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## The rationale of economic integration in West Africa

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and measures necessary to implement a system of industrial licensing for Union industries have been decided on. Together with a transfer tax system and fiscal incentives arrangement this can foster balanced economic development and encourage progressive Union cooperation in industrial development.

The success of the Union, however, depends on how efficiently the two countries are able to solve the central problem of distributing new industries, attracting enough foreign capital, and the building up of the basic infrastructure project in a way considered equitable

by all parties concerned. In this connection the MRU decided that location of industry be broad in outlook so as to take into consideration also the socio-political situation.

Finally basic for efficient operation of any cooperation programme there should be coordinated regional and national policies to prevent disparities. In this respect member countries should begin to think in terms of coordinating their regional development planning and — in view of this constraint — the MRU should continue to identify areas where arrangements of cooperation might be

feasible and provision should be made for periodical review of the underlying procedures and techniques of these arrangements and thereby working out alternative courses of action for possible weakness.

We have briefly reviewed the steps taken by the MRU to ensure the success of the overall objectives. What direction this attempt of economic cooperation will take in future will, however, depend on how efficiently the cooperation programme can be implemented. What now is needed is a generation of enthusiasm in both countries for the economic cooperation case.

## The Rationale of Economic Integration in West Africa

by M. Uka Ezenwinyinya, Zaria \*

In terms of pure theory, the basis for gains from economic integrations is bound up with the opportunities for specialization and exchange of national markets. Although some other conditions could help the course of integration, most of the potential gains from it rest with the exploitation of economies of scale. To gauge what potentialities there are in West Africa for gains from integration would involve the elaboration of quantitative estimates of real gains from market integration, taking into account present and future patterns of demand and supply for subregionally oriented products. However, for the purpose of this short paper we want to examine in general terms the opportunities for economic cooperation in West Africa.

The greater part of the volume of intra-regional trade is made up of agricultural foodstuffs, including processed and semi-processed products. Given this predominance of agriculture in the economies of the region and the steadily increasing demand for food arising out of the steady growth of population, the opportunities for the expansion of intra-regional trade in agricultural products are quite substantial. At present none of the individual countries in the area seems to be self-sufficient in food production, though, admittedly, much of this could be attributable to faulty agricultural policies. Until the economy of the sub-region undergoes a fundamental structural transformation during which agriculture will lose its preponderance to industry, the least that could be said is that agricultural products will continue to play an impor-

tant role in intra-regional trade subject to some qualifications. The more important of these are:

- ☐ the construction of feeder roads and the existence of efficient distributive network throughout the subregion,
- ☐ increased specialization in production rather than cut-throat competition in the name of diversification policy or nationalism — the present trend towards chauvinism should yield place to subregionalism<sup>1</sup>,
- ☐ the setting up of adequate storage facilities, else agricultural products have to be sold off cheaply or they become completely unsaleable: this is particularly important for inland states, especially Niger rice, and lastly
- ☐ a more judicious acceptance of US PL 480 Food Programme

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Aid would help the growth of subregional trade in certain agricultural products. In this context, PL 480 shipments of cotton to Ghana may provide an obstacle to future purchases by Ghana from its immediate neighbouring countries where cotton production is growing rapidly.

In the long run, however, food imports are likely to contract, especially if the potentials for increased agricultural production are fully exploited in individual countries. On the other hand, the production of manufactures is expected to expand as the process of import-substitution industrialization gathers momentum. Even at the present stage trade in manufactures between the countries of the West African subregion is of the order of 3 p.c. of their total<sup>2</sup> and it is easy to speculate that the long-range trend is expected to show increases. Of course, from the standpoint of integration benefits the long-run trend in the manufacturing sector in

LDCs is generally regarded as a central question.

