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Emerging Global Trade Blocs and the Future of African Participation in the World Economy

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Abstract

The mid-1980s were characterized by a resurgence of regional economic integration around the world. It now appears that the global economy is likely to be dominated by three major trade blocs: the European Union (EU), the North American Free Trade Area (NAFTA), and an impending East Asia trade bloc, likely to be anchored around Japan. The ability of developing countries, especially those in Africa, to have access to these regional markets will determine the extent of economic and human development in these countries in the years to come. Effective participation in global trade is very important for development in the continent. At present, African countries have limited access to the markets of the EU through a set of preferences that have their origins in the colonial relationship between Africa and Europe. The preferences, however, do not provide the African economies any significant trade benefits. A multilateral trading system will improve African access to the markets of the industrialized countries and significantly improve the continent's participation in

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international trade. At the present time, however, African countries are not able to produce goods that are competitive globally in both price and quality. Regional economic integration should help the African countries develop the capacity and ability to become competitive internatinally, and thus benefit from global trade. Integration will provide the African countries the larger and more viable markets that they need to more effectively exploit technological economies of scale, and as a result, improve their ability to produce globally-competitive goods.

I. Introduction

Since World War II, the global economy has seen significant transformations. First, there was a shift from a global economy dominated by Britain to one dominated by the United States. Second, the United States was one of the few countries to come out of the war with a relatively viable economy. It continued to flex its economic power, eventually rising to totally dominate the global economy. The U. S. dollar became the global currency, replacing the pound sterling. Third, rehabilitation of the European economies, partly with U. S. assistance, made them significant and viable competitors in the international market place. Formation of the European Economic Community further strengthened these Western European economies, and significantly improved their competitive edge. In Asia, Japan, and later Korea, Singapore, Taiwan, and Hong Kong, emerged as regional trading super-powers. In addition, Australia and New Zealand have also developed relatively strong and competitive industrial economies. By the 1980s, Japan was not only dominating trade in the Asia Pacific region, but had become a very important force in global trade. Fourth, the unification of Europe should create a stronger and more competitive trade bloc, significantly increasing the region's share of global trade. Finally, the recent decision by Canada, Mexico, and the U.S. to form a free trade area should allow these economies to become more competitive globally. It appears, then, that in the 1990s, the global economy will be divided into three major trade blocs: the North American Free Trade Area (NAFTA), the European Union, and an Asia Pacific grouping which is likely to be dominated by Japan, Korea, Singapore, Taiwan, Hong Kong, Australia, and New Zealand. The crucial issue for

African countries and other developing regions of the world is whether they can survive without access to the markets of the three major trade blocs, should the latter become inward-looking.

The present article examines the future of African participation in the global economy in view of the resurgence, in the mid-1980s, of regional trade blocs. Obviously, this renewed interest in regionalism will have a significant effect on the ability of African countries to participate effectively in the global economy. Currently many African countries are affiliated to the European Community (EC) through the Lomé Convention. The latter provides free access to the markets of the EC to selected exports from African, Caribbean and Pacific (ACP) States. For African countries in the 1990s, the major trading issue is whether to seek to maintain and strengthen their affiliation with the EC or to favor the development of a multilateral trading system. Should African countries form their own trade blocs in order to reduce their dependence on the industrial market economies? This paper will examine these questions and seek to determine appropriate strategies for African participation in the global economy in the 1990s.

II. The Re-emergence of Regionalism

By the 1990s, the world economy was being affected by two major forces, namely, globalization and regionalism. While the former is expected to increase levels of international interdependence, the latter, especially if accompanied by inward-looking trade policies, should significantly reduce multilateral trade and negatively affect global welfare, especially that of countries that are unable to gain access to the markets of the major trade blocs. A milestone in regionalism was reached in 1968 with the completion of the customs union between the six original members of the EC. It then declined or lay dormant until the mid-1980s when the Europeans launched their "Europe 1992", an attempt to form a huge, single, internal market ⟨see, for example, Hine [1992], Park [1992], de Melo and Panagariya [1992]⟩.

Traditionally the U. S. has opposed discriminatory trade arrangements. In recent years, however, policy makers in the U. S. have indicated an interest in negotiating preferential trade agreements, especially with its neighbors. Although the country continues to reaffirm its support of, and commitment to the multilateral arrangements in the GATT, it has granted preferential treatment to selected exports from the Caribbean, signed a free trade agreement with Israel, and devised its own version of the Generalized System of Preferences (GSP) to benefit developing countries in general. Its most ambitious bilateral trade arrangement, however, came with the signing of the Canada-U. S. Free Trade Agreement (CUSTA) in 1988. Shortly afterward, the U. S. began negotiations to extend the agreement to include Mexico and form a North American Free Trade Area (NAFTA). The latter was signed in 1992 and the bloc came into effect on January 1, 1994. Implementation of NAFTA and the emerging European Union have shifted global trade significantly toward regionalism and away from multilateralism.

The move towards regional economic integration in Europe and North America have contributed to the belief that a trade bloc to be anchored by Japan may emerge in East Asia. Since 1985, several agreements on the intent to integrate have been signed in this region. Some observers argue, however, that an East Asian trade bloc with Japan as the leader appears premature, given the latter's historical domination of the region. Others argue, however, that "economic factors will eventually override the sharp memory of historical precedents and the deep-seated animosity towards Japan among her East Asian neighbors" and allow a trade bloc to emerge ⟨Park [1992], p. 42⟩.

Is this second wave of regional integration real? After all, 20 or 30 years ago, many developing countries signed several preferential trade agreements but most of them were never fully implemented. Today's global economic and political environment is significantly different from that of the 1960s, and as a result, this new wave appears to differ from the first one. Among important changes in the global political and economic environment are the emergence of a unified (political and economic) Europe, the relative decline of U.S. economic power, and the subsequent rise of Japan and the East Asian newly-industrialized countries (NICs)[1] as major economic powers in the world economy. In addition, the disintegration of the U.S.S.R. and the collapse of socialism in Eastern Europe has ended super-power rivalry and significantly changed East-West trade. Many former Warsaw-Pact coun-

1. The NICs are Hong Kong, Korea (South), Taiwan, and Singapore.

tries are likely to seek to join the EC to form what may become an extremely large and powerful trade bloc. Meanwhile, deteriorating economic conditions in the U.S. and Japan's ever increasing trade surplus, especially with the U.S., could put pressure on U.S. law makers to enact new protectionist legislation and move the world further away from a multilateral trading system. Since there does no longer appear to be an East-West security threat, competition between North America, the EC, and the Asia Pacific region could intensify. In fact, countries which previously had minimized trade conflict in order to present a unified front against communism, no longer have the latter to worry about.

