



**CLUB DU SAHEL**

**SAH/GMAP(2000)13**  
**For Official Use**

**Ministerial Lobby Group**

**REGIONAL INTEGRATION IN WEST AFRICA**

**Options and risks**

**This document has been prepared for the meeting of the Ministerial Lobby Group, which will be held in Paris, on 2-3 October, 2000.**

Contact: Michel Leblanc, Tel. 01 45 24 17 98, e-mail: [michel.leblanc@oecd.org](mailto:michel.leblanc@oecd.org)

**95782**

Document complet disponible sur OLIS dans son format d'origine  
Complete document available on OLIS in its original format

## **REGIONAL INTEGRATION IN WEST AFRICA: OPTIONS AND RISKS**

### **Introduction**

Before independence, West Africa was divided roughly into two economic models, under the influence of the colonial powers: British free trade and French protectionism. One of the most striking illustrations of this paradigm were the beginnings of informal or illicit cross-border trade between the two world wars, when products from the British Empire flowed into Niger via Nigeria. Custom duties were lower in the British colonies than in the French ones. The franc zone was also a way of avoiding currency flight and of fostering trade between France and its colonies. Because of the pound sterling's status as the reserve currency, the balance of payments could afford disequilibrium. After independence, these economic models remained unquestioned until the crisis of the French franc in 1968 and the crisis of the pound, which was finally usurped by the dollar. The franc zone nevertheless allowed the WAMU<sup>1</sup> countries to avoid foreign currency shortages and to have a common currency for their intra-zone trade. The English-speaking countries of West Africa were faced with the non-convertibility of their currencies, affecting their trade with other African countries and with the rest of the world.

The Lagos Action Plan<sup>2</sup>, which gave rise to ECOWAS<sup>3</sup>, put regional markets at the centre of a comprehensive development strategy that advocates:

- lowering trade barriers;
- implementing mechanisms and measures designed to facilitate trade (including means of payment);
- establishing African production companies with sectoral allocations for different countries;
- creating an African common market.

This initial option can be described as a “positive integration” strategy, i.e. a planned strategy of investment, characterised by regional division of labour rather than by a free market of factors, goods and people. The intention was to minimise the effects of negative polarisation (increase of development discrepancies) which would result from the free movement of the factors of production.

Since the 1980s, the CFA-franc-zone countries have been through repeated financial crises, leading to the implementation of a series of structural adjustment programmes. The non-franc-zone countries have also experienced difficulties. The devaluation of the CFA franc on 11 January 1994 — the day on which the treaty creating the West African Economic and Monetary Union (WAEMU)<sup>4</sup> between the member

- 
1. West African Monetary Union: comprises the West African member states of the CFA-franc zone.
  2. The Lagos summit of the Organization of African Unity (OAU), held in April 1980, decided to create a West African economic community by the year 2000.
  3. Economic Community of West African States: founded in Lagos in May 1975, it comprises the countries in the region, including both members and non-members of WAEMU.
  4. West African Economic and Monetary Union: replaced WAMU with the additional objectives of a customs union and economic convergence.

countries of WAMU was adopted — can be considered as a turning point (which began at the end of the 1980s) towards the integration of the West African real economy. The end of the CFA franc's status as a strong currency also offered opportunities to reduce the competitiveness gap with non-franc-zone countries. ECOWAS, which had experienced delays in implementing its strategy to introduce a regional market in stages, officially recognised the importance of reducing obstacles related to means of payment and of harmonising the lowering of tariff and non-tariff barriers.

This convergence of the regional sub-groupings' integration options could in fact widen the gaps and distortions between the economies of different countries. Growth through integration remains subject to constraints and impediments that stem from the experience of the past decades. Alternative options for convergence and growth should therefore be considered, in the context of globalisation and the structures of West Africa.

## I. Is Africa protectionist<sup>5</sup>?

Béatrice Hibou<sup>6</sup> asked this question in relation to the tax and customs reforms of the 1990s, which, at the instigation of the IMF and the World Bank, had the twofold aim of increasing government revenues and improving trade. Many factors suggest a negative response. African exports of value-added goods have not risen since the mid-1970s, while Latin America and Asia, profiting at that time from continuing protectionist mechanisms and preferential agreements, have succeeded in changing the sectoral breakdown of their economies and in gaining shares in the world market. Over the same period, West Africa has not managed to slow the exogenous penetration of its markets, to diversify out of cash crops, or to develop a successful manufacturing industry. Whatever the trading traditions and monetary systems in individual countries, it is the high level of tariff and non-tariff barriers in the region that has prevented a shift towards consumption of locally-made products and the development of alternatives to exports of primary products.