### Industrialization and Plant Size

No doubt, this reasoning is based on the controversial assumption that the technical and economic optima for many kinds of plants are necessarily large and that the extent of individual national markets is usually too small to sustain such plants. A few empirical studies exist on the minimum size of plants. In a somewhat pathbreaking study, Brown<sup>3</sup> made statistical analyses of plant size in the UK and its implications for industrialization in what is now Commonwealth East Africa. The most important conclusion of this investigation is that a country offering less than 1 p.c. of the market available for British goods would be unable to sustain efficiently heavy industries, such as engineering and chemical plants. Applying Brown's argument to West Africa it is easily seen that only Nigeria and, to a lesser extent, Ghana can set up any heavy industry based on the home market, leaving aside the weaknesses of the statistics and the technical qualifications the application of the study might require.

However, Meier<sup>4</sup> adds a strong qualification to this point. He argues that, with respect to oil refineries and cement plants or the like, large size may be a necessary condition for the exploitation of economies of scale. But in many industries economies of scale may frequently be realised in plants of only moderate size, especially in the sector of light industry where fixed investment is only a small part of total costs. Besides, the

market which was previously confined to the Unit is not apt to be extended very much to the wider area of the Union unless the pre-union tariff differences were rather wide. In the West African case it is true that tariff differences may be considerable, but it is unlikely that in the event of a union members would expose their infant industries to "unchecked" competition. Indeed, one of the real tests of any integration scheme in West Africa would be its ability to rationalise and mobilise the existing level of excess capacity through vertical specialization of production processes between plants in the same industry. A sizeable proportion of industry in the subregion operates at less than 50 p.c. of capacity<sup>5</sup>. Existing breweries in the French-speaking countries and the bicycle assembly plants in the area can be cited as examples. Also in Ghana most of the country's industries operate at less than full capacity. Given the existence of a wider market and a recourse to specialization, it would be possible for these industries to reap the benefits of economies of scale.

### Regional Planning and Transportation

As indicated before, regional transport network is another area where the economies of scale can be easily realised. That a transport system linking up different parts of a subregion can be successfully established only within a regional framework cannot be overstated. Other sectors which would offer opportunities for economies of scale to integrating countries include public utilities like rail and air transport, electricity generation, banking and research organisations. Invest-

<sup>1</sup> Ghana's Aliens Compliance Order, and the Business Promotion Act, 1970 both tended to be antiregionalist. The Government ostensibly in an effort to deal with the problem of unemployment evoked the provisions of the Compliance Order to eject non-Ghanian residents out of the country — mainly West Africans were affected.

Also the Business Promotion Act reserved exclusively for Ghanians several categories of business whose annual turnover were less than US \$ 1½ mn. See: *Africa Research Bulletin*, June/July, 1970, p. 1736. Ironically, both measures proved counter-productive at least in the short run. The indigenes could not quickly replace the ejected immigrants. Because — as in the case of labourers from Upper Volta and Niger who worked the cocoa farms — the Ghanians despised their job or (as in the case of traders and businessmen) the natives had neither the skill nor the capital to take over this sector. The immediate effect of both measures was a fall in the level of economic activity especially in the affected sectors. The Nigerian counterpart of the Ghanaian Business Promotion Act is the Nigerian Enterprises Promotion Decree. But while the former discriminates against all non-Ghanians the latter discriminates only against non-Africans and citizens of those OAU member countries which do not offer reciprocal facilities to Nigeria. And the gradual transfer of certain categories of business to Nigerians and some other Africans is not likely to cause a serious dislocation of economic activities.

<sup>2</sup> See: UN (ECA), *Economic Cooperation and Integration in Africa: Three Case Studies*, New York (ST/ECA/109), 1969, p. 51.

<sup>3</sup> A. J. Brown, *Economic Separatism versus a Common Market in Developing Countries*. In: *Yorkshire Bulletin of Economic and Social Research*, May and November, 1961.

<sup>4</sup> G. M. Meier, *Effects of a Customs Union on Economic Development*. In: *Social and Economic Studies*, Vol. 1, 1960, No. 9, p. 33.