According to de Melo and Panagariya [1992], in the past, regional economic integration arrangements were often seen as "either benign (pacts among developing countries) or complementary (the EC) to multilateralism..." (p. 37). Due to a significantly different political and economic environment, today's regional arrangements may have a significant effect on the multilateral trading system. For one thing, the U.S. does no longer appear to maintain its past commitment to the multilateral trading system. In fact, it is now actively pursuing regional arrangements with its neighbors. NAFTA, of course, is in the process of being implemented and efforts to form trade arrangements with several Latin American countries are under way. Second, today's regionalism is being carried out on a very large scale. Third, in recent years, many developing countries have eliminated a majority of their trade restrictions. Finally, for the first time, the developing countries are now seeking to develop partnerships not only with each other, but with the developed countries. As a result, both the environment and the strategies of the new regionalism are significantly different from those of the past. It appears that, unlike past efforts, today's attempts at regional integration may actually succeed. The hope is that these trade blocs do not develop inward-looking economic policies, since such an approach could significantly damage the multilateral trading system. If the three major trade blocs develop protectionist policies, African participation in the global economy could suffer significantly.[2]

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2. For additional information on the new regionalism, see Krause [1991], Schott [1991], Park [1992], Hine [1992], de Melo and Panagariya [1992].

III. Regional Economic Integration and the Developing Countries

In the 1960s, many countries in Africa and Latin America were engaged in the formation of trade integration schemes, which included free trade areas (FTAs), customs unions (CUs), common markets, and economic communities. Some of them included the Latin American Free Trade Association (LAFTA), the Caribbean Free Trade Area (CARIFTA), the Central African Customs and Economic Union (CACEU), the West African Customs Union (WACU), the Central American Common Market (CACM), the West African Economic Community (WAEC), the Economic Community of West African States (ECOWAS), the East African Community (EAC), and the Caribbean Community (CARICOM). As Langhammer [1992] has shown, many of these schemes were either not implemented on schedule or collapsed soon after implementation. For example, the LAFTA missed its deadline, the EAC collapsed completely, and the CACM collapsed partially. Many of those which survived either had little effect on trade or were trade diverting ⟨Langhammer [1992], p. 214⟩.[3]

Langhammer and Heimenz [1990] have thoroughly examined the reasons why these integration schemes failed or stagnated. First, contrary to expectations, the integration schemes discouraged intra-regional competition instead of intensifying it. As a result, the expectation that local industries would be "educated" through increased competition in the larger community did not materialize. Second, supply patterns in the new economic community tended to be more competitive than complementary. Given the low level of development of the participating economies, there was little potential for changing the sectoral structure of these economies towards complementarity. Third, significant conflicts over the distribution of the net benefits of integration overshadowed medium-term considerations of allocative efficiency. In fact, the break up of the EAC is blamed on the belief by Tanzania and Uganda that they were net losers in the scheme Davenport [1992, p. 235]. Fourth, the vulnerability of these economies to external shocks and their relatively underdeveloped nature made it difficult for them

3. For a thorough examination of the experience of developing countries with regionalism, see Langhammer and Heimenz [1990].

Table 1

Regional Trading Blocs: Intra-Regional and Inter-Regional Exports

	Founded	1970	1975	1980	1985	1990
ANZCERTA	1983	6.1[1] (2.1)[2]	6.2 (1.7)	6.4 (1.4)	7.0 (1.6)	7.6 (1.5)
EC	1957	51.0 (39.0)	50.0 (35.9)	54.0 (34.9)	54.5 (35.6)	60.4 (41.4)
EFTA	1960	28.0 (14.9)	35.2 (6.3)	32.6 (6.1)	31.2 (6.3)	28.2 (6.8)
C-US-FTA	1989	32.8 (20.5)	30.6 (16.8)	26.5 (15.1)	38.0 (16.7)	34.0 (15.8)
ASEAN[3]	1967	20.7 (2.1)	15.9 (2.6)	16.9 (3.7)	18.4 (3.9)	18.6 (4.3)
ANDEAN PACT	1969	2.0 (1.6)	3.7 (1.6)	3.8 (1.6)	3.4 (1.2)	4.6 (0.9)
CACM	1961	25.7 (0.4)	23.3 (0.3)	24.1 (0.2)	14.7 (0.2)	14.8 (0.1)
LAFTA/LAIA[4]	1960/80	9.9 (4.4)	13.6 (3.5)	13.7 (4.2)	8.3 (4.7)	10.6 (3.4)
ECOWAS	1975	3.0 (1.0)	4.2 (1.4)	3.5 (1.7)	5.3 (1.1)	6.0 (0.6)
PTA	1987	8.4 (1.1)	9.4 (0.5)	8.9 (0.4)	7.0 (0.3)	8.5 (0.2)

Notes: 1. Intraregional trade measured by share of intraregional exports in total exports.
2. Share of regional integration scheme in total world exports.
3. It is more a cultural and less and economic association; preferential trading among countries is minimal.
4. LAFTA was founded in 1960, but renewed as LAIA in 1980.

Source: IMF, *Direction of Trade Statistics*; Adapted from de Melo, A., and Panagariya, A. [1992]. The New Regionalism, *Finance and Development*, 29 (4), December, p. 39. The definitions of the regional organizations are as follows: ANZCERTA= Australia-New Zealand Closer Economic Relations Trade Agreement; EC= European Community; EFTA= European Free Trade Area; ASEAN= Association of South East Asian Nations; CACM= Central American Common Market; LAFTA/LAIA= Latin American Free Trade Area/Latin American Integration Association; ECOWAS= Economic Community of West African States; PTA= Preferential Trade Area for Eastern and Southern Africa.

to attract foreign investment, or engage in any rapid product and process innovation. Fifth, within each scheme, there was no leading or anchoring economy which could compensate net importers for losses in income resulting from integration. Finally, none of the integration schemes was able to progress past the FTA or PTA stage. Empirical studies of these schemes show that they were net trade diverting ⟨see Langhammer and Heimenz [1990]⟩. This conclusion seems to be supported by the data presented in Table 1. According to that information, intra-regional trade was extremely low. In addition, these groupings' share of world trade was basically insignificant. For example, as Table 1 shows, intra-regional trade in ECOWAS ranged from a low of 3.0% in 1970 to a high of 6.0% in 1990. In 1990, the community's share of total world exports was a mere 0.6%. That same year, the EC accounted for as much as 41.4% of global exports.

