Regional Integration in Sub-Saharan Africa

Experience and Prospects

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The emphasis of regional integration in Sub-Saharan Africa should shift from the integration of goods markets to the regional coordination of macroeconomic and microeconomic policies, the harmonization of administrative rules and regulations, and the joint provision of public goods. Such steps are likely to make Sub-Saharan African markets more attractive to domestic and foreign investors and to improve economic growth.
This paper — a product of the Trade Policy Division, Country Economics Department — is part of a larger
effort in the department to understand new regionalism in trade policy. Copies of the paper are available
free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Sheila Fallon, room
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After independence, every Sub-Saharan African country, without exception, joined one or more
regional integration schemes. Regional integration would have enabled the subcontinent to
attain economic growth and prosperity by allowing individual countries to overcome the
barriers of desperately small size and poor human and physical capital endowment — thus
breaking away from the colonial pattern of trade, often characterized by a heavy reliance on an
undiversified and vulnerable structure of exports.

Despite many attempts, and the investment of many scarce resources, to create multinational
institutions, Sub-Saharan African markets remain surprisingly isolated from each other.
Production and exports in most of these countries show few basic structural changes. Their
growth record — especially in the past decade — has been abysmal.

Foroutan's objective is to analyze the reasons for the huge gap between expectations
and reality and to evaluate regional integration's prospects in Sub-Saharan Africa. Considering
the economic characteristics of Sub-Saharan African countries and their trade relations with
world partners, the author argues that too much was expected from regional integration —
especially the integration of goods markets.

Benefits that theoretically could have been derived from regional integration went
unattained for complex reasons, foremost among which is the disparity in the partners' economic
development and the ensuing uneven distribution of gains from regional integration. This disparity
prevented any meaningful step toward integrating Sub-Saharan African markets.

Foroutan argues that despite a renewed interest in regionalism in the world, it remains
unlikely that regional integration as pursued in Sub-Saharan Africa so far will succeed any more
in the future. Regional integration in Sub-Saharan Africa can bear gradual fruit only if
costly protectionist and distortionary policies are abandoned for more market-oriented, transparent, balanced economic policies.

The disparity among Sub-Saharan African countries that has hindered the liberalization of
goods markets is unlikely to disappear in the short run, Foroutan argues, so the emphasis in
Sub-Saharan Africa should shift from the integration of goods markets to the coordination
of macroeconomic and microeconomic policies, the harmonization of administrative rules and
regulations, and the joint provision of public goods. Such steps are likely to make Sub-
Saharan African markets more attractive to domestic and foreign investors and to bring
about economic growth.
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I. INTRODUCTION

In the past three decades, a great number of broadly defined Regional Integration (RI) schemes have been adopted by all countries in Sub-Saharan Africa (SSA). According to some accounts, there are currently over thirty Inter-Governmental Organisations (IGOs) in West Africa alone. The aims of RI schemes in SSA have ranged from limited cooperation among neighboring countries in specific areas to the creation of an African Common Market. However, within all of Sub-Saharan Africa, there are at present no more than seven or eight IGOs that aim specifically at full-fledged economic integration.

The appeal of some form of RI in SSA is almost intuitive. The SSA countries are very small in economic terms. In 1989, the GNP of all SSA countries put together was approximately equal to that of Belgium. They are also among the poorest in the world, with a per-capita GNP of $340 in 1989 (see Table 1), and are very poorly endowed with human and physical capital. Thus, common sense dictates that for countries with such characteristics it is economically justified to integrate their markets. Imagine sub-dividing Belgium into forty-something independent countries, each with its own isolated goods and factor markets, a different public administration, currency, language, fiscal and monetary authorities, army, plus very inefficient inter-country transportation network. Economists would contend that the welfare of individuals would surely be reduced.

Why despite the strong common sense appeal of this argument has RI in SSA failed so far? Does this failure imply that RI as a model of development is harmful or, at best, ineffective for SSA and should be abandoned altogether, even as regionalism in the world appears to gain ground against multilateralism?

The objective of this paper is precisely to address these issues. To do so, five types of integration are defined: goods market or trade integration; labour market integration; capital market integration; monetary integration; and integration of government activity and regulation, alternatively known as cooperation. With the first three types of integration, barriers to the free movement of
goods, services and factors of production (labour and capital) are removed vis-à-vis partners so that the regional market is effectively unified. Monetary integration, at least in the context of SSA, has implied the adoption of a common currency, a common central monetary authority, and the surrender of national autonomy in the field of monetary and exchange rate policy. Regulation and government activity integration implies adoption of similar tax and investment codes, harmonisation of administrative and bureaucratic rules, creation of joint administration such as a common customs administration, creation of common infrastructure and the provision of common services, such as a common civil aviation, multinational universities and research centres, and the like.

In the specific context of SSA, this classification of integration is preferable to the classical taxonomy of regional arrangements (free trade area, customs unions, common markets, and so on) because it allows each of these possible cases of integration to occur in conjunction with or separately from the others. For example, in SSA, monetary union in the French Franc Zone, exists without an effective integration of goods and factors markets. In the classical taxonomy, monetary integration would naturally come as the last step towards the creation of an economic union.

This paper focuses mainly on trade integration not because other forms of integration are unimportant but because they are more fully discussed by other contributors or, as with labour market integration, remain rather distant goals.

The fundamental conclusion of the paper is that the structural characteristics of the SSA economies, the pursuit of import-substitution policies, and the very uneven distribution of cost and benefits of integration arising from economic differences among the partner countries, have thus far prevented any meaningful trade integration in SSA. Moreover, as the experience of the former Eastern European bloc suggests, there is no theoretical and empirical reason to believe that an import-substituting trade integration strategy, even when successfully implemented, would have been welfare improving. Other forms of integration, especially government activity and regulation integration, as
well as trade integration when pursued as a complement rather than as substitute for global trade liberalization, may nevertheless help the SSA economies to overcome the current economic impasse by providing an enabling environment to those SSA producers that begin competing in world markets. However, to the extent that the structural characteristics of SSA countries and their economic differences can only change very gradually, complete trade and labour market integration remain at this point a medium to long term objective.

The paper is organised as follows. Section II provides a brief history of the most important current RI schemes in SSA and describes their aims and achievements. Sections III and IV evaluate the experience of SSA with trade and other types of integration and attempt to identify the causes of failure of most RI schemes in the sub-region. The paper concludes with section V which examines the implications for SSA of Europe 92 and other such continental-wide RI schemes in the world that may represent a de facto demise of multilateralism.

II. REGIONAL INTEGRATION SCHEMES IN SSA

At present, there are some seven or eight groupings in SSA that aim at full-fledged integration. Some of these groupings date back to the colonial era. However, most integration schemes were adopted after independence during the period that goes from the late 1960s to the early 1980s. In many instances, the groupings comprised countries which had shared colonial ties to the same foreign power because the colonial ties had created a host of common institutions, a common official language, and a common currency. In other instances, the regional groupings, notably the larger ones, were more in line with the geographic proximity of the member countries.

A brief review follows of the major groupings in West, Central, East and Southern Africa. The aim here is to highlight the historic circumstances that gave rise to the various groupings, the economic characteristics of the participating countries, and the objectives and achievements of the various groupings (see Table 2 for a summary).
West Africa. There are currently three important regional groupings in West Africa: The Economic Community of Western African States (ECOWAS), the Communauté Économique de l’Afrique de l'Ouest (CEAO) and the Mano River Union (MRU). A fourth RI scheme, the Sene-Gambian Federation, between the republics of Senegal and the Gambia, ended in acrimony in 1989.

ECOWAS was formally founded in 1975, but the original idea of a community embracing all of Western Africa dates back to the mid 1960s. The idea was promoted particularly by Nigeria out of the conviction that a broader community would help her reduce its dependence on oil and increase her influence in a French dominated region. Anticipating the prospect of expanded markets and the opportunity to compete more favorably with multinational corporations, West African private business enterprises, especially the Nigerian ones, also provided strong support to the creation of ECOWAS.

