INTEGRATION, DEVELOPMENT AND EQUITY

Economic Integration in West Africa

Peter Robson

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Integration, Development and Equity

Economic Integration in West Africa

Peter Robson
Professor of Economics
University of St Andrews

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Contents

Abbreviations

AOF	Afrique Occidentale Française (French West Africa)
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest (Central Bank of West African States)
CEAO	Communauté Economique de l'Afrique de l'Ouest (Economic Community of West Africa)
CFA	Communauté financière africaine
ECA	UN Economic Commission for Africa
ECOWAS	Economic Community of West African States (Communauté Economique des Etats de l'Afrique de l'Ouest – CEDEAO)
FCD	Fonds Communautaire de Développement (Community Development Fund of CEAO)
FOSIDEC	Fonds de Solidarité et d'Intervention pour le Développement de la Communauté de l'Afrique de l'Ouest (Solidarity Fund of CEAO)
MRU	Mano River Union
OMVG	Organisation de Mise en Valeur du Fleuve Gambie (Gambia River Development Organisation)
OMVS	Organisation pour la Mise en Valeur du Fleuve Sénégal (Senegal River Development Organisation)
TCR	Taxe de Coopération Régional (Regional Cooperation Tax – CEAO)
UDAO	Union Douanière de l'Afrique de l'Ouest (West African Customs Union)
UDEAO	Union Douanière et Economique de l'Afrique de l'Ouest (Customs and Economic Union of West Africa)
UDEAC	Union Douanière et Economique de l'Afrique Centrale (Customs and Economic Union of Central Africa)
UMOA	Union Monétaire Ouest-Africaine (West African Monetary Union)
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
WACH	West African Clearing House (Chambre de Compensation de l'Afrique de l'Ouest)

Preface

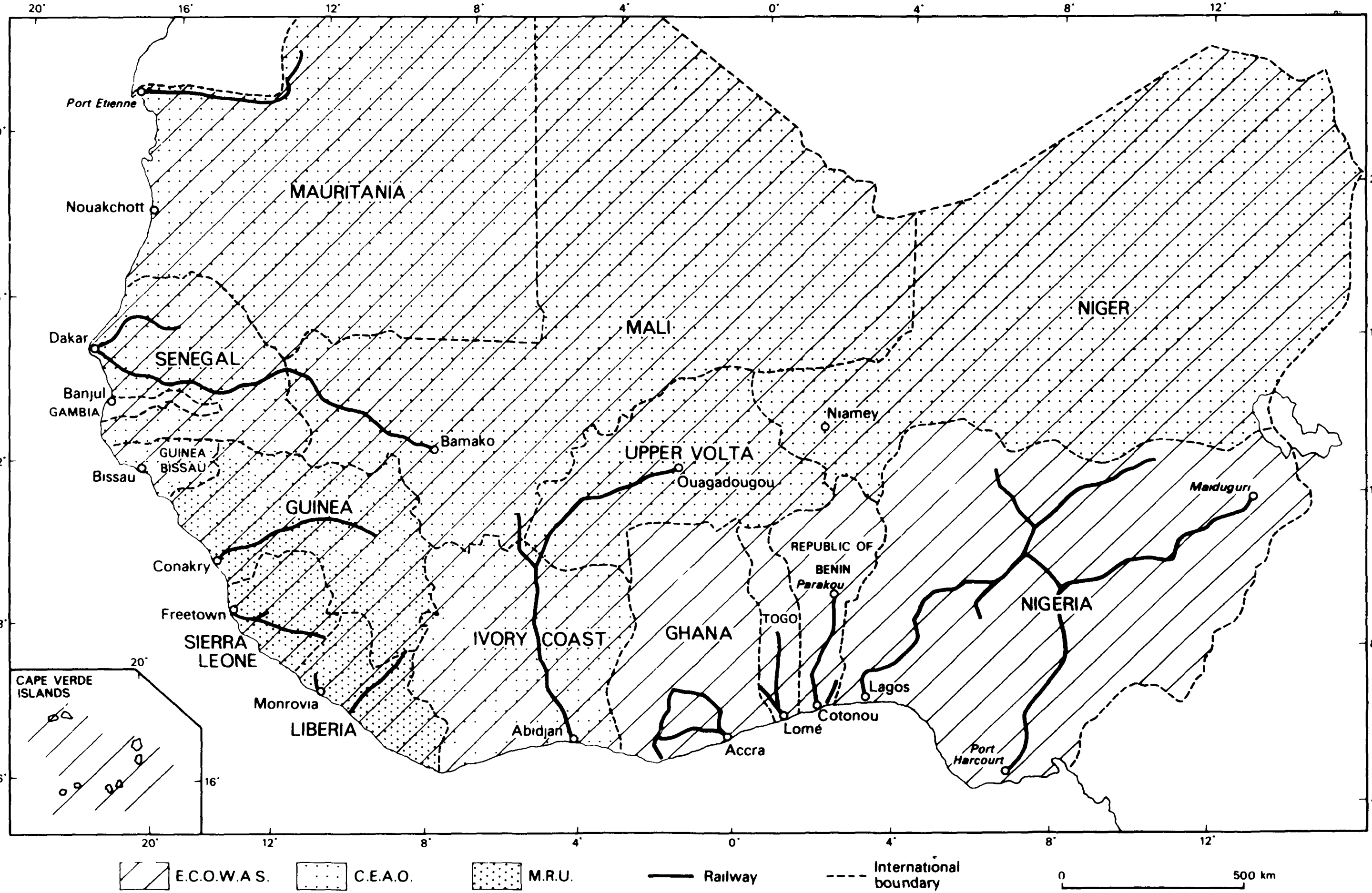
This book analyses the issues, experience and prospects of four arrangements for economic integration in West Africa. It is intended to contribute to an understanding of their operations, and the issues that confront them, and to be of interest to students, teachers of economics and those who are professionally concerned with these arrangements.