Langhammer [1992] argues that from the beginning, these schemes were "targeted towards intra-regional trade expansion and not towards allowing domestic supply to be outcompeted by imports from partner countries. Thus, trade diversion was the aim, though this was never deliberately announced" (p. 216). In addition, most of these schemes hardly progressed beyond dealing with tariffs, while leaving untouched, more important non-tariff barriers. In general, these schemes were weak and too fragile to have any significant effect on the multilateral trading system.

By the 1970s, some schemes had changed their orientation and new ones had come into being. In Latin America, LAFTA, which was founded in 1960, was revived in 1980 as LAIA, a loose "integration association" designed to allow for greater levels of bilateral arrangements. Efforts are being made in Central America to revive the CACM. In the 1980s, southern African countries formed the Preferential Trade Area for Eastern and Southern Africa (PTA). The latter is made up of nearly 20 low-income countries which hope to develop the scheme into an FTA by the end of this decade. A preliminary study of the scheme's first few years in operation does not support the contention that the PTA will be any more successful than other African attempts at integration ⟨Langhammer and Heimenz [1990]⟩.

Many scholars believe that the trade effects of the ASEAN PTA, introduced by the end of the 1970s, are insignificant. This is due primarily to the fact that only a very small number of goods are eligible for preferences, the low depth in the tariff cuts and tariff redundancy. In addition, NTBs were not included in the agreement and the scheme is still struggling to integrate the two free traders, Singapore and Brunei, into a wider ASEAN PTA. Langhammer [1992] argues that "despite these problems the ASEAN PTA is now heading for a free trade area to be achieved in the year 2007" (p. 217).

Since the 1960s, developing countries in Latin America, Asia, and Africa have been struggling to form effective integration schemes. Unfortunately, they have not succeeded. These groupings, according to many observers, have failed to make any significant contributions to regionalism and to development in the developing countries. Except for the optimism expressed by many African policy makers, few political leaders in the developing world are as enthusiastic about regional integration as they were in the early 1960s. Integration attempts have not been as successful as many developing countries thought they would be, and those that worked generated few benefits for its members. Yet, in the 1980s, the move towards a tripolar world has re-awakened the desire to integrate, especially among Africans, who believe that regionalism represents the only certain way for them to effectively participate in the new global economy.

IV. Emerging Trade Blocs and African Participation in Global Trade

African countries in particular, and developing countries in general, will be better off with a multilateral or open trading system which affords them greater access to the markets of the industrial countries. In a global economy that is gradually turning tripolar, Africa's future participation in that economy will be determined by how well African countries can gain access to one or more of the major trade blocs. Unless such access is available, the continent could suffer further marginalization and isolation. In fact, the eagerness of many countries to join trade blocs is based on the fear that they may be left out of effective participation in the global economy once these trade schemes become fully operational.

Of course, African countries and other Third World nations which currently do not belong to any of the three major blocs can ban together and form their own trading group. In fact, this idea is not new. The so-called Group of 77 is an example of this approach to regionalism. In addition, developing countries in general have been given special consideration in international trade and finance by the industrialized countries and multilateral institutions such as GATT, the World Bank, and the IMF. The Lomé Convention (which affiliates several African, Caribbean, and Pacific countries to the EC), and the Generalized System of Preferences (GSP) are examples of the special treatment of developing countries in international trade. In 1971, the United Nations Conference on Trade and Development spearheaded the negotiation of the GSP. In the 1970s, developing countries continued to push for an expansion in the special and differential treatment granted them under the GSP. They effectively became free riders in the post-war multilateral trading system. As a result, their economies became hostage to economic policies in the developed countries.

In recent years, many developing countries have begun to question the benefits to their economies of the GSP and other such arrangements. Many researchers believe that most of the benefits of the GSP accrued to only a few countries, notably Hong Kong, Korea, Taiwan, and Singapore. Either because of their ability to effectively extract these benefits or because they were favored as a result of their strategic importance to the security needs of the developed countries, the East Asian NICs captured almost 50 percent of the total gains from these programs ⟨Braga [1991], p. 58⟩. Since tariffs are no longer the primary trade barrier against manufactures from developing countries, the GSP is no longer capable of providing even the meager opportunities for trade expansion it did earlier. The rise of non-tariff barriers (NTBs) has significantly weakened the GSP, whose trade preferences are limited to the manipulation of tariff rates. In addition, agriculture, textiles, and apparel, sectors that are very important to economic development in developing countries, have never been included in the GATT.

In an attempt to develop a South-South trading arrangement, developing countries developed the Global System of Trade Preferences (GSTP). The primary purpose of the GSTP is to stimulate South-South trade. As a result, an attempt was made to exclude developed countries from participating in the negotiations to establish the preferences. Given the large number of NTBs in many developing countries, it is unlikely that significant gains will be generated by the GSTP. In addition to the problems inherent in regional economic arrangements, the GSTP suffers from "ineffectiveness due to a large membership and problems of 'balancing' the concessions in a group of heterogeneous economies" ⟨Langhammer [1992], p. 219⟩.

It appears that the GSP and the GSTP have not generated many benefits for the economies of the developing countries, including those in Africa. One problem could be the lack of leadership. No single developing country has emerged as the undisputed leader of the group, especially one which could negotiate effectively on behalf of the group. Given the heterogeneous nature of the group, it is unlikely that such a leader would emerge in the near future. It appears that the GSP and the GSTP are not likely to achieve the kind of success that has evaded the relatively more homogeneous regional groupings ⟨Wolf [1987]; Braga [1991]; Langhammer [1992]⟩.

Scholars now recognize three critical issues confronting African development in the post-Cold War era: democratization, structural adjustment and economic integration ⟨Johnson [1991]; Mbaku [1992]⟩. The third issue is, of course, the subject of this essay. Many observers and policy makers on the continent have looked to regional cooperation and integration as the most effective way to develop the region ⟨see, for example, Johnson [1991]; also see Mbaku and Kamerschen [1988]⟩. The interest in economic integration as the most effective way for development on the continent is based on the fact that most national economies in the region are small and not particularly viable, and the belief that "over the long term the prices of most primary products tend to decline in relation to those of industrial goods, and the difficulties of establishing and maintaining international commodity agreements" ⟨Johnson [1991], p. 2⟩. It is generally believed that if the effective size of each African country's economy is increased through integration, domestic producers can benefit significantly from a better exploitation of technological economies of scale. In addition, the larger market should attract more foreign investment and allow domestic infant industries to seek and get the assistance they need to grow and eventually become competitive. In fact, the Lagos Plan of Action, adopted by the Organization of African Unity (OAU) in April 1980, specifically advances economic integration as part of its strategy for the development of the continent. Thus, three integration schemes, the ECOWAS, the Economic Community of the Central African States (ECCAS) and the Preferential Trading Area for Eastern and Southern Africa (PTA) have been sponsored by the Economic Commission for Africa (ECA).