With 16 members, namely all countries in Western Africa, an estimated total GNP of $64 billion and a population of 195 million in 1989, a wealth of mineral resources and a vast variety of agricultural products, ECOWAS is the largest and the most diversified economic community in SSA. Nonetheless, it is poor and economically underdeveloped. The average GNP per capita in 1989 was only $326 and economic activity concentrates heavily on extractive industry and agriculture for exports. For example, fourteen out of the sixteen ECOWAS countries derive over 60 percent of their export revenues from just one or two commodities. Despite these common characteristics, the ECOWAS members are more different than similar. The most striking example is provided by Nigeria whose population and GNP are roughly equal to the other fifteen members put together.

The economic differences among ECOWAS members are exacerbated by cultural, historical and political ones. Historic ties to different colonial powers have given origin to three official languages, English, French and Portuguese, different currencies, fiscal codes and public administration structures and practices. Additionally, the relations between the countries are marked by long-standing territorial disputes and political rivalries. Added to this melange of woes is the
extreme political instability in most of ECOWAS countries which has caused frequent and violent changes in political leadership.¹

The ECOWAS Treaty of 1975 envisaged the creation of a common market among member countries with a phased reduction of tariffs and non-tariff barriers on products of community origin until their complete elimination for all categories of goods and all countries by 1989; the establishment of a common external tariff by 1994; fiscal and monetary harmonisation; and close cooperation in all areas of economic activity. In addition, at the Dakar meeting of 1979, ECOWAS members agreed to allow "free movement of persons" and to establish a common defense pact. Finally, the Fund for Cooperation, Compensation and Development (FCCD), was supposed to alleviate the negative impact of integration and tariff preferences on the least developed members.

To date, after seventeen years since the creation of ECOWAS, none of the above goals have been met. Trade liberalization and the establishment of a CET are yet to be implemented; the expulsion of foreign workers from Nigeria in 1983 and 1985, proved the political impossibility of removing restrictions to labour movement; and the contributions to and outlays from the FCCD are subject to eternal controversy.

The poverty of ECOWAS members, the undiversified structure of their economies, the economic, cultural, political and ideological differences among them as well as political instability of many member countries explain why the Treaty of ECOWAS has remained a dead letter.

CEAO represents the third attempt by the West African States that belonged to the former federation of French Western Africa to maintain the arrangements for monetary and economic cooperation which were established during the colonial era. Despite past failures in creating a customs union, the member states preserved their monetary union by adhering to the CFA Franc Zone. The desire of France to preserve its influence in the sub-region and to counter the growing power of Nigeria, played a crucial role in the maintenance of monetary and economic ties. CEAO was founded
in 1973 by the Treaty of Abidjan and comprises seven members: Burkina Faso, Côte d'Ivoire, Mali, Mauritania, Niger, and Senegal. Benin became a member in 1984. All of the member countries except for Mauritania also belong to the West African Monetary Union (UMOA) and to ECOWAS.

The CEAO countries are characterized by varying degrees of economic development with Côte d'Ivoire and Senegal representing the relatively industrialized poles of the group. Because the economic imbalances among the CEAO members had been the major cause of the dissolution of the earlier initiatives, the Treaty of Abidjan embodied specific measures to attenuate such imbalances by directly assisting the economic development of the poorest countries within the group. Thus, the Community Development Fund was created to compensate member countries for the loss of tariff revenues arising from tariff preferences to partners, while the Solidarity Fund, largely financed by Côte d'Ivoire and Senegal, was established to finance development projects in the most depressed regions. Moreover, the structure of tariff preferences to partners was tailored to accommodate the request for higher protection by the least developed countries. These measures did have some success in promoting intra-group trade and factor mobility, both of which are high by SSA standards. However, as I shall discuss later, they also contributed to the creation of an extraordinarily distorted structure of incentives. Moreover, intra-CEAO trade in goods and factor services is far from being free of restrictions and a common external protection policy is yet to be formulated.

MRU was founded in 1973 by Liberia and Sierra Leone. Guinea joined in 1980. The Union's objectives included the expansion of trade among member countries through the elimination of existing barriers; the creation of a common protection policy vis-à-vis the rest of the world; and the promotion of economic cooperation. Although in theory intra-MRU trade is tariff free and a common external tariff is established, trade among member states remains restricted by pervasive non-tariff and tariff-equivalent barriers. Moreover, despite the lack of marked differences among the members that is often a distinguishing feature of the larger organisations in the sub-region, progress towards
integration and intra-regional trade has been slowed down by political unrest in Liberia and by the lack of complementarity among the partners’ production structures.5

Central Africa. The Customs and Economic Union of Central Africa (UDEAC), represent the continuation of long-standing tradition of cooperation among the former French Central African countries. UDEAC was formally created in 1973 with the Treaty of Brazzaville and comprises six members: Cameroon, Central African Republic, Chad, Congo, Gabon, and the Equatorial Guinea. The latter, a former Spanish colony, acceded to the union in 1985.

The original Treaty of Brazzaville envisaged a customs and monetary union with the complete removal of internal tariffs and non-tariff trade barriers and the establishment of a CET and common customs administration for trade with the rest of the world. However, the Treaty was extensively revised in 1974. This caused the de facto abolition of the CET and the common customs administration while intra-union trade in manufactured goods were restricted to those produced by firms enjoying the privileges of the so-called Taxe Unique system. As it will be shown later, the direct result of the Taxe unique system has been a structure of tariff preferences that varies with firm, product, country of origin and country of destination. As in CEAO, this structure of tariff preferences has proved to be both highly distortionary and a major obstacle towards any meaningful integration of member countries’ goods markets.

In terms of per-capita income, UDEAC is the second richest grouping in SSA. However, considerable differences exist among member countries. Cameroon is a semi-industrialized country where manufacturing accounts for 14 percent of GDP. Congo and Gabon rely heavily on petroleum extraction. By SSA standards, all three countries have high levels of per-capita incomes. On the other hand, CAR, Chad and Equatorial Guinea rely heavily on agriculture and are among the poorest nations in the sub-region.
A second economic grouping in Central Africa is the Economic Community of the Countries of the Great Lakes (CEPGL) which comprises the former Belgian protectorates of Burundi, Rwanda and Zaire. CEPGL was founded in 1976 with support from the UN which had unsuccessfully tried to keep Burundi and Rwanda as one political unit. CEPGL's objectives were to remove all barriers to the free movement of goods and people among the member countries and to undertake joint development projects financed through contributions by member countries and by foreign donors. As the insignificant share of intra-group in total trade reveals (Table 3), no progress towards trade liberalization and factor mobility has yet been achieved. The lack of progress is largely due to the disparity among the Community members: with Zaire being the largest of the three. Moreover, Burundi and Rwanda also belong to the Preferential Trade Area of Eastern and Southern Africa (see below) with whom they conduct the greatest part of their African trade.

East and Southern Africa. There are presently three important regional groupings in East and Southern Africa: the Preferential Trade Area for Eastern and Southern African States (PTA), the Southern African Development Coordination Conference (SADCC), and The Southern African Customs Union (SACU).

PTA was formally founded in 1981, under the auspices of the UN Economic Commission for Africa (ECA) and comprises 18 countries. For several years, the ECA had been actively promoting regionalism in Africa as the only viable strategy for the continent's development. According to ECA's view, regional groupings in Africa should comprise a large number of states in order to provide sufficiently large markets for the creation of industries that would gradually substitute imports and promote Africa's self sufficiency. According to this view, no more that four such regional groupings should exist in Africa: North, West, Central and South and East. Thus PTA, like its counterpart in Western Africa, ECOWAS, received active support of the ECA.
The PTA Treaty explicitly recognized the establishment of an economic community as its ultimate goal. The creation of a preferential trade area was to be considered only as a first step towards that goal. Initially, a Common list of 212 category of goods were selected for preferential treatment within the sub-region. The original intention was gradually to expand the list to comprise all goods of PTA origin. Customs duties on the goods in the list were to be reduced by 25 percent every two years until their complete elimination by 1992. The negotiations, however, got bogged down on such matters as what goods to include in the list, how to define the rules of origin, and how to create compensatory mechanisms for those members that would suffer revenue losses. As a result, the target date for effective liberalization shifted to the year 2000 and even that appears to be optimistic.

