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# Policy Issues in West African Integration

by Peter Robson, St. Andrews\*

**As a result of the slight success achieved by many developing countries in their attempts to become integrated in the international division of labour and the growing fear of unilateral dependence upon the industrial nations, increased attention has been given in recent years to economic and technical cooperation between developing countries. Peter Robson examines the potential and limitations of regional integration between developing countries in the light of the experience of West Africa. This is followed by an article by Norbert Wagner who discusses the regional integration issue using South and South-East Asia as examples.**

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Throughout the Third World, regional economic integration has been a prominent element of development strategy for more than two decades. In Africa, 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 development. Of the 45 states in sub-Saharan Africa, 24 have fewer than five million inhabitants. Only one – Nigeria – has a gross domestic product greater than that of Hong Kong. Of the 33 countries listed in the World Bank's World Development Report for 1982 as "low income", 18 are African.

Most small poor African states have limited development alternatives. Their balanced development requires larger markets, and for most of them this points to some form of regional integration, since few can expect to be able to skip the import substitution phase. In West Africa at present there are three economic groupings, and a fourth is in the process of formation.

The most solidly established in terms of procedures is the Communauté Economique de l'Afrique de l'Ouest (CEAO). The CEAO, established in 1973, represents the third attempt of the states which 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 some economic aspects of that earlier relationship. The countries involved are Ivory Coast, Niger, Upper Volta, Mali, Mauretania and Senegal.

The Mano River Union was also 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 last decade, 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.

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 the member-states of MRU and CEAO together with Nigeria, Ghana, The Gambia, Benin, Togo, Guinea-Bissau, and Cape Verde. Together these states constitute a geographical zone larger than Western Europe. 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 significant proportion of those in the whole world.

The most recent integration initiative arises from the agreement on a Senegambian Confederation which was concluded in December 1981, following an abortive coup in Gambia earlier in that year, and Senegalese intervention. The Confederation Agreement provides *inter alia* for the development of an economic and monetary union between the two countries.

Economic integration in West Africa is clearly not a panacea and in itself is unlikely to generate rapid economic growth. Nevertheless, viewed as a policy alternative to a continued reliance on capital intensive import substitution policies directed towards national markets that are in most cases extremely small, it does hold out the prospect of important potential benefits. The extent to which those benefits are realised will depend on many factors, but in particular on the ways in which certain key issues are resolved, namely: (1) development strategy; (2) the distribution of benefits and the problems of the less developed members; and

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(3) policy towards foreign direct investment. This article briefly compares and contrasts the experience and procedures of the four existing West African integration initiatives with particular reference to these issues.

The already noted dual integrational allegiance of most of the members of ECOWAS also raises immediate problems of compatibility, and of course, if ECOWAS prospers, the long-run future of the smaller groupings would be problematical. Meanwhile, their potential for accelerating integration and development would certainly be assisted, and the scope for conflict reduced, if ECOWAS itself were to get more firmly to grips with the problem of the treatment of its least-developed members, a large proportion of whom are to be found within the other three groupings. No further reference to the problem of the relations between these groupings will be made in this article.

### **La Communauté Economique de l'Afrique de l'Ouest**

In a fundamental sense a development strategy finds its expression in the structure and level of a Community's external tariff and in its member states' harmonised investment incentives. In that sense there is as yet no determined development strategy in CEAO – any more than there is in the other groups. But this deficiency – which may yet be overcome – is less damaging for CEAO than it is for ECOWAS because the CEAO system is a coherent one at any stage. It leaves each member-state substantial discretion with respect to its degree of market integration with its partners. Each country remains free at present to evaluate economic development issues according to its own criteria and to arrange the modalities of integration accordingly.

Integration of product markets and trade liberalisation is underpinned by a scheme which provides compensation for losses from trade diversion arising from trade liberalisation, together with a small measure of redistribution towards the less developed members through "overcompensation". Compensation is not provided for any losses that might arise from trade creation, but this is immaterial since each country can effectively avert the loss of its high-cost industries by limiting the tariff preference it accords to its partner-states under the special regime (termed the *Taxe de Coopération Régionale* – TCR) that can be applied to products of Community origin. Each country also retains policy flexibility with respect to the establishment of new industries. Consequently, even before industrial harmonisation is attained, a country's interests should not be damaged by the operation of the Community. This is a workable basis for limited economic

cooperation, and it minimises distributional difficulties and harmonisation problems. But a corollary is that the opportunities it affords for generating economic gains are likely to be modest.