In import substitution, the concentration of manufacturing activities<sup>7</sup> in the agri-food and textiles industries makes them vulnerable because of their dependence on imported inputs. Competition from illegally imported products limits market share and even drastically reduces company's sales. In a poorly integrated industrial structure, the opportunities for productivity gains and cost savings are limited. Legal, tax, banking, monetary and labour rigidities impede the development of a supply-side economy. There is no national or regional protectionist strategy, in the positive sense, in West Africa.

A bias in favour of imports of rival products has emerged as a result of the international purchasing power generated by the CFA franc, and by oil revenues in Nigeria. In the CFA-franc zone, when prices are high, the export of primary products offers access to imports via a favourable exchange rate for (privileged) consumers, i.e. Dutch disease. In contrast, the Asian countries have strengthened their tariff and non-tariff barriers, but will also profit from the depreciation of their currencies to restrict access to their markets.

Despite terms of trade deterioration, export revenues have financed large purchases by the region from outside. However, this increase has been accompanied by an increase in local prices for factors of production. The reduced competitiveness of local products in open economies as a result of a strong and fully convertible currency boosts imports, which are more advantageous than local products. The customs barriers and various restrictions on inputs and capital goods have raised costs for some operators, while exemptions, import licences and fraud have allowed agricultural and manufactured finished goods to cross the customs barriers designed in theory to protect local activities.

---

5. Béatrice Hibou, *L'Afrique est-elle protectionniste ?* Editions Karthala, Paris, 1996.

6. Béatrice Hibou is also author of *La privatisation des Etats*, Editions Karthala, Paris, 1999.

7. Kankaly Diomande, *Avantages comparatifs révélés et spécialisation industrielle*, Codesria, 1996.

The difficulty of raising foreign currency in the non-CFA-franc zone led to overt protectionism, which was designed to limit external purchases and to protect local manufacturing industries. This policy hindered the formation of an integrated industrial fabric and manufacturing export capacity, by restricting purchases of intermediary goods and investment.

WAEC<sup>8</sup> and ECOWAS aimed at fostering trade relations between the countries of the region for local products and at giving preference to companies with local capital. However, a combination of unwieldy procedures, the diversion of preferential tariffs into distribution channels and the lack of domestic competitiveness of the products eligible for the regional cooperation tax<sup>9</sup> led to a decrease in trade within WAEC, then to its disappearance. Strong protection for national businesses was not compatible with the development of regional trade. Increasing complexity, uncertainty and instability of national tax and customs rules also hindered convergence and economic integration within WAMU-WAEC, as within ECOWAS.

## II. Has the devaluation of the CFA franc been favourable to regional integration?

WAEC, which sought to combine the advantages of a customs community with those of the CFA-franc zone, is an illustration of the failure of regional preferences due to a lack of complementarity between West African economies. This failure was probably reinforced by the role of the CFA franc, which stimulated the import of products made in or transiting through the non-CFA-franc-zone countries. Nigeria was the main exporter/re-exporter of products imported into the French-speaking countries of the region, enriched by the CFA franc.

Devaluation has reduced the bias towards imported finished goods and rival products boosted by the comparative weakness of the currencies other than the CFA franc: the Gambian dalasi, the Ghanaian cedi and the Nigerian naira. The CFA franc's attractiveness as a means to building foreign currency reserves for the non-CFA-franc countries of the region is diminishing. The tightening of banking conditions in the CFA-franc-zone countries since devaluation (preliminary deposit of 100% in local currency for documentary credits) has also reduced the use of cross-border trade flows for extra-regional imports. Nigeria, which benefited considerably from informal cross-border trade (in goods ranging from petroleum products to textiles<sup>10</sup>) until devaluation, has since recorded alternative flows of primary goods such as cattle, cereals and dairy products. Some studies<sup>11</sup> suggest that if Nigeria were viewed as an industrial platform, the other countries of the region, particularly the CFA-franc countries, could become suppliers of inputs and thus enhance complementarity, which is still largely lacking.

The lack of an efficient clearing house between the CFA-franc-zone countries and the other countries of the region still affects trade development, despite the reduction in exchange disparities. Devaluation has accelerated the development of regional banking networks (Ecobank) that cut across monetary borders. However, the introduction of travellers' cheques in the ECOWAS area, with the support of the Central Bank of West African States (BCEAO), indicates that the circulation of means of payment has become easier to negotiate since the end of the CFA franc's status as a reserve currency.

---

8. Founded in 1973, the West African Economic Community (WAEC) comprised the WAMU member states, with the exception of Togo, but including Mauritania.

9. Tax designed to compensate for the loss of customs and tax revenues in countries that imported eligible products.

10. ECOWAS Study, *Enhancing Intra-African Industrial Development in the Private Sector - Ecowas Sub-region*.

11. *Idem*.