Essentially, the lack of progress with intra-group trade liberalization in PTA is due to the same factors that have slowed it down in ECOWAS. Although in economic terms PTA is the second largest grouping in SSA, all of its members except for Zimbabwe and Kenya, the two relatively diversified economies, are poor and highly dependent on one or two commodities for their export revenues. The ensuing lack of complementarity and the uneven distribution of benefits have thus far stalled all efforts towards any meaningful and effective integration.

SADCC was formally created in April 1980. The core states of SADCC comprise the frontline states -Angola, Botswana, Mozambique, Tanzania, Zambia and Zimbabwe- as well as the four other majority-ruled states in the region, Lesotho, Malawi and Swaziland and Namibia. The latter joined the organisation in 1990, immediately after independence.

SADCC’s principal objective was to promote cooperation among its member states in order to lessen their economic dependence on the Republic of South Africa. Thus, from the very beginning, the architects of SADCC decided to reject the idea of a customs union and concentrate their efforts on the more modest goal of economic cooperation. Similarly, they avoided the establishment of a highly
centralized and expensive bureaucracy by creating a small secretariat with limited coordination duties while leaving the responsibility for various sectors to the member states.

From the beginning of its foundation until the late 1980s, SADCC states and their infrastructure were targeted for destabilization by South Africa. Despite its heavy cost, the destabilization attempt by South Africa had two favorable side effects. First, it increased the cohesion of the SADCC states. Second, it prompted more aid and sympathy toward SADCC from the international community than would otherwise have been forthcoming. Financial assistance to SADCC was considered as a "positive alternative" to economic sanctions against Pretoria. Thus by 1988, the international community had provided over $3 billion in financing for SADCC projects which represented over 90 percent of the cost of the projects approved.

At the outset, transportation and communication were considered as priority sectors by SADCC and absorbed the lion's share of all SADCC projects and investments. The most successful and well known SADCC transportation project has been the development of the Beira corridor. The Beira corridor is a 300 km strip running from Beira on the coast of Mozambique to the border of Zimbabwe and containing Beira port, a railway, a road, an oil pipeline, an electricity line and a number of development projects. The Beira project has brought about a significant decrease in Zimbabwe's use of South African ports; the cooperation between Mozambique and Zimbabwe to protect the corridor from attack by South African backed guerrillas; the repopulation of the port and a return of the private businesses thanks to improved security. In other sectors, such as energy, agriculture, and industry, SADCC has not been able to replicate its success with the Beira project either in terms of cooperation among members or between these and the donors.

On the whole, despite or maybe thanks to its limited aims, SADCC has by many inside and outside the region been considered as a successful example of regional integration to emulate elsewhere in SSA.
SACU is the oldest and the most functional customs union in SSA and comprises South Africa and the so called BLS states, Botswana, Lesotho, and Swaziland. After independence, Namibia also formally joined the Union in 1990. The Union was created in 1910, soon after the Republic of South Africa was formally created as an independent state. The new union replaced an older one which had been in existence since 1889. The main feature of SACU is the overwhelming dominance of South Africa over the other three members which are exceedingly small and relative to South Africa are more or less comparable with Liechtenstein to Switzerland or San Marino to Italy.

Goods and factors markets are well integrated within SACU, and there is a common external tariff and a common excise tax the proceeds of which are paid into a Consolidated Revenue Funds. The revenues are then shared by the union members in proportion to their share in total trade. Under the 1969 revenue-sharing formulas, the BLS states receive from the Fund more than their contributions to the Fund as compensation for leaving trade, industry and fiscal decisions entirely to South Africa. All SACU members but Botswana are also members of the Rand Monetary Area with the central bank of South Africa acting as the central bank of the Area as a whole. The union does not have any institutional structure such as a secretariat. There is only a functional Commission which meets once a year to consider any issues.

With the political events in South Africa, there is a strong feeling that SACU may not survive in its present form either in terms of membership or in terms of trade and monetary arrangements.

III. EVALUATION OF SSA’S EXPERIENCE WITH TRADE INTEGRATION

In the previous section I analysed the most significant regional groupings in SSA. It was seen that with the exception of SADCC, every one of the existing groupings explicitly aims at goods market integration. However, despite the proliferation of multilateral institutions, treaties protocols and resolutions, none of the groupings besides SACU has achieved any noticeable degree of integration in their goods markets. The evidence is provided by the small share of intra-group trade in
total trade. Table 3 contains data on the share of intra-group trade in SSA as well as some other regional groupings in the world. The data reveal that the share of intra-group trade in almost all SSA groupings is not only very small compared to other groupings, but also stagnant over time.\(^9\)

Since the data show the share of intra-group trade in SSA since 1970, i.e. before any of the major groupings in SSA were formed, it is possible to detect whether the formation of a group exercised any impact on the member countries' trade with each other. The data indicate that for the majority of the groupings in SSA, such an impact was practically non-existent or negligible. For example in MRU, UDEAC, CEPGL and PTA, the share of intra-group trade between 1970 and 1990 remains either stagnant or actually falls. For other groups where the share increases, the increase is little reason for jubilation for in most cases it reflects the terms of trade effect. Because intra-SSA exports are mainly composed of manufactures whereas SSA exports to the rest of the world are principally composed of primary commodities, the worsening of the SSA countries' terms of trade with the rest of the world tends to overestimate the share of intra-group trade based on export value data. A good example is provided by ECOWAS where the rising share of intra-group trade between 1980 and 1990, is very much linked to the fall in oil prices over the same period which caused Nigerian and ECOWAS dollar exports to the world to decline by respectively 47 and 35 percent. In comparison, during the same period, EC's and NAFTA's total exports increased almost two-fold. Even in the case of CEAO, the initial favorable impact of the Union on intra-group trade appears to have faded away since 1975, when intra-CEAO trade share reached its peak.

In sum, if the share intra-group trade is a good indicator of trade integration, it can be concluded that trade integration in SSA has failed. The reason is either because these countries have not removed the barriers that divide their markets into isolated units or that they do not fulfill the conditions for greater exchange even though all barriers to intra-group trade were removed. In this
section, it will be seen that both explanations are relevant. First, let’s us examine the limited potential trade explanation.

III.1 Limited Trade Potential

It should be obvious that simply the signing of a treaty to remove barriers to trade does not have any effect on the intra-group trade if the prospective partners do not demand each others’ exports. In this context, the only effect of integration would be indirect and related to the new level of protection of the group towards the outside world compared to the level of protection in each country prior to integration. Disregarding this effect and abstracting from intra-industry trade, in a two-good model, trade integration will have the usual trade creation/trade diversion effects when the prospective partners each have comparative advantage in the production and export of a different good while both goods are consumed by all countries. In other words, the difference in partners’ factor endowments makes them natural trading partners.

When the possibility of product differentiation and intra-industry trade is allowed, then two countries could have "similar" and indeed identical factor endowments, yet trade with each other. In this case the entire trade is of intra-industrial nature. The essence of this discussion is that trade integration among SSA countries could be effective, if they satisfy the condition for intra- or inter-industry trade. If these conditions are not satisfied, then the limited extent of intra-SSA trade cannot be attributed to the "failure" of integration schemes, but rather to their ineffectiveness.

In a recent paper, Foroutan and Pritchett (1991) try to test precisely for any possible gap between the potential and the actual trade among SSA countries. They apply a gravity model to a cross-section of fifty four low and middle income countries, which includes 19 SSA countries, in order to estimate intra-SSA trade potential. The gravity model posits that the volume of trade between any pair of countries is a function of their trade potential and their mutual trade attraction. A country’s trade potential depends on its size (GDP), its factor endowment, its level of economic
development, its geographic characteristics, and other similar factors. The trade attraction between
two countries is affected negatively by such factors as the distance between the two and by policy and
political barriers to trade. It is positively affected by cultural and historic ties or by the existence of
preferential trade arrangements.