My dormant interest in West African integration issues was reawakened some five years ago by Oliver Knowles and I am indebted to him for his initial stimulation and advice. In the course of writing the book I have incurred a number of other debts of gratitude. I have benefited much from the encyclopaedic knowledge and perceptiveness of Eric Supper. In seeking an understanding of the issues confronting these schemes I have profited from discussions with several officials who at one time or another have been engaged in their operation. Amongst those who have been helpful I should like to mention, in particular, Dr Abubakr D. Ouattara, Executive Secretary of the Economic Community of West African States; Peter Skupsch and Paul Nambride, at one time advisers to the Communauté Economique de l'Afrique de l'Ouest, and Mrs Joy Zollner, Special Assistant to the Executive Secretary of the Mano River Union.

On the monetary problems of West African integration I have benefited from discussions with Dr Alassane D. Ouattara, Director of Research of the Banque Centrale des Etats de l'Afrique de l'Ouest, and from the very helpful advice of Sylviane and Patrick Guillaumont of the Université de Clermont. On certain issues, the perspective of the study has been influenced by advisory work that I have undertaken in connection with two of the groupings considered.

As to the manuscript itself, my principal debt is to Arthur Hazlewood, Warden of Queen Elizabeth House, Oxford, who was kind enough to read it and to provide a number of invaluable comments from his own very wide knowledge of integration issues. Parts of the manuscript were read also by Douglas Rimmer, Ranald May, Oliver Knowles and Sylviane Guillaumont, to all of whom I am most grateful for their constructive comments. The manuscript was impeccably typed by my indefatigable secretary, Mrs Helen Bremner, to whom I am particularly grateful. The map was drawn by C. B. Bremner, the University's cartographer. My wife, as usual, had the unenviable task of compiling many of the tables, and she was also kind enough to prepare the index.

I am indebted to the editor of the *Journal of Modern African Studies* for permission to use in Chapter 5 material from my article entitled 'The Mano River Union' (vol. 20, no. 4, 1982). A shorter preliminary version of parts of Chapter 4 first appeared in Ali El-Agraa (ed.), *International Economic Integration* (Basingstoke: Macmillan, 1982); I am grateful for permission to make use of it. For permission to reproduce Table 6.4 I am indebted to Bela Balassa of the World Bank. That institution has also kindly permitted the reproduction of statistical data from its *World Development Report 1982* (New York: Oxford University Press), and the *World Bank Atlas 1981* (Washington, DC: The World Bank).