Several types of integration schemes exist, including free trade area, customs union, common market, and economic union. The free trade area and the customs union are basically trade blocs or schemes in which only explicit trade barriers have been removed. National barriers to the free flow of labor and capital have been retained, as well as national fiscal and monetary autonomy. In an economic union, all economic policies, including monetary and fiscal policies, are harmonized. Although discussions on economic integration in Africa have centered around monetary union and the common market, the ECA favors the common market, an integration scheme in which member countries adopt a common external tariff, permit the free movement of factors of production and goods, and allow for the coordination of macroeconomic policies. The latter is undertaken to ensure consistency in fiscal, monetary, exchange rate and foreign payments policies of member countries ⟨Johnson [1991], p. 2; Lindert [1991], pp. 175-176⟩.[4]

A. Africa's Past Experience with Economic Integration

Since the 1960s, when African countries became seriously engaged in economic integration, the results have not been very encouraging. It appears that the African countries have been unable to overcome the problems that they have encountered in their integration attempts. Some of these schemes, such as the East African Community, are now defunct, while others, such as ECOWAS, the *Communauté économique de l'Afrique de l'ouest* (CEAO), the *Union douanière et économique de l'Afrique centrale* (UDEAC), although still in existence, have had little impact on either intra-regional or global trade ⟨see, for example, Table 1. Also see, Johnson [1991], p. 3; Langhammer and Heimenz [1990]⟩.

For supporters of economic integration in Africa, the main objective is to create a union of countries in which all types of obstacles to the free move-

4. The literature on economic integration is quite extensive. For a review, see Johnson [1991]. For important contributions related to Africa, see Green and Krishna [1967], Robson [1968], Robson [1985], Johnson [1991], Davenport [1992], Aworl [1992], and Thompson [1992].

ment of the factors of production and goods are eliminated.[5] In addition, there is also hope that integration will facilitate improvements in supporting infrastructures such as roads, bridges, educational and research institutions, etc., and allow for the development of industrial projects between union members. Since the resulting larger economy is expected to be more attractive to foreign resource flows, the latter should provide the resources needed to develop "union" industries. Integration proponents also believe that infant-industry protection will be coordinated and carried out on a union level, thereby avoiding duplication and allowing these industries to take full advantage of the economies of scale offered by the larger market to grow and become competitive. As indicated above, supporters of integration in the continent favor the common market as the appropriate integration scheme for Africa. It is envisaged that when operational, the union will allow for free trade among the members, a common external tariff structure, and the free movement of factors of production. In addition, the supporters also see some degree of fiscal harmonization and some form of monetary union.

Although some African policy makers see integration as an investment in the future of the continent, the resources required to make these schemes operational are quite significant and represent an important obstacle to rapid economic integration in the region. The general consensus is that the costs of integration can be grouped into four categories, namely: (i) loss of sovereignty over macro-economic policy; (ii) trade diversion; (iii) unequal distribution of the benefits and costs of integration; and (iv) the loss of other valued economic associations ⟨see, Johnson [1991], p. 4⟩.

As favored by the Economic Commission for Africa, the type of integration scheme envisaged for the continent will force member countries to give up a significant level of control over their macro-economic policies to union-level institutions, either on short-term, medium-term, or long-term basis. It is believed that once policy makers in the African countries realize that they would have to give up control over policies that directly impact on the welfare of their nationals, they are likely to reduce their support for integration. In order to have an effective and viable integration scheme, a common external tariff structure must be designed. The latter is very important

5. Treaty of the Economic Community of West African States, p. 2.

since it significantly affects the level of protection offered domestic industries and the revenues accruing to each government from the taxation of imports. At the design stage, then, the levels of the various external tariffs and the methods to be used to distribute the tariff revenues must be determined. One approach that has been suggested is to give all commodities the same effective rate of protection or alternatively, to impose the same nominal tariff rate on all imports ⟨Johnson [1991], p. 4⟩. Most African countries, however, desire to relate the common external tariff structure to infant-industry protection and their general industrial policy. Consequently, these countries prefer individually-tailored nominal and effective tariff rates. Since the African countries differ significantly in their development and industrialization levels, choosing the latter approach to tariff design will significantly complicate and politicize the process.

In addition to the loss of control over the external tariff, the type of integration scheme envisaged for the continent also involves some form of monetary union. The latter invariably implies that member countries will have to give up control of certain aspects of monetary policy. In a monetary union, the member countries can opt for a common currency or retain their national currencies but maintain fixed exchange rates between these national currencies. Johnson [1991] has suggested that the relative benefits and costs of each alternative should be taken into consideration before any specific form of monetary union is chosen. Establishment of a monetary union and the adoption of a common currency, for example, will provide member countries with several benefits. Some of these include, but are not limited to the following: First, the union and the larger economy produced by it should make the domestic currency more useful both as a means of exchange and as a store of value, and at the same time reduce the costs of conversion. Second, since union invariably involves the pooling of international reserves, the individual country's required reserve needs should be reduced. Finally, the monetary union should provide a framework for promoting the objectives of full economic integration. A monetary union, however, comes with costs. The most important of these costs is the loss of autonomy over exchange rate policy, money and credit policy, and the management of international assets ⟨Johnson [1991]⟩. Given the fact that the ECA and other proponents of economic integration in the continent are leaning towards a common market as the appropriate integration scheme for Africa, Johnson [1991] believes that a monetary union involving a common currency is likely to be more effective than one in which the members maintain their national currencies but opt for fixed exchange rates. Under the former arrangement, monetary policy in the union will be directed by a common central bank, with the assistance of a professional body set up at the union level. In addition, domestic fiscal and foreign debt policies will be handled or coordinated at the level of the union. These arrangements will invariably result in the loss of sovereignty by individual member countries.

Trade diversion represents the second area of concern for supporters of economic integration in the continent. Tariffs imposed on imports and other instruments designed to protect production within the union will invariably encourage the development of high cost industries while keeping out cheaper imports. Some observers argue that such trade diversion is a necessary short-term cost of integration, until a relatively high degree of industrialization has been achieved ⟨Johnson [1991]⟩. If such a consumption cost is inevitable, then the issue is to determine both the appropriate strategies to minimize this trade diversion and the pace of industrialization. These issues, of course, must be resolved at the union level, taking into consideration the resource constraints faced by each member country.