Foroutan and Pritchett estimate an extended gravity equation to determine whether intra-SSA
trade is less than expected. They adopt two approaches. In the first, all SSA countries are included in
the sample but two dummy variables are included to test for differences in the determination of intra-
SSA trade. The first dummy variable is equal to one if the reporting country is in SSA and zero
otherwise. This variable tests the hypothesis that trade barriers in SSA are on average higher than in
the other countries in the sample. The second dummy variable is one if both the reporting and the
partner countries are in SSA and zero otherwise. The coefficient of this variable is negative if intra-
SSA trade is too little, given its determinants. The estimation results show that the coefficient of the
first dummy variable is negative and statistically significant, while that on the second is positive but
not significant. In other words although SSA countries trade on average too little with the world as a
whole, their bilateral trade flows do not fall below what the model predicts.

In the second approach, the gravity model is estimated without the SSA countries in the
sample. The estimated coefficients from this model are then used along with the values of the
independent variables to predict the bilateral trade flows of SSA with each of the 95 partners. This
approach implies that bilateral trade flows in SSA are determined exactly as in the other low income
countries. If intra-SSA trade were low for reasons particular to the sub-region, the model would
predict higher trade share than those actually observed. The results indicate that this is not the case.
For all SSA countries in the sample, the predicted mean or median trade share is practically identical
to the actual share.
These results are hardly surprising given the low level of income of SSA countries and the preponderance of primary, resource-based commodities in their outputs and foreign trade. However, the story does not end here. First, Foroutan and Pritchett's results do not exclude the possibility of a higher intra-SSA trade were the SSA countries to remove trade barriers among themselves but not with the rest of the world, although whether such a course of action is desirable or not is an entirely different question. In fact, their results indicate that among the three integration schemes that were fully functional during the period under consideration (1980-82), i.e. CEAO, ECOWAS, and UDEAC, the first did have a positive and statistically significant impact on intra-SSA trade

Second, to say that based upon the current patterns of production and demand the SSA countries are not natural partners, is to ignore one of the most fundamental longer term objectives in the mind of most African scholars and politicians of trade integration: to alter the existing pattern of production by taking advantage for example of a larger market in order to create new industries or to expand the output of the existing ones. Thus, despite the limited trade potential of SSA countries with each other at the time many of the RI schemes were conceived, it is not unrealistic to think that they would have been better integrated had they truly removed trade barriers among themselves.

III.2 Failed Intra-Regional Trade Liberalization

Now let's analyse why these barriers have proven to be so hard to remove. It will be seen that import-substitution policies, tariff revenue constraint, and the skewed distribution of costs and benefits of integration arising from the extreme economic differences among SSA countries are the strongest explanatory variables.

Import-Substitution. Past import-substitution policies in the majority of SSA countries not only directly contrasted trade liberalization in general and intra-regional import liberalization in particular, but to the extent that they contributed to the macroeconomic imbalances, they also indirectly contributed to the maintenance of intra-regional trade barriers. Import-substitution policies
often led to the creation of inefficient industries behind high protective barriers and over-valued exchange rates that would allow intermediate and capital goods prices to be kept artificially low. As devaluation was resisted because of its potential short-term contractionary and inflationary effects, trade liberalization, including intra-regional trade liberalization, became even less viable as an objective.

Revenue Constraint. Since the pioneering work of Viner (1950), it has been shown that whatever advantages trade integration may bring to individual partners when their initial tariffs are explicitly taken into account, under most circumstances unilateral trade liberalization remains the superior alternative for the group as a whole. This conclusion, however, assumes that tariff revenues do not really matter. Given the importance of tariff revenues in the budgets of SSA governments\textsuperscript{14}, free trade is hardly a short or even medium term option for the majority of SSA countries.

If free trade is ruled out altogether, then the alternative for SSA countries is between a discriminatory tariff structure and a non-discriminatory tariff structure. The former grants tariff exemptions/reductions to certain partners and the latter does not.

From the traditional theory of integration it is known that static welfare gains from integration are likely to be maximised when, on balance, trade creation exceeds trade diversion\textsuperscript{15}. Tariff revenue constraint does not change this fundamental conclusion of the theory since trade diversion magnifies the revenue losses. However, revenue constraint clashes with the very conditions that minimise the likelihood of trade diversion. That is, the prospective partners trade relatively substantially with each other before integration and that they do not raise their trade barriers vis-à-vis the rest of the world after integration\textsuperscript{16}. Two reasons account for this.

First, the more the potential partners trade with each other, the higher the proportion of revenues they derive from such trade and hence, the more difficult it becomes to give it up. Second, any preference-induced tariff revenue loss may actually necessitate a further increase in tariffs against
the outside world to raise the fixed amount of revenue thereby enhancing the trade diverting effect of
trade integration.

In addition, to the extent that the presence of a revenue constraint makes it more difficult to
work out a proper compensation scheme from the gainers to the losers of an integrative scheme, it
further complicates the attainment of true integration.

In sum, while the analysis in section II.f.1 showed that SSA countries are not natural trading
partners and thus do not fulfill the condition for trade creation, in this section the analysis shows that
the presence of a revenue constraint is likely to make trade integration in SSA both more difficult to
achieve and/or more trade diverting than otherwise.

Skewed Distribution of Benefits. The role of the distributional aspects of integration in
easing or resisting intra-regional trade liberalization emerges most clearly from the literature in
defence of RI. It is important to review this literature briefly. The purpose here is neither to provide
an exhaustive list of arguments for trade integration nor to evaluate their theoretical and empirical
merits. Rather, for the most relevant arguments in favor of integration, the discussion that follows
focuses on the conditions that ought to be satisfied for the theoretical advantages of regional trade
integration to occur. It will be seen that the foremost condition is that the gains and losses from
integration be evenly distributed among potential partners or that a workable transfer mechanism be
instituted whereby the net gainers compensate the net losers. After briefly discussing the principal
arguments for integration, it is argued that SSA countries neither satisfy the conditions for an
equitable distribution of net gains nor have they been able to find a workable and non-distortionary
compensation mechanism.

Three arguments in defence of trade integration are considered. The first argument, which is
particularly important in the light of the historical experience of SSA, is essentially an argument for
collective import substitution and is based upon the explicit recognition of the value that developing
countries attach to industrialization (Johnson 1965, and Cooper and Massell 1965). Trade integration in this context is welfare improving because it lowers the cost of import substitution that each potential partner would in any case pursue individually in the absence of integration. Joint import substitution is less costly than individual import substitution because it offers the opportunity of industry swapping among the partners whereby each partner specializes in the production of goods for which it has the greatest comparative advantage.

Whatever the relative theoretical and empirical merits of import substitution, an essential condition for the realization of a cohesive and lasting trade integration is that the prospective partners be similar, in the sense that they "are at the same stage of economic development". This maximises the likelihood that all partners expand at least some industrial activity for which they enjoy a comparative advantage vis-à-vis the rest of the group. If this condition is not satisfied and if the preference for industry is strong enough in all countries involved, it may not be possible to work out any compensation scheme that may make all parties better off. Consequently, complete trade integration may not be feasible.

A second argument in defence of trade integration is based on the explicit recognition of scale economies together with some other circumstance, e.g. transportation costs or domestic market distortions, which explains why scale economies are not exploited by simply expanding exports i.e. integrating with the world market (Corden, 1972 and Pearson and Ingram, 1980). Although the small economic size of SSA cautions against attaching too great an importance to scale economies as an argument for trade integration, they may be empirically significant for some industries. For example, Pearson and Ingram show that in a hypothetical customs union between Côte d'Ivoire and Ghana substantial welfare gains could accrue to both countries because the union would enable the two to rationalize their joint industrial output by closing down inefficient, duplicate plants while expanding the output of the surviving ones. However, as Pearson and Ingram discuss, the likelihood of forming
a cohesive and mutually advantageous union increases with the possibility that the potential partners are similar in terms of production cost such that all prospective partners "can retain and expand some industrial production"\textsuperscript{19}.