Economic Communities in West Africa

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1 Introduction

Throughout the Third World, regional economic integration has been a prominent element of development strategy for more than two decades. In Africa itself, a particularly fertile ground for cooperation and integration is provided by the existence of large numbers of new states whose smallness and poverty represent severe constraints on their autonomous development. Of the forty-five states in sub-Saharan Africa, twenty-four have fewer than 5 million inhabitants. Only one – Nigeria – has a gross domestic product (GDP) greater than that of Hong Kong. Of the thirty-three countries listed in the World Bank's *World Development Report* for 1982 as 'low income', eighteen are African.

Most small poor states have limited development alternatives. Their balanced development requires larger markets, and for most of them this points to some form of regional integration. Certainly few African countries in this category – unlike Hong Kong, Taiwan, South Korea and Singapore – can expect to be able to skip the import substitution phase. Regional cooperation is thus important. It is still more so for the development of those African states that are not only poor and small, but that suffer the additional handicap of being land-locked and are consequently particularly dependent on cooperation with their coastal neighbours.

With the establishment of the Economic Community of West African States (ECOWAS) in 1975, post-colonial regional economic groupings in Africa numbered seven, of which all but one survive. Two monetary unions also exist, together with a variety of other institutions for functional economic cooperation. Since 1975, the world recession and its severe impact on Africa's economic performance have, if anything, strengthened interest in the establishment of new regional groups and the geographical extension of existing ones. Apart from the more orthodox benefits expected from them in the shape of expanded trade and investment, integration is now increasingly seen as an important element in reducing dependence and in helping to improve the bargaining position of African countries, thus contributing to their development through the broader strategy for promoting a New International Economic Order.

In April 1980 the first Organisation of African Unity (OAU) summit conference of chiefs of state to be devoted specifically to economic matters approved the Lagos Plan of Action which included the objective of creating an African common market by the year 2000, based on existing and planned regional economic communities. In December 1981, a wide-ranging agreement on trade and economic cooperation involving the establishment of a large preferential trading area in East and Southern Africa was signed by nine countries. In the same month, heads of state of the Central African countries and their neighbours, meeting in Libreville, proposed a widening of l'Union Douanière et Economique de l'Afrique Centrale (UDEAC). Another manifestation of the current concern with regional cooperation in Africa was the foundation at Lusaka in 1980 of the Southern African Development Coordination Conference (SADCC). Finally, in December 1981, Gambia and Senegal agreed to establish a Senegambian Confederation and to move towards an economic and monetary union.

A cynic might see in these recent efforts nothing more than 'a triumph of hope over experience' – as Samuel Johnson once characterised remarriage. It cannot be disputed that, during the last two decades, the record of African regional integration has not been outstandingly successful. Trade expansion has been slow and intra-group trade remains modest. Industrial coordination has often been conspicuous by its absence. Although Africa may not have reached the 'crisis' of integration that has been claimed to exist in the Third World (Vaitsos, 1978b), it has not altogether escaped the malady.

Some of the reasons for the difficulties experienced in Africa are well known. The short-run effects of integration are often not favourable: initial administrative costs are high; benefits from expanded investment and scale economies may not accrue for a long time and in any case these and other benefits are uncertain, difficult to quantify and sometimes intangible; distributional difficulties are hard to resolve where potential gains are not obvious and sure. For these reasons, although regional economic integration is certainly important as a means of loosening the developmental constraints confronting African states, it is unlikely to be an easy process. There are, nevertheless, certain pointers to a more optimistic prognosis than recent experience might appear to warrant.

In the first place, during the past two decades, much has been learned about the problems and techniques of regional integration among developing countries. In particular, the inherent limitations of orthodox customs unions and of measures for trade liberalisation are now widely recognised. It is widely appreciated that effective regional integration demands not only such measures of 'negative integration', but also what Tinbergen (1965) terms measures of 'positive integration'. These are measures designed to make an integrated market function effectively and to promote broader policy objectives. Although gaps in technical knowledge remain, if the knowledge gained from the integration experience of the past two decades is put to good use – of which there are signs – both established schemes and those in the process of formation will stand a much improved chance of making their potential contribution to development policy.