One consumption-cost related issue that must be decided is that of the protection of infant industries. What strategies should be used to provide effective protection for so-called infant industries? According to Johnson [1991], "African authorities may have to target, for preferential treatment, certain industries with the greatest potential for rapid increases in total factor productivity, and hence potential profitability" (p. 7). The main problem, of course, is how to identify such industries. Once these industries are identified, effective intervention packages then must be designed and implemented. Lump-sum subsidies, a neoclassical economic prescription, may be preferred to tariffs since the former are unlikely to distort relative prices. In addition, since lump-sum subsidies do not involve quantitative controls, economic agents (consumers and producers) are able to make more optimal decisions regarding the allocation of their resources. It should be emphasized, however, that countries facing severe budgetary constraints or shortfalls, may find tariffs more amenable to lump-sum subsidies, especially after the costs of collecting the tax to raise the revenues for the subsidy program are taken into consideration. Johnson [1991] suggests that "certain indirect and in-kind subsidies may be much more effective in yielding results; for instance, incentives for productivity increases may be enhanced if enterprises are permitted to invest what they would otherwise have paid in taxation to the government" (p. 7). He concludes that the optimal strategy may involve a combination of lump-sum, indirect cash, and in-kind subsidies, and tariffs.

Other consumption-related issues that have to be decided include firm ownership and control in the industrial sector of the union. What role, for example, will foreign-owned firms and parastatals (public enterprises) play in relation to firms owned and operated by nationals in the private sector? What methods will be used to encourage and improve domestic entrepreneurship? What government policies will be used to strengthen and increase the depth and breath of the domestic capital market? Again, these issues will have to be examined and determined before the implementation of the integration agreement.

The third cost-related issue is that of the distribution of gains and losses from integration. Throughout the continent, many domestic policy makers are quite concerned that if their economies are thrown into a larger more competitive market, their citizens may lose significantly since gains from integration will be positively related to individual levels of development prior to union. The fear is that the more advanced economies, those with significantly higher levels of human capital, entrepreneurial talent, and relatively more developed capital markets, will reap most of the benefits of integration, leaving the weaker economies less well-off. In a southern African union, for example, South Africa and Zimbabwe are expected to run away with the bulk of the benefits of integration. In West Africa, Nigeria, Senegal, and Côte d'Ivoire, are seen as having the potential to more effectively exploit any larger market size resulting from integration for benefits, much more so than their less endowed neighbors. In addition to reaping all the benefits of integration, the more advanced members may be doing so at the expense of the poorer members of the union ⟨Myrdal [1957]⟩.

This issue of unequal distribution of the benefits/losses from integration as a result of differential levels of development for its members is said to be the main cause of the disintegration of the East African Community. The latter was Africa's most promising regional integration scheme in the 1970s and was made up of Kenya, Tanzania and Uganda. It broke up in 1977, ten years after its foundation, due in part, to the fact that Tanzania and Uganda believed that Kenya's industrialization program was significantly facilitated by the union and at their expense. Thus, they saw Kenya as a net gainer and themselves as net losers from the union. Some observers, however, have argued that differences in political ideology, especially between Tanzania's political leaders and those of Uganda, represented the primary cause of the demise of the union ⟨Davenport [1992]⟩. The EAC did attempt to use what were called "transfer taxes" or differential intra-union tariffs to minimize the losses to the weaker members but those countries that perceived a loss, especially Tanzania, were not satisfied.

Despite the frustrations of the EAC, some other integration schemes in the continent have been relatively successful in their efforts to compensate the weaker members for losses incurred in integration or for the "aid" provided the industrialization effort of stronger and more endowed members. The CEAO, for example, was quite successful in its efforts to compensate other union members for the aid provided by the union in the industrial development of Senegal and Côte d'Ivoire. With revenues from import tariffs, two special facilities, namely, the *Fonds communautaire de développement* (FCD) and the *Fonds de solidarité et d'intervention pour le développement de la communauté* (FSIDC) were created in 1976 and 1978 respectively. Resources from these two agencies were used to assist the poorer and less developed members of the CEAO. Since the main contributors to, and underwriters of FCD, are Senegal and Côte d'Ivoire, it is unlikely that these subsidization programs can be sustained since these two countries face an uncertain financial future.[6] According to Bach [1983], during the period 1976-86, the governments of both countries had to request a postponement of their contributions to the funds because of serious domestic financial problems. Associated with the issue of the unequal distribution of gains and losses from a competitive market structure is the fact that many countries

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6. During the 1976-86 period, Côte d'Ivoire and Senegal provided 60.7% and 38.8% of the F. C. D.'s total appropriations. See Djah, 1990, pp. 40-58.

want the power to plan and determine the allocation of industrial projects rather than leaving industrial location to be determined by market forces. Some economists have suggested that coordinated industrial planning can be used to help member countries capture the welfare gains associated with fuller utilization of production capacity. In addition, planning can help avoid duplication of manufacturing facilities ⟨Pearson and Ingram [1980]⟩. The lack of intra-regional trade has been cited as one reason for the luke-warm attitude of some policy makers in the continent towards economic integration. It is suggested that coordinated industrial planning, along with a common external tariff structure, represents an appropriate method to encourage increased intra-regional trade and improve conditions for integration ⟨Johnson [1991]⟩.

Coordinated industrial planning, however, has serious problems, which can actually serve as a constraint to integration. For example, in order to achieve rapid industrialization, most policy makers are likely to seek to secure, for location in their own countries, the most technologically advanced industries. If these politicians are unable to secure the "high tech" industries they want through negotiation at the union level, they may simply override the integration agreement and proceed with their own industrial program. Later, however, they are likely to seek protection through some form of intra-union tariff to shield the new domestic industries from union competition.

Different tax structures within member countries can also contribute to inequality in gains and losses from integration. For example, if a common tariff structure is established for the union, then those countries that derive a significant portion of their public revenues from tariff receipts will suffer a greater level of erosion in their tax base. In the case where the average union tariff rate is much lower than that in existence in a country before integration, that country will suffer a significant drop in government revenue. Proponents of economic integration in the continent hope that the agreement will provide a means through which losers from the new common external tariff can be compensated. As mentioned earlier, the CEAO has, to a certain extent, succeeded in designing and implementing such a compensation scheme ⟨Djah [1990]; Johnson [1991]⟩.

Johnson [1991] has argued that even though it is likely to be quite difficult to design an effective compensation program for the integration schemes being suggested by the ECA for Africa, the previous success of the CEAO and the EAC in their efforts to compensate weaker members of their respective unions, "suggests that a long tradition of co-operation in the collection of customs revenues will help to facilitate the satisfactory resolution of the conflicts that tend to arise in this area" 〈Johnson [1991], p. 10〉. The schemes being sponsored by the ECA, however, do not have any such historical experience. This may mean that the establishment of the common external tariff will have to be delayed to allow member countries the time they need to reform their internal tax systems in order to reduce their dependence on tariff income.