This limitation is partly bound up with the third issue, namely policy towards direct foreign investment, where little progress is discernible, fundamentally because there is no agreed development strategy, or regional industrial policy or harmonised system of investment incentives. At the industrial level, these deficiencies are reflected in the widespread replication of identical plants by multi-national enterprises in the different member states, which underlines the benefits foregone by the failure to promote an optimal pattern of regional industrial specialisation. Industrial harmonisation is urgently needed to maximise integration gains.

Nevertheless, the CEAO system is internally coherent and it possesses intrinsic stability. But because it is stable, there is a danger that without strong political leadership, its structure merely encourages low sight-setting in the field of integration, and its procedures provide no strong stimulus to further integration.

### **The Mano River Union**

The Mano River Union, inaugurated between Sierra Leone and Liberia in 1973, and joined by Guinea in 1980, is in conception and strategy different. The Union did not attempt – probably wisely – to promote trade liberalisation before agreement had been reached on a common external tariff. The Union's common external tariff does, up to a point, imply a development strategy in terms of resource allocation, but since investment incentives are not yet harmonised, it constitutes only a partial approach to this issue. Moreover, there is little evidence that the tariff was constructed in the light of appraisals of union comparative advantage. To that extent it does not represent a deliberately chosen strategy.

Economic disparities between MRU's member-states are less wide than in the other groups, which may partly explain the absence of compensation provisions in the trade liberalisation aspects of the Union. This could give rise to difficulties if trade liberalisation should be accompanied by a markedly unbalanced pattern of intra-Union trade. But in practice, non-tariff barriers are likely to prevent this from happening. In any case, if, as is probable, expanded trade arises chiefly from the Union industry programme, unacceptable trade imbalance is less likely since the Union industry procedure provides an instrument for developing balanced industrial packages. The construction of such

balanced packages should be facilitated by the agreed provision for offsetting any costs of uneconomic location that may be imposed on industries by the need for balanced programmes of Union industries.

A common investment code governing the incentives that may be offered to foreign investment has not yet been adopted in the Union, but no radical policies appear to be under consideration.

### **The Economic Community of West African States**

The issues surrounding ECOWAS, the largest and potentially most important grouping, are rather different. The Treaty of Lagos consists firstly of a number of timetabled commitments with respect to a tariff standstill, trade liberalisation, fiscal harmonisation and the introduction of a common external tariff. For two years – since 1981 – the Community has been trembling on the brink of implementing the second of these commitments. The timetabled commitments are coupled with untimetable obligations to adopt wider policy measures of “positive” economic integration, including industrial cooperation.

ECOWAS has been equipped with an elaborate Treaty which left most substantive issues to be resolved subsequently. As an integration strategy this approach has many precedents, though perhaps nowhere else has it been pursued so rigorously. Such an approach, perhaps inspired by functionalism, evidently does not induce difficulties to disappear; it merely puts off the need to resolve them. It is unfortunate that having devised a Treaty whose general provisions are coherent and ultimately mutually reinforcing, the Community should nevertheless have proceeded to give so much weight initially to market integration and free competition, when market signals, because of distortions, are at first likely to be so misleading anyway, to the neglect of the wider positive policy measures on which the success of the integration process must largely hinge.

With respect to development strategy, ECOWAS does not yet have one, except in the limited sense that competition and the free working of market forces are to be facilitated. There is as yet no external tariff and, unlike the situation with the Treaty of Rome, there is no indication in the Lagos Treaty as to how it is to be arrived at. The Treaty moreover requires trade liberalisation to take place in advance of tariff harmonisation – unlike the procedure followed in certain other Communities where liberalisation has been made conditional on prior tariff harmonisation, so providing a stimulus to the formation

of a common external tariff and avoiding possible misallocations of resources that might otherwise be produced.