<sup>5</sup> See: The Economist Intelligence Unit and Associate, *A Study of Possibilities of Economic Cooperation between Ghana, Ivory Coast, Upper Volta, Niger, Dahomey and Togo*, African Development Bank, 1970, Vol. 1, pp. 144-153.

ments in these fields are generally lumpy and indivisible hence the larger the market the more profitable and cheaper the operating costs of the enterprises. In fact, joint ownership of common services was the order of the day during the colonial administration. British West Africa had a joint airways, a joint shipping line, common research institutes and a common currency issued by the West African Currency Board but they did not outlive independence. Ironically enough, public utilities happen to be the darling of international lending agencies wanting to provide assistance for integration. They generally prefer to support regional infrastructure like river basin development, large power complexes, international highways, transport and communications, and so forth.

### Aspects of Economic Growth

Some general remarks regarding the perspectives of development in the subregion with particular reference to integration could be made now. Between 1960 and 1966, the average annual growth rate in West Africa was 2.9 p.c., the lowest in developing Africa with the exception of Central Africa<sup>6</sup>. It is a far cry from the first UN Development Decade target figure of 5 p.c. (for all LDCs) for the 1960s. It is even less than half of the 1970s target of 6 p.c. Even so it is not too bad a record when compared with the historical growth records of the presently industrialised countries in the early stages of their development: 2 p.c. in the UK between 1790 and 1820; 2.7 p.c. in Germany between 1850 and 1880; about 4 p.c. in the United States between 1820 and 1850; and some 4 p.c. in Japan between 1876 and 1900<sup>7</sup>. However, when these growth figures are adjusted for differences in aver-

age rates of population growth, the net real rate of growth for West Africa would be very close to zero, hence this retrospective comparison is not particularly fruitful.

Under the present average growth rate of about 3 p.c. and a weighted population rate of growth of 2.6 p.c. the population of the subregion would be doubled in 25–30 years time. The current rate of economic growth, if it were to continue, would merely keep pace with the rate of population increase without substantial improvement in the people's standard of living. This gloomy picture would certainly be unsatisfactory.

There are, however, hopeful indications that higher rates of development in the future are feasible. This is suggested, as noted earlier, by the general state of under-utilization of natural and capital resources in the subregion. Having recognised this, most governments have aimed at accelerated rates of growth. It is true, as experience shows, that the planned targets have often not been achieved but it is equally true that lots of capital investments<sup>8</sup> have gone into infrastructural activities which have not had their full impact on the subregional economy. The possible corollary is that in the long run these economies would generate excess savings over infrastructural investment and export surpluses over imports – assuming reasonably increasing supply and demand for exports. Given the increase in capital formation, it would be possible to devote resources to investments of a productive and self-liquidating nature thereby achieving higher rates of growth, while the conse-

quent increase in the demand for imports, especially of capital goods, would not cause balance of payments problems which might exercise a constraint to growth.

In relation to population, it is quite conceivable to suppose that, with the increase in the level of literacy, urbanization and family planning facilities, the present high figure of 2.6 p.c. might be reduced, if not radically, at least slightly. The Indian experiment<sup>9</sup> in this field is a source of hope and encouragement. For the slightest reduction in the rate of population growth augurs well for a faster rate of economic growth.

### Realistic Predictions?

These optimistic predictions have of course been upon a set of assumptions which may not hold in the course of future developments. For instance, prediction on the increase of savings has been based on its behaviour in relation to income, but the behaviour may be changed radically if the distribution of income undergoes a radical change. Export prospects have been based on the current projections and biased in favour of the "high" figures. But again much depends on the income elasticities of demand in the developed countries, the market shares of, and the competitive conditions in, the subregion and above all the development of substitutes, with respect to some commodities of export interest to the area. Moreover, the capital-output relationships may be influenced by the delayed effect of investment opportunities, especially of the import-substituting variety, on the other.

<sup>7</sup> L. Pearson (Chairman), *Partners in Development*, Report of the Commission on International Development, London, 1969, p. 27.

<sup>8</sup> This was particularly true of Ghana under the Seven-Year (1963–70) Development Plan. See: C.B.S., *Economic Survey*, Accra 1965, p. 14.

<sup>9</sup> The Indian Government reports with pride that the 1971 Census puts the country's population at 547 mn, less than official projection. It is reckoned that since 1967 family-planning programmes have prevented an estimated 1.3 mn births per year (see: *Time Magazine*, April 26, 1971).

<sup>6</sup> The ECA Secretariat.