In an economic union, unless perfect mobility of factors is guaranteed, depressed areas are likely to arise. In the schemes being proposed by the ECA, there is the likelihood of imperfect mobility of factors and subsequently, the emergence of depressed areas. In anticipation of these problems, some economists have suggested that special programs be designed, such as those in the European Community, to handle any problems associated with depressed areas. These include grants to improve the economic mobility of labor resources; tax and subsidies to encourage the migration of economically mobile factors to depressed areas; and subsidies (*e.g.* food coupons and transfer payments) to increase the purchasing power of economically immobile factors 〈see, for example, Johnson [1991]〉.

It should be noted that since many of the tax and subsidy programs are likely to affect public budgets in the member countries, policy makers will want to ensure that these expenditures do not unnecessarily burden their domestic economies and thus will seek to minimize their effects on their citizens. In order to properly resolve all the issues associated with depressed areas, all member countries must be politically committed to the resolution of these problems. Negotiations to resolve these issues will have to be conducted at the union level.

Establishment of economic unions in the continent might force a breakup of existing organizations. Currently, several integration schemes exist in the region. These include, the *Communauté économique de l'Afrique de l'ouest* (CEAO) whose membership consists of Benin, Burkina Faso, Côte d'Ivoire, Mali, Mauritania, Niger, and Senegal; and the UDEAC (*Union douanière et économique de l'Afrique centrale*), comprising of Cameroon, the

Central African Republic, Chad, Congo, Equatorial Guinea, and Gabon. These two integration schemes also enjoy monetary union with a common currency and common central banks. The CFA franc is the common currency for both unions and the *Banque centrale des états de l'Afrique de l'ouest* is the central bank for the CEAO countries, and the *Banque des états de l'Afrique centrale* is the central bank for the UDEAC countries. The Mano River Union, which comprises Guinea, Liberia, and Sierra Leone, is another integration scheme that has managed to survive despite enormous obstacles. The question that has occupied the minds of many proponents of integration in the continent is: How will these relatively well established unions fit in the schemes proposed by the ECA? Members of the UDEAC and the CEAO belong to the Franc Zone. Many CFA franc countries appear to be satisfied with the monetary arrangements that they now have and are not willing to break up the two existing central banks in favor of a new broader arrangement with other countries in the region. On the other hand, the new schemes suggested for West Africa by the ECA have not shown any interest in joining the Franc Zone and using the CFA franc as a common currency and one or both of the common central banks now in existence. Proponents of integration have to recognize, then, that there are significant costs to breaking up these old unions in order to participate in the larger schemes suggested by the ECA. The CFA franc is guaranteed conversion into the French Franc by the French Treasury. Some economists believe that since the 1960s, the CFA franc zone has "become part of a wide area of currency stability comprising the CFA franc countries, France, and other western European countries" ⟨Boughton [1992], p. 36⟩. Since nearly 70 percent of the trade of the CFA franc countries is conducted within the Franc Zone, it is unlikely that they would easily agree to leave the zone. Although the CFA franc countries have invariably given up the use of the foreign exchange rate as an adjustment tool, and have had to resort to protectionism, they have, however, managed to maintain relative financial stability for many years and, in addition, have significantly strengthened their trade and financial relationships with the European countries. The question to be asked, then, is: Will the CFA franc countries be willing to give up these "benefits" to join a larger union in the region? ⟨see, for example, Mbaku and Kamerschen [1988]; Boughton [1992]⟩.

B. Lessons from History and Prospects for Economic Integration in Africa

Prospects for successful integration in Africa depend on the ability of policy makers to learn from the mistakes and successes of the past thirty years. The main reasons why Africa's previous efforts at integration failed were examined earlier ⟨see, for example, Langhammer and Heimenz [1990]⟩. In this section, some of those issues are re-examined in an effort to help policy makers design more appropriate integration schemes for the continent.

In 1977, one of the continent's most promising integration schemes, the East African Community, collapsed. Although several reasons have been cited for its demise, most observers believe that the differential distribution of the benefits and losses from integration, and differences in political ideology between the leaders of the three member countries, were the most important determinants of the union's collapse ⟨Johnson [1991]; Davenport [1992]⟩. Leaders of the present integration movement in the continent can learn from EAC's experience. Given the fact that personal animosities and severe ideological differences among Africa's leaders have become a political fact of life, only union institutions that can function even in the midst of serious ideological conflicts between the political leaders of the member countries should be set up at the union level. To achieve this, it may be necessary to set up institutions which are not required to draw their top decision makers from the political elites of the member countries. Johnson [1991] has suggested, for example, that the union legislature not contain "politicians who serve within their national governments" and that such an organization be provided with a full-time, experienced bureaucracy (p. 12).

Severe ideological problems between the political leadership in Tanzania and that in Uganda, especially President Julius Nyerere's dislike of President Idi Amin, contributed significantly to the fall of the EAC. The highest decision-making body of the EAC was the East African Authority, made up of the three Heads of State of the member countries. Due to the animosity between Amin and Nyerere, the organ did not meet between January 1971, when Amin captured the government of Uganda in a military coup, and the union's demise in 1977. At the time, Nyerere was the chairman of the East African Authority and refused to convene a meeting that would have been attended by Amin 〈Tordoff [1984]〉. The experience of the EAC presents an important lesson for policy leaders on the continent as they design structures for new integration schemes. The decision-making body of the union should be directed by professionals who are not directly affiliated with the political system in their respective countries.

Also contributing to the collapse of the East African Community was the issue of differential distribution of the losses and gains from integration. Both Tanzania and Uganda believed that the union significantly advanced industrialization in Kenya but provided them with few benefits. In fact, these countries believed that Kenya exploited the union to its benefit and at the expense of the other members. In designing the initial agreement for integration, then, some measures should be taken to ensure that the differential effects of integration on the output do not intensify disparities in real incomes and in productivity per capita among the citizens of the member states. One way to remedy this is to require, from the onset, a high degree of factor mobility. Unfortunately, demand for a high level of mobility of labor and capital resources requires significant political commitment on the part of national leaders. Factors should be allowed to freely move to areas where they can earn the highest return for their services. Historical evidence shows that some unions within the continent have had significant problems with factor mobility. The decision by Nigeria, in 1983, to expel several groups of aliens, notably Ghanaians, is a case in point. The mass deportations caused many problems for ECOWAS 〈see Brown [1989]〉.