The third argument in favor of trade integration is based on the explicit recognition of the detrimental effect of protectionist policies in the rest of the world on the terms of trade (TOT) of a small exporting country\textsuperscript{20}. For such a country it may be possible to improve its welfare by trading at better terms with its potential partners in a RI scheme when they remove these barriers than with the rest of the world. This does not imply that for SSA countries the TOT argument is highly relevant since their exports are mostly composed of raw materials that face low or zero tariffs in industrialized countries. Nonetheless, it is important to stress that as a result of trade integration, although the partners as a whole may gain, these gains may be distributed very unevenly. Lipsey (1971), for example, discusses several possible outcomes of trade integration in the context of 2-good/3-country model. With more than two goods, it can easily be seen that the likelihood of a more even distribution of gains increases when the prospective partners each have the possibility of expanding some industries and exporting to the other’s market, i.e. both partners are diversified.

In sum, whatever the underlying argument for integration, a necessary condition for the realization of the theoretical gains from integration is that either the partners be similar, i.e. each have something to gain from integration, or that an efficient and equitable compensation mechanism from the gainers to losers can be formulated. These are precisely the conditions that are hardly satisfied among any of the existing SSA groupings.

It is not easy to conceive of any single index of similarity. Table 3 contains a number of indicators for SSA and contrasts them with other important groupings in the world. The data indicate that for most indicators the SSA have the highest degree of divergence. To begin with, the differences in per capita incomes in SSA are enormous. Although such differences also exist among non-SSA
groupings, in their case the differences are compensated for by the complementary nature of the economies of the member states.

More important than per-capita incomes are the differences in the degree of industrialization of partner countries and their participation in total intra-group trade given that immediate costs and benefits of integration for a country are proportional to its share in total imports from and total exports to the rest of the group. The data show that compared to other groupings, SSA countries have a very divergent pattern of industrialization. There is a corresponding variability in individual countries participation in total intra-group trade. To see this, a trade imbalance index was constructed for each country which expresses the absolute value of its net trade with the group as a percentage of its total trade with the group. The maximum and the minimum values for the index are 100 and zero. If a county exports to (imports from) but does not import from (exports to) the group, the index reaches its maximum value of 100. If a country’s exports to and imports from the group are balanced, the index reaches its minimum value of zero. A weighted average of individual countries’ indexes belonging to a group has been computed for 1980 and 1990, where the weights correspond to one half of the sum of a country’s share in total exports and total imports. Clearly, in both years, the value of the index for all major SSA groupings is very high, far above the value observed for other groupings, and does not diminish over the period considered. The high level of the index for SSA stems from the concentration of exports in one or two relatively industrialized countries which account for the overwhelming share of intra-group industrial output and exports. For example, still in 1990, Côte d’Ivoire accounted for 75 percent of total intra-CEAO exports while it only absorbed 13 percent of total imports; Cameroon had 96 percent of intra-UDEAC exports and only 4 percent of imports; Côte d’Ivoire and Nigeria had respectively 42 and 30 percent of total intra-ECOWAS exports and 18 and 4 percent of imports; Kenya and Zimbabwe accounted for respectively 32 and 27 percent of intra-PTA
exports while absorbing only 15 and 7 percent of total imports; and Zimbabwe accounted for 70 percent of intra-SADCC exports and only 13 percent of imports.

This huge imbalance in trade and the degree of industrialization has two implications for trade integration. First, it benefits disproportionately those countries who happen to have the greatest share of industrial output and intra-regional trade. Second, it justifiably raises concern among the poorest SSA countries that the removal of barriers to trade may cause the migration of the few industries they possess to the industrially more advanced countries thereby polarizing even further the existing uneven pattern of industrial development.\textsuperscript{21}

In sum, SSA’s import-substitution policies, the revenue constraint, and the unequal distribution of costs and benefits of integration are the principal reason for the limited liberalization of intra-group trade in industrial products. Where preferences have been granted to partners, these have been negotiated on an ad-hoc, product-by-product basis and have mostly regarded non-competing goods while duplicate, under-utilized plants have been jealously safeguarded. Thus, ironically, all the static and dynamic advantages of trade integration arising from trade creation, the exploitation of scale economies, and enhanced competition have been dissipated. The compensatory mechanisms in place in most SSA groupings have also contributed to this seemingly ironic outcome. This point deserves further attention.

\textbf{Compensation Schemes in SSA Regional Groupings}. Given that the costs and benefits of regional integration are different for different member countries, a successful and lasting integration scheme may require some compensation mechanism, i.e monetary transfers from the net gainers to the net losers, in order to assure the latter’s continued participation. Because the distribution of costs and benefits of integration in SSA groupings is highly skewed and because intra-SSA trade is largely of inter-industry type and adjustment costs associated with inter-industry changes of specialization are high, the need for compensation is particularly acute in SSA groupings.
Two types of compensation can be conceived. The first is compensation based on the cost of trade diversion. The true justifications for fiscal compensation of this sort is the real loss of income that arises from switching from a cheaper to a more expensive source of import supply. In the SSA groupings surveyed here compensation related to the cost of trade diversion is common and is normally computed on the basis of forgone revenues.

Compensation based on the principle of forgone revenues is distortionary because even assuming that the forgone revenues correctly reflect the cost of trade diversion to the importer so as to leave the importing country indifferent between buying from a partner or from any other source, for the exporter it amounts to subsidizing exports to the regional market. Even when an export subsidy may be justified, it is not clear why such an export subsidy should not be generalized and distributed independently of the country of destination.

The second type of compensation is related to the "cost" of trade creation. This latter cost results from the possible loss of industrial activity if as a result of integration industrial activity migrates from the less developed to the more advanced countries within the grouping. In the context of SSA it has proved exceedingly difficult to devise proper compensation schemes to deal with the trade creation cost of integration. Some groupings in the sub-region have created special funds with the aim of directly promoting the industrial development of the poorest member states. The contribution of individual member states are often based on very complicated formulas that have taken a long time to be hammered out and both the contributions to and outlays from the funds have proved to be a source of ongoing controversy.

In addition to direct, community-financed promotion of development projects in the poorest member countries, the Treaties of CEAO and UDEAC also contain provisions that tailor the preferential custom duties applicable to partners' industrial products to the "protection needs" of the
least advantaged partners. This is the essence of the so-called regimes of the Taxe de Coopération Régionale (TCR) in CEEAO and the Taxe Unique (TU) in UDEAC.

Both the Treaty of CEEAO and the revised Treaty of UDEAC limit free intra-group trade to resource-based unprocessed commodities. Manufacturing goods that originate in member countries are charged a duty in the form of TCR orTU. Both TCR and/or TU involve the replacement of all import duties on inputs and outputs by a single tax. The eligibility for the single tax as well as the level of the tax is beyond national jurisdictions and are decided by the Council of Ministers in CEEAO and by the Secretariat General of UDEAC. The level of both taxes are separately determined for each enterprise, product, country of origin, and country of destination. The motivation behind this ad-hoc and arbitrary structure of internal trade taxes was to reduce the competitive disadvantage of the least developed members by applying a lower rate of duty on products originating in these countries than similar products produced elsewhere within the group, and by allowing these countries to apply a higher duty on imports of community origin than the duty applied on the same good by other importing partners.

Whatever equity purpose the single tax systems of CEEAO and UDEAC might have served, they have proved to be exceedingly distortionary because they have created an arbitrary structure of effective protection that does not conform to any economic criterion. Moreover, by allowing artificially high protective barriers for the least viable industries in the most uneconomic location, the single tax system has perpetuated market segmentation and nullified precisely the most important dynamic gains from integration associated with enhanced competition and scale economies.

To recapitulate, this section discussed two set of reasons why trade integration among SSA countries has failed. First, based upon their current structure of production, the SSA countries are not each others’ natural trading partners. Second, if indeed integration could have played a role in changing this structure, it has not succeeded to do so because the failure to dismantle trade barriers
among partners has prevented any meaningful integration of SSA's goods market to take place. The reason lies mainly with import substitution policies, revenue constraint, the skewed distribution of net benefits of integration among the partners, and the inadequacy of compensation mechanisms.

IV. OTHER TYPES OF INTEGRATION

In this section the experience of SSA with other types of integration is briefly examined. These include monetary integration, factor market integration, and government activity and regulation integration. As with trade integration, there are two issues involved. First, whether these types of integration are desirable for SSA and second, whether the SSA countries fulfill the conditions for their realization.