### **Adverse Effects on Less Advanced Members**

In terms of numbers of member-states, the 16-country Economic Community of West African States, established in 1975, is the largest multi-country economic community in the world. It also has the unenviable distinction of incorporating a high proportion of the world's least-developed countries. In the world as a whole, some forty countries fell into this category in 1980. Of these, more than twenty are located in Africa and no less than ten are members of ECOWAS. Many of the least-developed member-states are, of course, extremely small in terms of population: Gambia has a population of only 600,000; the population of Cape Verde is even smaller.

In themselves, the timetabled measures of trade liberalisation must be expected to operate adversely to the interests of the least-developed countries. They will open up their markets to the industries of their more advanced partners, and the former will suffer both from trade diversion and from trade creation. Their imports of many products from the rest of the world will be replaced by higher cost products of the import substitution industries of their more advanced ECOWAS partners. In addition, their own import substitution industries will often be vulnerable from competition from their partners.

The Treaty does, of course, contain provisions designed to ameliorate these problems, which, if left unchecked, would certainly result, as they have elsewhere in Africa, in a maldistribution of the costs and benefits of integration. The principal provision that will come into force synchronously with trade liberalisation provides for fiscal compensation for revenue losses incurred in the process of trade liberalisation. A specific scheme was agreed by decision of the Authority in 1980 (A/DEC 19/5/80). This arrangement should approximately compensate the least developed member-states for the “impact” national income losses (reflected in tariff revenue losses) which they incur as a result of trade diversion. The provisions do not, on the other hand, compensate for any income losses that may arise from a curtailment of production in any import substitution industries that the least developed members may possess – that is, from trade creation.

The Community has also agreed that in implementing its trade liberalisation provisions, the less advanced countries shall pursue a slower timetable – though they

will still have to complete the process by the same terminal date – 1988 – as the more advanced members.

The Treaty also contains other provisions that are designed to ensure that the interest of the Community's less developed members are protected. Thus although the Treaty gives much emphasis to measures designed to avoid the distortion of competitive forces and to the promotion of uniform market conditions so as to give full scope to specialisation, it also emphasises the need to promote a fair and equitable distribution of benefits. In this connection the Fund for Cooperation Compensation and Development is given a key role. It is through the Fund in the first place that the above-mentioned compensation for revenue losses is to be provided. It is also a key purpose of the Fund to promote development projects in the less developed members of the Community.

The decision on trade liberalisation itself divides countries and products into two groups. The more advanced countries, namely Ivory Coast, Ghana, Nigeria and Senegal, are required to reduce their tariff barriers over the period 1981-86 whereas the less advanced countries are not required to eliminate tariffs until 1988.

There are other provisions in the Treaty from which the Community's least developed members might certainly expect to benefit, such as the industrial development provisions which might limit the polarisation of development that has characterised integration-induced development in other less developed groups. The difficulty is that although the customs union obligations are firm and timetabled, and the procedures are largely worked out, the broader policies of industrial development, and the special emphasis on projects in backward members, remain in the realm of aspiration. If the experience of other African groupings is any guide, it will not prove easy to implement them.

### **Inadequate Safeguards**

The less developed members are consequently vulnerable – certainly they have given hostages to fortune, for the costs they incur in the second and third phases of the passage of ECOWAS to customs union and complete trade liberalisation, are certain. But the benefits promised by the Community which may ultimately be considerable, have, in most cases, yet to be negotiated or are dependent on the implementation of policies which have only been broadly roughed out and which depend – as in the case of support for development projects – on the ability of the Community

to raise external resources for the ECOWAS Fund and its willingness to allocate them redistributively to projects in less developed member states.

It is important from the point of view of these members – and for the cohesion of the Community – that some priority should be given to measures improving or protecting their position. This does not appear to be happening. On the contrary, there are disturbing indications that some current "in-house" thinking inclines to erode even the present safeguards for the poorest members, inadequate as they are, on grounds that are partly practical and partly spurious – raising some doubt about the truth of the often expressed proposition<sup>1</sup> that the techniques of integration are now understood – only the political will is lacking.

