

AfDB - The importance of trade integration

A new policy paper by the African Development Bank (AfDB) carries the importance of trade integration to macroeconomic convergence.

Published in March 2013, the report titled *Supporting Macroeconomic Convergence in African regional economic communities* ([available for download](#)) recommends to link the roadmap in the implementation of macroeconomic convergence to progress made in trade integration.

In so doing, the AfDB report comes with some revisions to the application of macroeconomic convergence, building on the lessons from the experience in implementing the concept in Europe and elsewhere, with a view to ensuring a balance between the financial sector and the real sector programs. "Indeed, the macroeconomic convergence achieves its highest relevance when it is mainstreamed into regional efforts towards development and poverty reduction," said Jian Zhang, principal macroeconomist at the regional integration and trade division, AfDB.

Facilitating macroeconomic convergence

The paper also highlights the important role of fiscal policy and fiscal convergence in facilitating macroeconomic convergence. For the AfDB, given that upfront incentives as well as implementation capacities are low, surveillances should be more for promotional purposes - identifying specific country challenges and supporting them to improve performance - rather than for sanctioning purposes. In order to achieve higher performance, the paper also recommends increasing the degree of national and regional commitment and ownership, availing mechanisms to cushion adjustment costs and seeking technical and financial support for capacity building and investments.

In that regard, the report focuses on the important role of development partners, while acknowledging that African countries and RECs have the primary responsibility to ensure that the conditions for successful monetary unions exist.

The AfDB, based on its mandate and comparative advantage as catalytic financier, knowledge broker and partner, could leverage its ongoing support for regional integration and trade, and financial sector development as well as its operations in the sector departments.

The report recommends that the AfDB draws up specific support programs for each REC, based on a detailed assessment of the individual REC programs and consultations with relevant stakeholders. The AfDB has already taken great strides in that direction by publishing, in the second half of 2012, a report which had listed all the necessary conditions for "facilitating multilateral fiscal surveillance in a monetary union context with focus on COMESA region" ([available for download](#)).

That first study and the new report are the two first volumes of a series of publications dedicated to regional integration. The "Regional Integration Policy Papers" series focuses on topics relating to regional integration in the areas of infrastructure trade, investment, finance and regional public goods. This new knowledge dissemination series is inspired by requests received by the AfDB from some regional groupings for technical assistance in reexamining their macroeconomic convergence criteria towards making them more relevant to their objectives, level of financial development and macroeconomic management capacity.

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