**Monetary Integration.** Monetary integration has often been claimed as an indispensable tool for promoting intra-SSA trade and an essential ingredient of RI in SSA. The current experience of SSA with monetary integration helps to shed light on whether monetary integration has brought the expected advantages to the member countries and whether it is an achievable goal any time soon.

Monetary integration in SSA exists only within the Rand and the Franc Zones. However, the latter is of greater interest because it involves a far larger number of countries who are more typical of the region's economies. The Franc Zone comprises fourteen African States and is built around two monetary unions: The West African Monetary Union (UMOA) which includes Togo and all the CEAO members with the exception of Mauritania, and the Union of States belonging to the Banque des Etats d'Afrique Centrale (BEAC) which includes the UDEAC countries. Each union's central bank issues its own currency (CFA franc) which has a fixed parity with the French franc. Although in theory the parity could be revised, in practice it has remained unchanged since 1948. The linkage to the French franc and the complete freedom of foreign exchange operations within the Zone guarantee the convertibility of the CFA franc. The stability of the CFA franc-French franc parity and the convertibility of the CFA franc are maintained through tight monetary rules within the Zone and the
mechanism of the operations accounts. The two central banks of the Franc Zone have an operations account with the French Public Treasury where they are required to deposit the bulk of their foreign exchange reserves. These accounts can show a negative balance without a fixed limit thus guaranteeing the member states of the Zone unlimited access to foreign exchange and the possibility of borrowing from the French Treasury. This has allowed the CFA countries to maintain a fixed parity even in the face of balance of payments difficulties. Despite the possibility of running negative balances in their operations account, monetary restrictions have guaranteed that these accounts have been negative only occasionally and hence the cost to the French Treasury has been quite limited, at least until now.

What has the membership in the Franc Zone implied for the participating countries? Has it helped the process of integration as was predicted by its proponents? An empirical study based on the comparison of CFA Zone members and a group of other low income countries which included twenty SSA countries, suggests that membership to the Franc Zone has brought advantages to the participants in terms of lower inflation, higher growth rates, lower debt burden, and strong export performance during the 1970s. However, in the 1980s, changes in the world environment, most notably the debt crisis, the appreciation of the dollar vis-à-vis the European currencies and the decline of raw materials prices, meant that the CFA countries, along with most other developing countries, needed to adjust their economies through both expenditure switching and expenditure reducing policies. Their inability to alter the exchange rate as a tool to switch expenditure from tradables to non-tradables resulted in the burden of adjustment falling disproportionately on expenditure-reduction thereby slowing the growth of exports, investment and income. Moreover, the inability of the Franc Zone countries to change their parity has become a serious obstacle to removing import barriers in these countries either towards the rest of the world or towards their neighboring countries in SSA.

For example, in ECOWAS, the Franc Zone countries in their midst have been unable to remove trade
barriers vis-à-vis non-Zone countries due to the exchange rate misalignment. Additionally, recent real
devaluation in other ECOWAS countries, most notably in Nigeria, has created serious problems for
the Zone countries who have witnessed a surge in their illegal, undeclared imports.

In sum, the experience of SSA countries suggests that monetary integration is a double-edged
sword that brings advantages but that these come at a cost. Moreover, the Franc Zone countries have
been largely successful in creating a stable and convertible currency due to the French government's
backing. Thus, unless a similar arrangement is worked out between the SSA countries on the one
hand and a large sponsor, e.g. the European Community on the other, as has recently been
suggested, it is doubtful that monetary integration in SSA would be successfully accomplished in
the foreseeable future.

**Factor Market Integration.** At present, the free movement of both labour and capital within
various regional groupings in SSA is limited. As far as labour is concerned, there is a fair amount of
mobility within certain groupings, most notably SACU and CEAO. However, the international
movement of labour generally remains restricted and the legal status of foreign workers is often
uncertain and subject to abrupt changes in the host country.

These circumstances are hardly surprising. Even within the European Community, where free
movement of labour was incorporated into the Rome Treaty and where the founding members with
the exception of Italy were not too dissimilar in economic terms, several restrictions were applied to
intra-EC migration in order to prevent the disruptive effects of large movements of people. In
SSA, where differences in standards of living are enormous, completely free and unrestricted labour
movement appears a remote possibility. The bitter experience of the expulsion of illegal aliens from
Nigeria in 1982 and 1985 is just a reminder of the destabilizing consequences of a massive movement
of people in a short time span.
As far as capital is concerned, relatively free capital movement exists only within the Rand and the CFA Franc Zones. Also, in virtue of convertibility of the rand and the CFA franc, capital markets in these Zones are practically integrated with the world market.

Free movement of capital and labour within the various regional groupings in SSA has been strongly advocated as an effective way of boosting economic growth by allowing the scarce factors to be employed where they realize the highest return. According to this view, free intra-regional factor movement is also an effective way of attenuating inter-country imbalances and thus minimizing the need for compensatory measures because factors of production could migrate from the less developed to the more prosperous areas and then remit their earnings to the country of origin.

Economic theory, however, suggests that free factor mobility when goods trade remains restricted, is not automatically welfare improving or desirable because of the interaction between goods and factors movement.

For example, Neary (1987) proves that capital mobility increases the welfare cost of tariffs. Johnson (1967) shows that for a small, tariff-distorted country that also imports the capital intensive good, the importation of capital may be immiserizing. The reason is that "increased capital reallocates production towards the industry using that factor intensively; and if that industry is protected and so wastes resources through excess production costs, the shift .. involves increased waste of resources, which may more than absorb the increased potential output per head". The existence of several inefficient, under-utilized foreign-owned production plants in SSA that would not survive free market competition, suggests that immiserizing capital import may be more than an academic curiosity.

**Government Activity and Regulation Integration.** It is difficult to define precisely the meaning of this type of integration which is also referred to as cooperation. It is, however, convenient to define it as broadly as possible to include everything from joint projects, such as the Beira Project...
in SADCC, to tax harmonisation, harmonisation of public administrative rules, national statistics, health and education standards, transportation policy, or the like.

Government activity and regulation integration as defined above can either be very strong or remain low key, according to the preferences of participating partners. For example, tax harmonisation may be defined as identical unification of both base and rates, or some kind of coordination implying much more variability of national policies, but still aiming towards the higher level of standardization. However weakly or strongly governments activities and regulations are integrated, the fact remains that such an integrative effort will greatly assist the cause of market unification at relatively little or no economic cost to the participating countries. Given the minuscule size of most SSA countries, market unification is likely to ease the circulation of information and create an environment more attractive to domestic and foreign investment. Also given the small size of the economies involved, the pay-off to cooperation in realizing joint projects is likely to be considerable. The experience of SADCC, often mentioned as the only example of successful integration in SSA, is a good example.

VI. CONCLUSION: What Future for RI in SSA?

The analysis to this point has shown that RI in SSA has fundamentally failed to achieve its pre-established goals. The clearest proof of this failure is provided by the abysmal growth performance of the region as a whole. According to the Lagos Plan of Action which was adopted in 1980 by the African Heads of States, RI was supposed to promote "self-sustaining development and economic growth". Instead, in the past decade, SSA as a whole has registered the worst economic results of its post-independence history by seeing real incomes of individuals falling at a sustained pace (see Table 1) in lieu of growing. Granted, the structural weakness of SSA economies and outside events, especially the collapse of world commodity prices in the 1980s, are to be partially blamed for these disappointing results. However, it remains true that despite great expectations, integration failed
to bring any structural changes to SSA’s economies that might have lessened their vulnerability to commodity price fluctuations.

What lessons can be derived from this analysis? Does the failure to date imply that RI as a model of development is harmful or infeasible and should be abandoned altogether? What are the implications for SSA of Europe 92 and the de facto formation of two more continent-wide trading blocs centered around the US and Japan? Would the formation of the three trading blocs not imply that Africa must also follow suit and pursue its dream of an African Economic Community?