In respect of policies towards foreign direct investment, ECOWAS, nudged by Nigeria, shows signs of wishing to develop a more positive and radical approach than those of the other two established groups. Certainly bargaining with multinationals appears to have been very much in the minds of those who devised the arrangements. Ultimately any useful policy in this field will have to rest on a prior harmonisation of investment incentives and of industrial development programmes, since it is basically the lack of harmonisation of these policy areas which accounts for many of the effects or abuses (including plant replication) of which ECOWAS countries, in common with other developing countries, complain and which may tip the balance of benefits unduly in the favour of the foreign investor. So far, however, the principal formal initiative in this area within ECOWAS is the local participation provision that has been added to its rules of origin. In itself that is likely ultimately to exacerbate the problems of the less developed members, and without a prior harmonisation of investment incentives, it cannot significantly ameliorate the problems presented by foreign investment, of which ownership is only one aspect. For the time being, indeed, it simply has the effect of rendering any trade liberalisation commitments nugatory, since those countries – like Nigeria and Ghana – which can meet the participation requirement, cannot export competitively in West Africa, whereas Ivory Coast and Senegal which account for the bulk of intra ECOWAS exports, cannot.

### **A High Risk Policy**

To a large extent, any judgement on the merits of the Community's approach must essentially rest on the

<sup>1</sup> See for instance, preface to *Accelerated Development in Sub-Saharan Africa*, World Bank, Washington, DC, 1980.

answer to a strategic question. Is it likely that it will help or hinder the process of reaching agreement on outstanding issues? It is conceivable that trade liberalisation introduced without concomitant policy measures of fiscal and industrial harmonisation *might* generate irresistible pressures to advance the process of economic integration in ECOWAS because the alternative would *not* be – as in CEAO – stability or stagnation at the low level of cooperation that would then have been attained – but, almost certainly, a politically damaging collapse. But this surely is a high risk policy.

A persuasive alternative would call for a revamping of the stages of integration envisaged by the Treaty – or, at least, since to do that would probably be very difficult (except by default as at present) – to introduce built-in safeguards for the less developed members during the trade liberalisation phase, and prior to the implementation of the positive integration measures at the Community level. With strong leadership, such an approach might afford a much sounder framework within which functionalist integrative forces could constructively operate, as and when they develop. There is, naturally, reluctance to tamper with the Treaty of Lagos lest it generates centrifugal forces that could ultimately render this promising group yet another object lesson of the inability of African states with fundamentally compatible interests to agree on appropriate policies. Yet the policy makers of ECOWAS – and in particular those of Nigeria and other more influential member states – should surely ponder this issue carefully. If changes are not made, the progress of the Community could otherwise be indefinitely postponed, and it runs the risk of becoming another costly international talking-shop especially if nothing is done to ameliorate the position of the less developed members, and those countries become more fully aware of the limitations of the Treaty provisions for safeguarding their interests.

### Senegambia

The most recent initiative for economic integration in West Africa stems from the decision of the presidents of the Gambia and Senegal in 1981 to establish a Senegambian Confederation embodying an economic and monetary union, of which a simple customs union and a monetary union are to be the initial stages. Here the central issues are rather different, and in one sense, narrower than those discussed already.

In the Senegambian case there are two sets of problems: (1) those which typically arise in any customs

union between an industrially more advanced and an industrially less advanced country; and (2) the unique additional problem presented by the magnitude of clandestine re-exports from The Gambia to Senegal. If there is to be a full customs union between Senegal and Gambia, it would not be possible for its prospective disadvantages for The Gambia in the shape of trade diversion to be overcome and for her to derive positive benefits unless union were to be accompanied by negotiated benefits in relation to one or more of (1) revenue allocation; (2) industrial development; (3) transport and service development.

It would not be impossible to devise workable arrangements that could preserve the legitimate interests of The Gambia with respect to Senegal in the period *before* ECOWAS obligations become operative for both parties. But in the longer run, with or without Confederation, the existence of those obligations would clearly make it difficult if not impossible to guarantee the interests of The Gambia with respect to Senegal, for the value of the provisions of the Treaty of Lagos that are designed to safeguard the interests of the less developed members of the Community vis-à-vis industrially more advanced members remains to be demonstrated. It seems likely that the interests of The Gambia with respect to Senegal and Senegambian Confederation will only be assured in the context of ECOWAS, if improved safeguards for the less developed members are introduced in the context of that grouping.