In the second place, the political context may in some respects have become more favourable. It is often suggested that in the sphere of regional integration it is not so much technical knowledge that has been lacking but the political will. During the past two decades, the emphasis of policy in most African states has been on internal political consolidation. Although these internal preoccupations have certainly not disappeared, the balance may be shifting. In part, this reflects the new importance attached to changing the international environment and to the attainment of economic objectives through political means. In part, it simply reflects a more conventional reaction to the impact of worldwide recession. Nigeria's key role in the formation of ECOWAS is an important instance of the shift in emphasis (Ojo, 1980). As a result of such changes, the hitherto missing factor in the shape of the political will to make adjustments, evolve international compromises and develop practical strategies in the cause of economic integration could conceivably prove to be less of an obstacle during the next two decades than it has been in the past.

Finally, there appears to be a renewed recognition on the part of aid agencies and donors of the role that integration is capable of playing, and of the need to provide support for regional projects, policies and perhaps institutions, including the much-needed development of transport links if that potential is to be realised. This could result in regional integration projects – frequently the Cinderellas of aid programmes – being given a much higher priority, so reducing their short-term costs and increasing benefits.

It is against this complex background that the following study examines the initiatives, experience, progress and prospects of regional integration arrangements in Western Africa. Despite their interest and potential importance, these have not hitherto received the attention accorded to similar initiatives in other parts of Africa or in other parts of the Third World.

The outline of the study is as follows. Chapter 2 indicates the limitations of the orthodox analysis of customs unions in the context of developing economies and sketches the outlines of an alternative approach that provides the conceptual framework for the subsequent empirical appraisals. Chapter 3 discusses practical strategy and policy issues of integration initiatives involving developing countries that are neglected by orthodox analysis. Particular attention is given to the problem of determining the scope for integration, to distributional issues and to the role of transnational corporations in regional integration.

Chapter 4, the first of four chapters that discuss specific arrangements for economic integration in West Africa (the Cape Verde–Guinea–Bissau Free Trade Area is not considered), looks at the operations of the Communauté Economique de l'Afrique de l'Ouest (CEAO). The CEAO, whose establishment was decided on in 1970, represents the third attempt of the states that came into being as a result of the collapse in 1959 of the French West African Federation (with the exception of Guinea) to maintain and develop important economic ingredients of that earlier relationship. The countries initially involved were Benin, Ivory Coast, Niger, Upper Volta (four of the five members of the Council of the Entente), together with Mali, Mauretania and Senegal (the three members of the Organisation for the Development of the Senegal River – (OMVS). Influenced by Nigeria, Togo, a former French Trust Territory and the fifth member of the Entente, did not seek to join. Benin, which had initially signed the Treaty, was persuaded by Nigeria to withdraw in 1973, but, like Togo, it enjoys observer status. CEAO is an important functioning example of economic integration in Africa, and the specific ways in which it has attempted to deal with a variety of policy issues are of wide interest. More specifically, since the CEAO countries are now part of the broader ECOWAS grouping, their experience on policy issues that are only broadly outlined in the Treaty of Lagos may suggest valuable guidelines for the development of ECOWAS itself.

Chapter 5 discusses the formation and progress of the Mano River Union (MRU). This group was inaugurated in 1973 and initially comprised Liberia and Sierra Leone. The two countries had been involved in 1964, together with Guinea and Ivory Coast, in an earlier attempt to establish a West African free trade area, but this initiative fell victim to political conflict between Ivory Coast and Guinea. Towards the end of the 1970s, Guinea, already moving in a number of ways towards a less isolationist stance, initiated discussions with a view to membership of MRU, and in 1980 it formally acceded. So far, the economic achievements of the group have been modest, but the institutional framework for cooperation between the two founder members has been established.

The most ambitious grouping of all is the Economic Community of West African States (ECOWAS), which was inaugurated in 1975.

This sixteen-country grouping includes all states of the West African sub-region, which together constitute a geographical zone larger than Western Europe. The member states of MRU, CEAO and Senegambia are also part of this wider grouping. ECOWAS includes some of the richest and most populous countries in Africa, several of which possess immense mineral resources. It also includes most of the poorest countries in Africa – and indeed a large proportion of those in the whole world. Nowhere else have attempts been made to integrate so many diverse countries, and the potential problems involved are immense. Chapter 6 outlines the Treaty of Lagos, which underpins ECOWAS, and reviews the progress so far made in implementing it. Particular attention is given to the present pattern of trade among its members, and to the possible implications of trade liberalisation. Evidence of recent research studies is brought to bear on the discussion of the prospective gains from integration.