Whether RI, especially trade and factor market integration, is good or bad for SSA remains an unanswered question. Ex-ante, the internal liberalization of goods and factors movement may be either good or bad depending on a host of other factors including what happens to external barriers. However, the most meaningful analyses of the costs and benefits of trade integration are normally of an ex-post character. In the case of SSA, with the possible exception of SACU, such an analysis is impossible because after almost three decades of trials, the SSA markets remain fundamentally isolated. The only ex-post analysis possible is that of monetary integration and cooperation since concrete examples within SSA do exist. Monetary integration was quite beneficial to the CFA Franc Zone countries until the mid 1980s, when the real appreciation of the CFA franc coupled with the plunge in world prices of primary materials reduced export revenues and slowed income growth. Cooperation, as noted by the experience of SADCC has also been rather successful in realizing projects of regional interest and in contributing to the development objectives of the countries involved.

Whether or not trade and factor market integration is a feasible objective, clearly the extreme economic differences among the partners and the ensuing uneven distribution of costs and benefits of integration have been the major obstacle to its realization. Moreover, the economic differences have been exacerbated by cultural, political, and historic divisions. In the short-run, the economic
differences are unlikely to disappear whereas recent changes in the world political scene are likely to
enhance the move in SSA towards democracy and reduce political conflict in the sub-region. Thus, at
this stage, it appears unlikely that complete trade and factor market integration is any more feasible
today or in the near future than it has been in the past for all of the existing regional groupings.
Nevertheless, cooperation, coordination and harmonisation hold greater promise. Moreover, the
gradual shift away from past import substitution policies by a growing number of SSA countries as a
direct result of the adoption by these countries of some kind of structural adjustment programme, also
holds the promise of accelerating the pace of integration in SSA as part of the general trend towards a
more liberal and exported-oriented economy.

As far as the implication of the de facto division of the world into trading blocs is concerned,
two types of implications for SSA should be distinguished: one is strategic and the other is economic.
A united SSA will be in a strategically superior position to negotiate with the existing or future
economic blocs than could any one member country alone. However, as Lomé negotiations reveal,
adherence to an RI scheme is not a necessary condition for obtaining such a united front.

The economic implications of trading blocs, especially Europe 1992, for SSA are more crucial
and more widely understood. Because for historic, geographic and political reasons, SSA trades far
more with Europe than with any other area of the world, the implications of Europe 92 for the
sub-region are more significant and more carefully studied than the implications of similar existing or
to-be-formed trading blocs elsewhere in the world. The general conclusion of most scholars is that
the completion of the European Internal Market will not have very significant positive or negative
effects on SSA as a whole.

Generally speaking, SSA countries will benefit from the completion of the EC Internal Market
principally because of the presumed income growth in the Community in the aftermath of 1992.
Higher growth in the EC is expected to boost SSA’s exports of primary goods as well as improve its
terms of trade. In addition, coffee and cocoa exports may increase if fiscal harmonisation within the EC results in the elimination of excise taxes on these commodities in Germany, Denmark and Italy.

The principal source of potential negative impact for SSA is the trade displacement effect. That is, the removal of national restrictions may erode the competitive margin that SSA countries enjoy vis-à-vis other exporters to the EC as a result of preferential access to certain EC markets. For example, in the case of bananas, elimination of national restrictions is expected to cause loss of market share by SSA countries in favor of Latin American countries.

Fundamentally, the impact of Europe 92 on SSA is rather marginal either because of the nature of SSA exports, mostly raw materials, or because of the preferences granted to SSA under the Lomé conventions. Whatever the impact of Europe 92 or other similar trading blocs on SSA, there is again nothing in the analysis so far that may be considered inherently an argument for or against economic integration in SSA. In the long-run, the impact of Europe 92 and of other possible trading blocs on SSA countries depends on their own domestic policies. If integration is used as a tool to enable SSA to adopt a credible, outward-oriented economic policy that improves their supply response to outside events, then RI may serve as a stepping stone for SSA producers which begin competing in the world market. If, on the other hand, RI is to be pursued as in the past with import substitution as its foremost aim, then the chances for future success are no better than they have always been: disappointing at best, at worst, nil.

There are some recent, encouraging signs that RI may indeed be used as such a tool. The example is provided by UDEAC countries which are on the verge of adopting a far-reaching reform of their trade and indirect tax regimes. By exercising peer pressure and by making individual governments' commitment to reform more credible, it appears that with appropriate modifications, a RI framework could play an important role in facilitating badly-needed economic reform in its member states.
1. SSA is defined as comprising all countries in Africa except for the Northern countries of Algeria, Egypt, Morocco, and Tunisia. South Africa is also excluded for political reasons.

2. For a detailed account of various grouping in West Africa see Arhin (1990), Diouf (1990), Ezenwe (1990), Frimpong-Ansah (1990), Okolo and Wright (1990), Robson (1983), and Thisen (1989). See Also Berg (1988) on various grouping in all parts of Africa.


4. For instance, of the 72 successful coups d'état in Africa during 1958-89, the majority took place in five of the 16 ECOWAS member states. See Welch, Jr. (1990), p. 159.

5. For a detailed account of obstacles to economic integration in MRU see Sesay (1990).


8. These are Angola, Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mozambique, Mauritius, Rwanda, Somalia, Sudan, Swaziland, Uganda, Tanzania, Zambia, and Zimbabwe.

9. It is well-known that much cross-border trade in SSA goes unrecorded. However, in many cases this regards goods of foreign origin or goods of domestic origin but destined to the ROW. Such trade, which does not qualify as intra-SSA trade, is often caused by the possibility of profitable price arbitrage. Because it is not possible to determine the extent of genuine unrecorded intra-SSA trade, the computations in Tables 2 and 3 are based solely on official statistics.

10. This case was first discussed in the context of a 2-good/3-country model by Vanek (1965) and expanded by Kemp (1969). In a 2-good model, all trade is of inter-industrial nature.

11. For an excellent discussion and empirical test of the determinants of intra- and inter-industry trade see Balassa and Bauwens (1988).

12. The impact of preferential trade arrangements among the sample countries was measured by introducing a dummy variable which is equal to one when both the reporter and the partner country share such an arrangement and zero otherwise. Foroutan and Pritchett included seven such dummy variables. Other than for the three trade arrangements in SSA, the other dummy variables were included for ASEAN, LAFTA, CACM, and ACP or Lomé signatory countries. All the preferential trade arrangement dummy variables for non-SSA countries were significant.
13. There is hardly any piece of literature on the issue of trade integration in SSA written by African scholars or any Treaty establishing the current RI schemes in the sub-region which does not mention "self sufficiency" or increase in the degree of industrialization and attenuation of the dependence on undiversified exports of raw materials as the most important objective of RI. See for example Abegunrin (1990).


15. For qualifications to this statement see the chapter by de Melo et al. in this volume.

16. See for example Jonson (1962), chap. 3. See also de Melo et al., op. cit.

17. For a comprehensive discussion see the de Melo et al., op. cit.


21. There is of course the possibility that integration, by allowing the exploitation of comparative advantage, also spurs the emergence of new industries in the least developed regions. Which of these opposite effects of integration on industrial development of a country will prevail, is ultimately an empirical question. The evidence is mixed. On the one hand, experience suggests that countries that have removed trade barriers and integrated with the world at large have also seen the emergence of solid, competitive industries within their national boundaries. The case of South-East Asian countries is the most revealing example. On the other hand, the persistence of depressed regions within nations or regional groupings such as the EEC, suggests that full integration with a geographically limited area (the rest of the nation or the group) may indeed polarize the initial industrial imbalances. For an evaluation of the EC's experience see De Grawe (1991). For an exposition of the US experience see Krugman (1990).

22. See for example Frimpong-Ansah, op. cit.

23. There is a recent proposal to transform UMOA into a full-fledged economic union. If this proposal is accepted, it would imply a de facto demise of CEAO.


26. See for example Molle, op. cit. p. 221.

27. See Mansoor et al. (1989). They emphasize, however, that free factor movement must occur in the wider context of trade liberalization.
28. For a more comprehensive discussion see Ruffin (1984) and Wooton (1980). For an excellent summary of the literature see de Melo, Panagariya and Rodrik, op. cit.


30. Lagos Plan of Action, Preamble, Article 3.


32. In 1983, the latest date for which data are available, EC absorbed over 51 percent of all SSA's merchandise exports and accounted for over 65 percent of SSA's total merchandise imports. See Tovias, op. cit.