However, differences in market size, market segmentation, geographical location and fiscal policy within WAEMU itself have resulted in different situations, despite devaluation. Senegal is the most expensive country in terms of solicitors' fees, electricity and taxes on electricity and diesel oil. Senegal also has the highest average gross wages, the highest construction costs in WAEMU, the highest VAT on imported goods alongside Niger, and land prices more than 160% higher than in Côte d'Ivoire. Niger has the lowest wages, but has not managed to stimulate investment because of high income and company taxation. Burkina Faso has the most expensive water in the region. Benin, adjacent to Nigeria, has the lowest fuel and transport costs in WAEMU. Capitalising on its geographical location, Senegal is the most competitive country in the region for international telecommunications and air freight, while Benin and Togo are fairly unattractive for air freight. The result of these differences in the costs of factors and services is that Senegal has managed, with fairly high taxation carried over into prices, to balance its budget, while the other WAEMU countries continue to record low tax and customs revenues. Ghana has seen its currency dive and inflation accelerate with the simultaneous increase in the cost of imported oil and collapse of cocoa prices. The difficulty in harmonising the economic conditions in the region highlights the inability of the regional market to absorb shocks and reduce distortions.

Neither WAEC nor ECOWAS managed to create effective free-trade areas. Monetary disparities favoured informal cross-border trade, while a single currency in almost all the WAEC countries did not solve their problems of competitiveness with countries outside the region and with Nigeria. Since devaluation has reduced these distortions, WAEMU has put economic union on its agenda, while ECOWAS has reiterated its objectives of an integrated trading and monetary area in West Africa. However, different geographical advantages and contrasting fiscal policies remain factors for positive and negative polarisation.

### III. Which convergence?

The regional integration promoted by WAEMU and ECOWAS does not have the same basis nor the same sequence of events. Despite the apparent convergence of the two West African sub-groupings, a common organisation of the sequence of events is needed. The free movement of factors (labour and capital), which, in theory (and in the model of European unification), comes before the harmonisation of economic policy, will be difficult to achieve in West Africa without an alignment of customs and tax standards, which depend on national choices.

This was the thrust of WAEMU's tax and customs reform, which included:

- abolition of all "ad hoc" customs exemptions granted by the administration; and the
- abolition of the regional cooperation tax designed to compensate losses due to the introduction of a common external tariff.

Other measures were designed to increase regional trade:

- abolition of quantitative restrictions on imports;
- reduction in customs tariffs;
- simplification of customs duties with a single import duty on c.i.f. (cost, insurance and freight) for each of three categories — basic necessities, raw materials and capital goods, and consumer goods;

- introduction of a “generalised preferential tariff” — a preferential intra-regional customs tariff for locally produced goods—applicable to all trade in manufactured goods within the region, with a system of labels guaranteeing the origin of each product.

It would be worth investigating whether this model of lowering tariff and non-tariff barriers can be extended to the whole region or at least to the sub-regional basins comprising the countries neighbouring Nigeria and Gambia. This approach is neither globalist nor developmentalist because it does not introduce compensation mechanisms (for the loss of domestic markets or for the reduction in tax/customs revenues). It is a type of convergence that offers gains for some producer countries and general gains for the consumers of the region as a whole.

The idea of integration as a path to growth has already been criticised because of the lack of complementarity between the region’s economies. This criticism is reiterated in the updated analysis<sup>12</sup> of the limited competitive advantages of the countries concerned in relation to imports from outside the West Africa region. According to that analysis, only openness to the rest of the world seems to be a promising avenue for African countries. In contrast, trade preferences within West Africa do not appear to generate growth. The expansion of open trade policies, with each country seeking to maximise its export advantages for trade outside the region, appears to be one of the ways for Africa to avoid marginalisation<sup>13</sup>. The current global context of trade liberalisation should offer more opportunities for African countries. The United States supports preferential reductions in customs duties on imports of certain products from the Caribbean and Africa, while the European Union is planning to review its system of preferences.

This option of “top-down” economic integration implies an undifferentiated reduction in tariff and non-tariff barriers for countries inside and outside the region, based on the “most favoured nation” clause. It is worth examining this scenario of convergence for the countries of the region based on a global rather than a regional standard. It introduces a radical alternative whose risks (volatility of export revenues, natural or structural handicaps, diversion of flows, collapse of uncompetitive national and regional activities) have not been evaluated. It would be time to assess these risks and weigh them up against the limitations of regional integration.