Chapter 7 discusses the economic implications of the agreement on a Senegambian confederation, which was concluded in December 1981, following an abortive coup in The Gambia earlier in the year and Senegalese intervention. The Confederation Agreement provides for the development of an economic and monetary union between the two countries.

Chapter 8 discusses monetary and payments aspects of economic integration, the implications of monetary integration, the operations of the West African Monetary Union and of the West African Clearing House.

The concluding chapter summarises the central policy issues confronting economic groupings of developing countries and briefly comments, from these points of view, on each of the four West African schemes reviewed in the book.

2 Towards a Developmental Theory of Integration among Developing Countries

What are the benefits that developing countries can expect to derive from participation in regional economic groupings?

Orthodox comparative static analysis based on the customs union theory of Byé (1950) and Viner (1950) attributes such gains to increased production arising from specialisation according to static comparative advantage, that is, essentially to static resource allocation gains. The orthodox theory analyses the effects of integration principally in terms of the *trade creation* and *trade diversion* that would result. Trade creation refers to a shift from the consumption of higher-cost domestic products in favour of the lower-cost products of other member states. This reduces the cost of goods previously produced domestically. Trade diversion refers to a shift in the source of imports from lower-cost sources outside the regional bloc to a higher-cost source within it. The merits of integration are then evaluated using the relative magnitudes of trade creation and trade diversion as the sole criterion. A union that is on balance trade creating is regarded as beneficial, whereas a trade-diverting union is regarded as detrimental.

This analysis has only a limited bearing on the evaluation of gains from integration in developing countries. A major reason for this is that its standpoint is that of free trade, so that any gains derive solely from a move towards free trade involving, on balance, the reduction or elimination of inefficient or high-cost domestic industries. If this were the objective of integration, and the sole source of gain from it, even greater gains could be obtained by reducing tariffs on a non-discriminatory basis, or by removing protection for domestic enterprises altogether, and by importing domestic requirements of the products of displaced industries from outside at world market prices (Robson, 1980), although this proposition has been questioned (Wonnacott, 1981).

The neoclassical analysis of integration among developing countries starts from an entirely different developmental standpoint. It is assumed that there is a valid case for protecting certain activities in developing countries – particularly industry – either for the purpose of increasing income or the rate of growth, or in order to attain certain non-economic objectives that are sought for their own sake. To attain the latter may entail economic sacrifice, but that would not negate the argument.

The implications of economic integration in these terms can best be considered within a broader framework than that often employed, in which account is formally taken of (1) economies of scale; and (2) divergences between private and social costs of production. The gains from integration can then be analysed in the particularly relevant context of opportunities to exploit economies of scale that cannot be secured in single national markets, and the implications of market imperfections can also be brought out. Imperfections typically arise when certain goods and services do not fully pass through the market, thus giving rise to external economies and diseconomies, or when government policies distort the prices of factors and goods.

The following analysis adheres to the original formulation of developmental theories of integration in its explicit recognition of industrialisation and the structural transformation of economies as development objectives. This entails that the gains from integration must be exploited on a mutual basis, by the exchange of markets within a customs union or common market or other preferential area, so that they can be secured without a sacrifice of the structural developmental objectives of individual member states.

THE COMPARATIVE STATICS OF INTEGRATION WITH SCALE ECONOMIES

Figure 2.1 depicts demand and cost conditions in the domestic markets of two countries – H, the home country, and P, the partner country – that are contemplating the establishment of a customs union for a product produced by existing industries or for a planned new product. D_H is the home country's demand curve for the product, and AC_H is the average cost curve. D_P and AC_P are the corresponding demand and cost curves in the prospective partner country. D_{H+P} represents the combined customs union demand curve. P_W represents the constant price at which the product can be imported from W, the rest of the world. Terms of trade effects are thus ruled out.

It is assumed that there is a single producer in each country enjoying internal economies of scale, so that the traditional assumption of perfect competition that is so much at variance with the situation found in developing countries is not maintained. The introduction of