33. See for example the December 1990 issue of the Journal of Common Market Studies dedicated to the implications of Europe 1992 for developing countries, especially the article by Stevens. See also Tovias (1990).

34. The Lomé Convention is a comprehensive aid and trade agreement between the EC and the ACP group of countries. The convention was first signed in 1975 and renewed in 1979, 1984, and 1989. The last renewal, known as Lomé 4, runs for a period of ten years and comprises 68 ACP countries, among whom all of SSA. The trade provisions grant unrestricted access to EC markets for the vast majority of ACP exports. Recognizing the problems caused by a heavy debt burden, the volume of aid under Lomé 4 has been substantially increased over the previous arrangements. For a critical evaluation of Lomé 1-3 see Marin (1990). For Lomé 4 see West Africa, February 28-March 4, 1990, pp. 318-322.
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List of Acronyms

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<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>ACP</td>
<td>African, Caribbean and Pacific</td>
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<tr>
<td>BEAC</td>
<td>Banque des Etats d'Afrique Centrale</td>
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<td>CAR</td>
<td>Central African Republic</td>
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<td>CEAO</td>
<td>Communauté Economique de l'Afrique de l'Ouest</td>
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<td>CEPGL</td>
<td>Communauté Economique des Pays des Grand Lacs</td>
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<td>CET</td>
<td>Common External Tariff</td>
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<td>EC</td>
<td>European Community</td>
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<td>ECOWAS</td>
<td>Economic Community of Western African States</td>
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<td>IGO</td>
<td>Inter-Governmental Organisation</td>
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<td>MRU</td>
<td>Mano River Union</td>
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<td>NAFTA</td>
<td>Northern American Free Trade Area</td>
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<tr>
<td>PTA</td>
<td>Preferential Trade Area for Eastern and Southern African States</td>
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<tr>
<td>ROW</td>
<td>Rest of the World</td>
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<tr>
<td>SACU</td>
<td>Southern African Customs Union</td>
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<td>SADCC</td>
<td>Southern African Coordinating Conference</td>
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<td>Taxe de Coopération Régionale</td>
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<td>Union Duanière et Economique de l'Afrique Centrale</td>
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<td>UMOA</td>
<td>Union Monétaire Ouest Africaine</td>
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<td>Customs and Economic Community of Central Africa</td>
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<td>West African Monetary Union</td>
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## Table 1

**SOME ECONOMIC INDICATORS FOR SUB-SAHARAN AFRICA**

(1989 unless otherwise indicated)

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP (US $)</th>
<th>Annual % Growth Rate 1980-89</th>
<th>Population 1000</th>
<th>Annual % Growth Rate 1980-89</th>
<th>GNP Per Capita (US $)</th>
<th>Annual % Growth Rate 1980-89</th>
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<td>CEEAO</td>
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<td></td>
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<td>1,600</td>
<td>1.8</td>
<td>4,593</td>
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<td>Growth Rate</td>
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<td>5250</td>
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<tr>
<td>Botswana</td>
<td>2500</td>
<td>1217</td>
<td>1600</td>
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<td>Lesotho</td>
<td>340</td>
<td>1722</td>
<td>470</td>
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<td>Namibia</td>
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<td>Seychelles</td>
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<td>68</td>
<td>4170</td>
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<tr>
<td><strong>Total SSA</strong></td>
<td>171k</td>
<td>480k</td>
<td>340</td>
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<table>
<thead>
<tr>
<th>Name of Regional Grouping</th>
<th>Date Created</th>
<th>Number of Members</th>
<th>Total population (millions)</th>
<th>Total GNP (billion)</th>
<th>Per. capita GNP (US $)</th>
<th>Degree of openness (XX+XX/GNP)</th>
<th>Trade with SSA As % of total exports 1980 1990</th>
<th>Objectives</th>
<th>Achievements</th>
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<tbody>
<tr>
<td>West Africa ECOVAS</td>
<td>1975</td>
<td>16</td>
<td>195</td>
<td>64</td>
<td>326</td>
<td>50</td>
<td>3.6 6.4</td>
<td>Trade liberalization not yet achieved; CET does not exist; labor movement restricted. Fiscal and monetary harmonization far away. Limited cooperation in other areas.</td>
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<tr>
<td>CEAO</td>
<td>1973</td>
<td>7</td>
<td>50</td>
<td>24</td>
<td>476</td>
<td>46</td>
<td>13.2 15.0</td>
<td>Monetary union since 1948; free capital mobility; labor mobility limited. CET not effective; partial preference granted to manufacturing goods. NTBs widespread.</td>
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<td>MRU</td>
<td>1980</td>
<td>3</td>
<td>12</td>
<td>4</td>
<td>355</td>
<td>46</td>
<td>0.9 2.9</td>
<td>Establishment of a customs union.</td>
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<td>6</td>
<td>26</td>
<td>19</td>
<td>806</td>
<td>42</td>
<td>2.1 5.9</td>
<td>Monetary union since 1948; free capital mobility. Partial tariff concessions to partners on manufactured goods; CET de facto non-existent.</td>
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<td>1982</td>
<td>3</td>
<td>47</td>
<td>12</td>
<td>200</td>
<td>28</td>
<td>4.1 7.6</td>
<td>Customs union and free labor movement; cooperation.</td>
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<td>1981</td>
<td>18</td>
<td>212</td>
<td>58</td>
<td>274</td>
<td>40</td>
<td>8.4 7.6</td>
<td>Free trade area; complete trade liberalization by year 2000.</td>
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<td>SADC³</td>
<td>1980</td>
<td>10</td>
<td>80</td>
<td>25</td>
<td>311</td>
<td>55</td>
<td>3.5 6.3</td>
<td>Cooperation, joint projects in transport, communication, agriculture, industry, and energy. Largely successful in achieving its goals</td>
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<td>SACU²</td>
<td>1990</td>
<td>5</td>
<td>39</td>
<td>89</td>
<td>2204</td>
<td>54</td>
<td>0.0 0.0</td>
<td>Customs union; capital and labor market integration; CET.</td>
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<td>Total SSA</td>
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<td>47</td>
<td>480</td>
<td>162</td>
<td>340</td>
<td>43</td>
<td>2.8 6.0</td>
<td>All objectives achieved</td>
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1/ SSA is uniformly defined to exclude South Africa.  
2/ Data for SADC and SACU exclude Namibia.  

Source: The World Bank: World Atlas and WDR; IMF: Directions of Trade; the text.
### Table 3. COMPARISON BETWEEN SOME CHARACTERISTICS OF SSA GROUPING AND SOME OTHER REGIONAL GROUPINGS IN THE WORLD

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<tr>
<th>Name of grouping</th>
<th>Average Intra-Group Trade Imbalance Index&lt;sup&gt;1&lt;/sup&gt;</th>
<th>GNP per capita in 1989 US$</th>
<th>Share of Manuf. in GDP in 1989</th>
<th>Share of Intra-group Export Trade in Total Exports</th>
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<td>290  790 37</td>
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<td>220  310 67</td>
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<td>PTA</td>
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<td>80   1950 4</td>
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<td>SADCC&lt;sup&gt;2&lt;/sup&gt;</td>
<td>31</td>
<td>57</td>
<td>80   1600 5</td>
<td>4</td>
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<td>n.a.</td>
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<td>4300 20800 20</td>
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1. The index for individual countries is calculated as total exports to the group - total imports from the group expressed as a % of trade with the group.
   The average for the group is a weighted average of each member country's index where weights are equal to the sum of the share of exports and imports.
2. Data for SADCC and SACU exclude Namibia.
3. Canada, Mexico, USA.
4. The average trade imbalance index for EC(6) in 1958, when the European Community was formed, was equal to 8. The 1980 and 1990 data refer to EC(12).
   Data on the share of manufacturing excludes Ireland.

Source: IMF: Directions of Trade; World Bank: WDR, World Atlas; UN: ComTrade data base; author's estimates.
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<th>Author</th>
<th>Date</th>
<th>Contact for paper</th>
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<td>WPS977 Income Security for Old Age: Conceptual Background and Major</td>
<td>Estelle James</td>
<td>September 1992</td>
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