“Top-down” economic integration is all the more questionable as the distinction between tradable goods and non-tradable goods, which has been one of the cornerstones of development strategies focused on exports, is no longer so clear-cut. Tradable goods (including farm products) contain more and more non-tradable goods (water, land, electricity). With privatisation, these so-called “non-tradable” goods are also exposed to world prices. An economic analysis<sup>14</sup>, which notes that in a developed country, domestic trade accounts for a larger share of the economy than trade with neighbouring countries, suggests that the cost of trade (tariff and non-tariff barriers, transport costs) is a decisive factor in its orientation.

An obvious limitation to the option of opening up trade to the rest of the world are the trade costs involved in exporting. These are particularly sensitive because of the cost and monetary impact of purchasing inputs

- 
12. Alexander J. Yeats, *What Can Be Expected from African Regional Trade Arrangements? Some Empirical Evidence*, World Bank, November 1998 (“*Sub-Saharan Africa must adopt appropriate trade and structural adjustment policies to become more competitive internationally and to capitalize on opportunities in foreign markets. The exchange of regional preferences alone cannot reverse Africa’s unfavorable export trends. A far more promising policy approach would be broad-based reductions in African trade barriers, on a most-favored-nation basis*”).
  13. Alexander J. Yeats, *Prospects for Regional Trade Arrangements in Africa: an Assessment*, World Bank.
  14. Paul Samuelson, “The Transfer Problem and Transport Costs: Analysis of Effects of Trade Impediments”. *Economic Journal*, June 1954.

for the production process. It seems that the main reason for countries to trade in their domestic area<sup>15</sup> is not a national or common currency. The domestic bias, reflected in a high proportion of trade limited to the national or sub-regional area, stems mainly from the trade costs constraint. Trade costs, which thus appear to be an impediment to economic growth and to the intensity of intra-regional and international trade, can also limit the penetration of domestic markets. A full assessment of trade costs in several countries of the sub-region would make it possible to evaluate the threshold beyond which this constraint leads either to curbing productive activities or to a domestic bias. This domestic bias is one of the options for a “bottom-up” form of integration, which would reduce domestic impediments to trade within national borders before regional integration between West African countries is envisaged.

## V. Conclusion

This retrospective of economic relations within and between the West African sub-groupings shows that the sequencing of integration has been poorly coordinated. Cooperation between the countries of the region has been motivated by different reasons and has taken place in a context where the formal and informal overlap, which has interfered with the organisation of monetary, customs and trade systems.

The aim of this note is to encourage stakeholders to draw up models of integration, to base discussion and action on these models and to validate their adaptation in practice. Sequencing should also be considered as part of an analysis of the implications of closer monetary co-operation within ECOWAS, then within ECOWAS and WAEMU. The choice of policy convergence with the limitation of refinancing by central banks can be examined, considering that tension will persist until currencies are fully convertible. While the development of intra-African trade can reduce vulnerability to external shocks (commodities prices, exchange rates, interest rates, etc.), the improvement of intra-zone means of payment could be a decisive stage. The sequencing of monetary integration remains an important issue for the public and private stakeholders in the region.

The second major constraint on regional trade are the asymmetrical flows between the centres and the peripheries. Compensation systems have shown their limitations and the fiscal situation in most countries undermines their replenishments on a regular basis. However, the BOAD and the AfDB could, like the EIB, put their priority on financing projects that enhance development and reduce the isolation of marginalised areas in the region. The GMAP could assist in establishing a set of criteria for identifying sensitive areas and in involving the IFIs in fostering structuring and growth in these areas.

The purpose of an assistance strategy to marginalised areas is to reduce asymmetry. This can only be achieved through a broader, higher value-added supply of products that enjoy a comparative advantage. The cost of trade (transport, tariff and non-tariff barriers) has probably hindered the diversification of goods traded in the region and hardened the positions of the networks. Awareness of the obstacles to trade will make it easier to seize opportunities for production and export within and outside the zone. These obstacles include:

- A need for a stronger institutional framework to support the design of a co-operation system between countries with consistent operational, regulatory, procedural and documentary provisions at all points along the chain, to ensure the continuous movement of goods under the best possible conditions in terms of price and time.

---

15. Maurice Obstfeld and Kenneth Rogoff, “The Six Major Puzzles in International Macroeconomics: Is There A Common Cause?”, NBER, *Working paper*, July 2000.

- Inadequate organisational and logistical provisions (such as multi-nodal transport from end to end under a single authority, with a single transport document) and modus operandi for a modern, effective transport system of the kind now common around the world.
- Problems and delays along the chain, leading to an inefficient transport system, which considerably increases the cost of imported factors of production, significantly reduces the competitiveness of exported products, seriously penalises national economies and constitutes a major obstacle to development and therefore a factor in the region's decline.