If factors are allowed to move freely within the union, then most inequalities would be accounted for by such things as the costs of collecting and processing information, transportation, and other economic costs. Under certain circumstances, policy makers at the union level may have to intervene and provide assistance to factors to improve their economic mobility. For example, the provision of information on job vacancies within the union could significantly cut down on information costs for certain categories of labor, improving their ability to migrate away from the more depressed areas to those where there are greater job opportunities. Thus, subsidies to reduce the financial burden associated with migration might improve mobility and thus, minimize the unequal impact of integration on the real per capita incomes among peoples in the member countries.

In a common market, current account imbalances are bound to occur. If capital is allowed to move freely within the union, the adjustment process will be facilitated. If the union shares a common currency, then monetary flows among member countries will also help the adjustment process. Intra-union capital mobility, thus, is very important for the success of an economic union. In designing the integration scheme, policy makers should seriously consider providing measures to ensure capital mobility. In addition, member countries must be willing to co-ordinate their macro-economic policies, especially with respect to fiscal, monetary, and exchange rate policies. Decisions regarding the co-ordination of policies must be decided during the early stages when the integration scheme is being designed.

The role of political commitment in integration has already been mentioned. The right political commitment, by national leaders to integration, can help overcome obstacles presented by language, colonial heritage, culture, and ideological differences. In addition, what some scholars call political will, on the part of national political leaders, can help withstand external pressures against integration and allow the union to succeed ⟨Bach [1983]; Ajulo [1989]; Johnson [1991]⟩.

C. What do African Countries Expect from Integration?

Proponents of economic integration in the continent argue that in view of the present move towards regional integration in Europe and North America, Africa's ability to gainfully participate in the global economy may be dependent on its ability to form effective trade blocs. Most African countries are dependent on the export of primary commodities and often regard themselves as being at the mercy of the industrial market economies. Policy makers in the continent are convinced that unless Africans unite against the industrial economies, terms of trade for the African countries are likely to decline in relation to those of the former. It is generally agreed that integration will allow African countries to respond more effectively to fluctuations in price and the demand for their commodities. In addition, proponents of integration believe that the African countries stand to gain a lot from collective action, especially at the global level. For one thing, collective action should significantly improve their bargaining ability and allow them to extract more benefits from international trade.

In the past, many African countries have participated in such international organizations as OPEC, the International Bauxite Organization, the International Cocoa Organization, and the International Coffee Organization. In addition, several African countries have been involved in the EC-ACP agreement and its commodity stabilization program called STABEX. Their participation in these schemes has allowed them to learn about the benefits of collective action. Of course, commodity agreements have limitations and problems that can significantly affect their ability to function as bargaining tools for the African countries. First, the cooperation of the demanders of the commodities must be secured in order for the agreement to work. Second, since these agreements usually require the cooperation of the demanding country, their scope as a negotiating tool is limited. Third, since these agreements are actually designed to form cartels, members must have to deal with cheaters and free riders, problems that are endemic to all collusive agreements. Fourth, these agreements can cause a misallocation of resources and retard economic growth and development in the member countries. In addition, in order for the agreement to function properly, the necessary conditions for the proper functioning of a cartel must be present ⟨see, for example, Lindert [1991]⟩. Finally, association of the African countries with the EC and its so-called stabilization program may be a constraint to integration efforts in the continent. Since the colonial period, African economies have been part of some form of European trading group. Many observers believe that one important reason why Africa fails to form an effective and operational trade bloc is because most of the continent's economies are already firmly entrenched in a larger EC-ACP-Associated States trading bloc. This, however, is an asymmetric trading bloc; while treaties guarantee preferential treatment for exports from Africa and the Associated States to the EC markets, European exports to these countries are not granted the same treatment. When the Single European Market (SEM) becomes a reality, Africa will not be part of it. As a result, the SEM will significantly weaken the close economic links between Africa and the EC. Studies by Davenport [1992] show that eliminating barriers within the EC as part of the SEM will produce customs union effects which should include trade creation and diversion vis-a-vis the rest of the world ⟨also see

Davenport and Page [1991]⟩.

The limitations associated with commodity agreements imply that African countries must supplement participation in these schemes with other strategies. An important strategy that is already recognized by many policy makers on the continent is diversification of exports and of trading partners. Currently, most African countries depend on the export of a few primary commodities for their foreign exchange. In addition, these countries trade, almost exclusively with their former colonizers. In fact, many Francophone African countries trade primarily with France. Diversification of both the composition of exports and of export markets is essential as part of the strategy for improved African participation in the post-Cold War global economy ⟨see, for example, OAU [1981]⟩.

D. Africa and the Developed Market Economies

The data in Table 2 show Africa's dependence on the developed market economies (DME), especially those of the EC. During the period 1979-80, over three quarters of African exports (including the Mediterranean countries, but excluding South Africa) went to the DMEs. That trade pattern has remained relatively stable since the 1970s. Most fluctuations have been due primarily to swings in the price of crude oil. The greatest purchaser of African exports has been the EC. The latter's share of African exports rose from 46.9 percent in 1979-80 to 52.7 percent in 1988-89. During the decade, the share of African exports going to other DMEs fell. On the other hand, while the share of the exports of other developing countries going to the EC fell, their exports to other DMEs increased. Over the decade, then, while other developing countries have lessened their trade dependence on the EC, African countries have become more dependent on the European markets. Although the EC continues to be an important market to Africa, the latter has been losing its importance to the EC countries. Formation of the SEM could further marginalize the African economies (Table 2).

Table 2 also provides information on import trade for the African countries. During the period, the share of EC imports originating in Africa fell from 5.6 percent in 1979-80 to 2.7 percent in 1988-89. Although the share of African imports coming from the EC fell from 55.5 percent in 1979-80 to 48.9

Table 2
Geographic Distribution of African Trade
1979-1980 & (1988-1989)

(%)

