions point to the need for African countries to pool their resources and enhance regional development and economic integration on the continent, in order to improve international competitiveness. The five sub-regional economic groupings of the continent must therefore be strengthened.

The New Partnership for Africa's Development focuses on the provision of essential regional public goods (such as transport, energy, water, ICT, disease eradication, environmental preservation, and provision of regional research capacity), as well as the promotion of intra-African trade and investments. The focus will be on rationalizing the institutional framework for economic integration, by identifying common projects compatible with integrated country and regional development programmes and on the harmonization of economic and investment policies and practices. There needs to be co-ordination of nationals' sector policies and effective monitoring of regional decisions.

The New Partnership for Africa's Development will give priority to capacity building in order to enhance the effectiveness of existing regional structures and the rationalization of existing regional organizations. The African Development Bank must play a leading role in financing regional studies, programmes and projects. The sectors covered by the current programme include the following priority areas:-

(i) Infrastructure, especially information and communication technology (ICT) and energy;
(ii) Human resources, including education, skills development and reversing the brain drain;
(iii) Health;
(iv) Agriculture;
(v) Access to the markets of developed countries for African exports.

For each sector, however, the objective is to bridge the existing gaps between African and the developed countries so as to improve the continents international competitiveness and to enable her participate in the globalization process. The special circumstances of African island and land-locked states will be addressed in this context.

Sectoral Priorities: Agriculture

The majority of Africa's people live in rural areas. However, the agrarian systems are generally weak and unproductive. Coupled with external setbacks such as climatic uncertainty, biases in economic policy and instability in world commodity prices, these systems have held back agricultural supply and incomes in the rural areas, leading to poverty. The urgent need to achieve food security in African countries requires that the problem of inadequate agricultural systems be addressed, so that food production can be increased and nutritional standards raised.

Improvement in agricultural performance is a prerequisite for economic development on the continent. The resulting increase in rural people's purchasing power will also lead to higher effective demand for African industrial goods. The induced dynamics would constitute a significant source of economic growth. Productivity improvement in agriculture rests on the removal of a number of structural constraints affecting the sector. A key constraint is climatic uncertainty, which raises the risk factor facing intensive agriculture based on the significant inflow of private investment. Consequently, governments must support the provision of irrigation equipments and develop arable lands when private agents are willing to do so. The improvement of other rural infrastructures (roads, rural electrification, etc) is also essential.

The institutional environment for agriculture also significantly affects the sector's productivity and performance. Institutional support in the form of research centers and institutes, the provision of extension and support services and agricultural trade fairs will further boost the production of marketable surpluses. The regulatory framework for agriculture must also be taken into account, including the encouragement of local community leadership in rural areas, and the involvement of these communities in policy and the provision of services.

Too little attention has been paid by bilateral donors and multi-lateral institutions to the agricultural sector and rural development, where more than 70 per cent of the poor people in Africa reside. For example, in the World Bank lending port-folio, credits to agriculture amounted to 30 per cent in 1978, but dropped to 12 per cent in 1996 and even further to 7 per cent in 2000. The entire donor community must reverse such negative trends.

Diversification of Production

African economies are vulnerable because of their dependence on primary production and resource – based sectors, and their narrow export bases. There is an urgent need to diversify production and the logical starting point is to harness Africa's natural resource base. Value added in agro-processing and mineral beneficiation must be increased and a broader capital goods sector developed through a strategy of economic diversification based on inter-sectoral linkages. Private enterprise must be supported, both micro- enterprises in the informal sector and small and medium enterprises in the manufacturing sector, which are principal engines of growth and development. Governments should remove constraints to business activity and encourage the creative talents of African entrepreneurs.

SUMMARY AND CONCLUSION

If globalization has not yielded much benefit to poor countries, should they turn their back on it? No, as this is not a desirable response. Countries that are unwilling to engage with other nation of the world may risk falling further behind the rest of the world in terms of both income and human development. Thus, autarky is not a viable option. Under the present circumstances therefore, a strengthening of the policy and institutional environment in SSA is required to improve the region's competitiveness, accelerate its integration into the world economy, promote rapid economic growth and make a remarkable dent on poverty. Sound policies play a key role in determining the extent to which countries can draw from the benefits of global economic integration for economic growth. As globalization enhances the reward for good policies, it is necessary to have in place sound macroeconomic, sectoral and structural policies in order to improve macroeconomic stability, ensure external sector viability, make the economics more flexible, encourage diversification, reduce vulnerability to external stocks, and increase overall economic growth. And if African countries have to achieve the International Development Targets set for 2015, especially the target of halving extreme poverty and significantly improving social conditions, they need to raise their real GDP growth rates significantly – perhaps, to 7-8 per cent a year – on a sustained basis.

To the above end, however, there is the pressing need for each country to design economic strategies and policies that recognize and respect its specific needs and circumstances, and to promote sustainable and inclusive economic and social development that spreads its benefits to all sections of the society. The need for each country to design an appropriate response based on its political and economic realities suggests that SSA countries should be wary of pressures from some notable stakeholders, namely, transnational corporations, international banks and financial intermediaries, and multilateral international financial institutions, in the direction of an all encompassing process of globalization, particularly, financial liberalization which needs to be done cautiously against the background of required pre-conditions being met. The case of Mauritius is a notable one. Inspite of defying the "Washington consensus" through heavy intervention and targeting in trade, including the creation of export processing zones, Mauritius has made remarkable economic and social progress since the early 1970s (IMF Survey, 2001). It, however, strove to put in place stable macroeconomic policies, neutral incentives between tradable and non-tradable sectors, and an efficient services sector. Nevertheless, it is important for African countries to be prepared to face the challenges of globalization by putting their houses in order, by transforming and revitalizing their ailing economies with policies relating to pragmatic liberalization in the context of outward-oriented growth, complementary macro and microeconomic policies, promotion of manufactured exports, regional integration, human capital development, promotion of foreign direct investment inflow, raising the level of domestic saving and investment, development of technology, infrastructures, among others. In other words, a number of basic things must be put right for globalization to yield significant benefits for poor countries, SSA countries included.

In addressing the challenges, the support of the industrialised countries is required. As African countries progress on the path of enhancing their integration into the global economy, through policy reforms, the industrial countries would need to open their markets for easy access to the products of interest to those countries. The industrial countries need to remove tariffs and non-tariff barriers on imports of goods in which African countries have the greatest comparative advantage, for example, textiles and other manufactured/processed products, agricultural products, leather products, etc. Specifically, use of labour and environmental standards, antidumping, and countervailing duty to target the exports of the more successful exporting developing countries needs to be stopped.

The opening of industrial countries' markets should help African countries to move beyond specialization in primary commodities to producing processed and manufactured goods for export. The industrial countries can further support the integration and development efforts of Africa through:

- Help to the globally marginalized poor countries and their communities to become globally competitive and in attracting and retaining quality private capital;
- Technical aid and support, especially concessional aid flows which has been declining for quite sometime now;
- Significant external debt relief. The heavy external debt burden has hurt domestic investment and growth so much, and slowed the return to external viability;
- Substantial assistance to fight the spread of the HIV/AIDs pandemic; and
- Helping to end conflicts and civil strives in the continent. This is crucial to complement appropriate economic policies.

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