### Conclusion

All four West African groupings are prisoners of an approach to integration that can be justified only in terms of functionalist strategic considerations. Although the “classical” approach to integration in developing countries has been discredited for some time, immense emphasis nevertheless continues to be given in West Africa to the reduction of tariff barriers on an across the board basis formally supplemented by the creation of an apparatus of “holistic” integration that is appropriate if at all, only to intimate economic communities. Yet economic integration in West Africa will only make a significant contribution to development – and thus establish its claim to survival – to the extent that it results in a rationalisation of industrial development on an acceptable regional basis. The principal instruments and compromises necessary to make a reality of this task are not yet properly established in any of the West African groupings. A potentially destabilising deficiency of the techniques adopted in ECOWAS is that the special difficulties of the numerically dominant less

developed members have not been adequately dealt with. A further weakness is that so far only secondary attention has been given to the overwhelmingly important non-tariff aspects of cooperation – including monetary cooperation and convertibility – the lack of which (except within CEAO most members of which enjoy a common currency) is probably a more important obstacle to trade expansion than are tariff barriers.

It would be presumptuous to condemn this strategy out of hand – the political dynamics of regional integration are complex and uncertain. However persuasive a more limited approach to integration founded on selective industrial cooperation might be, there can obviously be no assurance that it would in the end be any more productive. But it can hardly be questioned that regional groupings whose common

institutions lack a strong capacity to identify, evaluate and promote significant industrial (and infrastructural) cooperation projects and to identify concrete development gains for its members, will find it difficult if not impossible to develop the impetus needed to sustain fruitful regional cooperation. To develop a significant West African capacity in these fields, greatly strengthened Secretariats, Community Funds and regional development banking institutions will be necessary. At a national level, priority needs to be given to those specific adjustments that would be required to implement joint projects. A willingness to develop effective instruments for industrial cooperation, and to use them, is likely to be the single most crucial determinant of the future role of regional integration in West Africa – and no doubt, of similar arrangements in other less developed regions.

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## REGIONAL INTEGRATION

# Regional Economic Integration between Developing Countries

## The Example of South and South-East Asia

by Norbert Wagner, Heidelberg\*

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Attempts by many developing countries to obtain the benefits offered by various forms of economic integration date back to the end of the 1950s; the successful example of the EEC aroused hopes of a comparable economic advancement. Consequently, a Committee for Economic Cooperation between Developing Countries which was expressly intended to deal with the 'special integration problems of those countries was formed at the Second United Nations Conference on Trade and Development (UNCTAD II, New Delhi, 1968).

The following can be cited as examples of such attempts at integration between developing countries with varying degrees of success:

□ ALADI, Asociación Latino-Americana de Integración (founded in 1980 to replace LAFTA, 11 member states),

□ ASEAN, Association of South-East Asian Nations (1967, 5),

□ CARICOM, Caribbean Community and Common Market (1973, 12),

□ CACM, Central American Common Market (1963, 5),

□ CEAO, West African Economic Community, (1974, 6),

□ ECOWAS, Economic Community of West African States (1977, 16).

The concept of cooperation between developing countries was given new impetus by the Arusha Declaration and the Action Programme of the Group of 77 (1979)<sup>1</sup>. The central component of this action programme is a medium-term action plan (First Short Medium-Term Action Plan for Global Priorities on Economic Co-operation among Developing Countries) which is to be implemented by the developing countries

<sup>1</sup> Cf. UNCTAD, Arusha-Programme for Collective Self-Reliance and Framework for Negotiations. Note by the Secretary-General of UNCTAD, TD/236, 28 February 1979. See also: Bremer Ausschuss für Wirtschaftsforschung: Auswertung der Dokumentation der fünften Welthandels- und Entwicklungskonferenz: Manila 1979, Baden-Baden, 1981, pp. 896 ff.

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