Destination	EC	DMEs	Other DMEs	Africa	LDCs	Other LDCs	Total
I. Origin of Exports							
Africa	46.9 (52.7)	37.7 (23.4)	84.6 (76.1)	3.6 (6.8)	7.2 (10.1)	10.8 (16.9)	100
Other LDCs	26.4 (18.3)	42.0 (51.7)	68.4 (70.0)	2.1 (2.0)	24.6 (26.9)	26.7 (28.9)	100
Total LDCs	29.8 (21.7)	41.3 (49.0)	71.0 (70.6)	2.3 (2.4)	21.7 (25.3)	24.1 (27.7)	100
EC	56.0 (60.0)	21.2 (24.0)	77.1 (84.1)	6.3 (3.1)	11.2 (8.7)	17.5 (11.8)	100
Other DMEs	26.5 (26.3)	36.6 (42.9)	63.1 (69.2)	2.9 (1.5)	25.1 (23.1)	28.0 (24.7)	100
Total DMEs	42.4 (43.9)	28.3 (33.0)	70.7 (77.0)	4.7 (2.4)	17.6 (15.6)	22.3 (18.0)	100
II. Origin of Imports							
Africa	5.6 (2.7)	5.4 (1.3)	5.5 (2.0)	4.0 (5.4)	1.7 (1.1)	2.1 (1.6)	
Other LDCs	15.9 (8.7)	30.6 (26.5)	22.5 (17.3)	11.6 (14.5)	30.0 (27.0)	26.7 (25.5)	
Total LDCs	21.5 (11.4)	36.0 (27.8)	28.0 (19.3)	15.6 (19.9)	31.8 (28.1)	28.9 (27.1)	
EC	53.0 (60.4)	24.2 (26.1)	40.0 (43.9)	55.5 (48.9)	21.6 (18.5)	27.7 (22.1)	
Other DMEs	21.3 (24.3)	35.6 (42.6)	27.8 (33.1)	21.9 (22.0)	41.0 (45.0)	37.6 (42.3)	
Total DMEs	74.4 (84.7)	59.9 (68.7)	67.8 (77.0)	77.4 (70.9)	62.6 (63.5)	65.2 (64.4)	
Total	100(100)	100(100)	100(100)	100(100)	100(100)	100(100)	

Notes: Data in parentheses are for 1988-1989. Percentages do not add up to 100 because the Eastern Trading Area is not made explicit. LDCs = Less Developed Countries; DMEs = Developed Market Economies.

Source: GATT [1991], *Annual Report* 1990-1, Volume 2, Geneva. Adapted from Davenport, Michael [1992]. Africa and the Unimportance of Being Preferred, *Journal of Common Market Studies*, 30 (2), June, p. 238, Table 1.

percent in 1988-89, the latter is still a relatively high figure, especially if it is compared with that for EC imports originating in Africa. The geographic pattern of African imports re-enforces the continent's one-sided dependency on the EC. The major reasons for Africa's continued trade dependency on the EC are primarily historical. Trade relationships developed as a result of colonialism have been maintained. Quite often, these arrangements have been strengthened by tied aid and other development assistance programs that have managed to keep the African economies as sources of raw materials for the metropolitan economies and markets for the sale of the latter's excess production ⟨see, for example, Davenport [1992]⟩.

Several authors have examined the major systems of preferences and concluded that preferences such as those provided by the EC and GSP yield very limited gains to the developing countries and generally have very little economic value. Despite the fact that they offer the ACP countries only marginal benefits, many of these countries still hold on to these preferences. In fact, the belief at EC headquarters in Brussels is that the preferences for the ACP countries provide them with significant benefits, and as a result, should be preserved. Preserving these preferences, however, will severely slow down attempts at trade liberalization and the introduction of multilateral trading systems or any efforts to form regional groupings in Africa ⟨Langhammer and Heimenz [1990]; Davenport [1992]; Langhammer [1992]⟩.

There is a strong belief among many researchers, and the evidence suggests that, African countries could benefit greatly from the elimination of their trade preferences ⟨Davenport [1992]⟩. First, elimination of the preferences will break part of the grip that the European countries have had on the African economies since colonialism. Second, it will allow the African economies to begin to break their psychological dependency on EC markets. Third, the elimination of preferential treatment for the African economies will allow these countries to aggressively search for new markets. Finally, destruction of the system of EC preferences for the African countries should allow the latter to contribute more effectively to the development of a multilateral trading system in the global economy or consider more seriously, regional integration. Many developing countries have already contributed significantly to the Uruguay Round negotiations. Several countries in Latin America and Asia have already undertaken unilateral liberalization of their trade policies and are playing a larger role in the attempt to further liberalize the global trading system. Many developing countries are now trading off their special preferences (including those provided by the GSP) for greater and improved access to the markets of the developed market economies, especially in those areas (such as agriculture and textiles) that have traditionally either been exempt or given special treatment at the GATT negotiations. African countries, on the other hand, have played a negative role in the Uruguay Round primarily because they have felt satisfied with their EC preferences. These countries, through the ACP Secretariat in Brussels, have lobbied against several Round provisions, convinced that they have little to gain from further liberalization of trade. True, multilateralism will definitely spell an end to EC preferences for Africa and other members of the ACP. Evidence, however, points to the fact that these preferences provide the African and other ACP countries only marginal benefits ⟨Davenport [1992]⟩. A multilateral global trading system should provide the African countries access to the markets of the developed market economies, as well as those of other developing countries. In addition, multilateralism should reduce African dependence on the EC and allow these countries to begin to assert their political and economic independence. Regionalism, in its present form, makes the African economies an appendage of the EC and robs the continent of its political and economic autonomy. In exchange, it provides Africa questionable benefits.

Trade liberalization holds greater promise for development in Africa than continued attachment to the EC. Unfortunately, African representatives in Brussels, together with their counterparts from the ACP, are likely to derail efforts to eliminate regionalism in favor of a more liberalized trading system. Perhaps, as many researchers have suggested, some form of aid packages could be used to compensate the ACP countries for the loss of these preferences, so that they can support the establishment of multilateralism ⟨Davenport [1992]⟩.

In view of recent developments in the global economy, most of which were examined at the beginning of this essay, it appears unlikely that the world will see true multilaterialism any time soon. As a result, African countries must prepare themselves for participation in a global economy that is likely to be dominated by three major trade blocs. The important issue for the African countries is to develop strategies to maximize their effective participation in this tripolar global economy. In the next section, strategies for effective African participation in the new global economy are examined.

V. Strategies for African Participation in the New Global Economy

At the beginning of this essay, certain questions regarding the participation of African countries in the new global economy were posed. One of those questions involved whether African countries should seek to maintain and strengthen their affiliation with the EC or favor the development of a multilateral trading system. A second and related issue concerned whether African countries should form their own trade blocs in order to lessen their dependence on the industrial market economies. The present discussion has shown that although a multilateral trading system, in theory, should provide African countries with greater access to the markets of the developed countries, these developing economies may not be able to effectively participate in these advanced markets because of certain obstacles and constraints. The African countries, for example, must be able to supply their manufactures to the global market at a competitive price and an acceptable quality. Thus, producing their exports at a globally acceptable quality and price is essential if the African countries are to participate effectively in a multilateral trade system. Even if the protectionist policies of the developed countries are eliminated and a truly multilateral trading system is established, African countries must still deal with the problems associated with breaking into a new global market.

The world, however, is not moving towards multilaterialism. Instead, as evidenced by the formation of NAFTA, and the European Union, and talks about an East Asia trade bloc, regionalism is gaining a foothold in global trade. In addition, these trade blocs may become inward looking, a development that will have significant effects on the future of African participation in the new global economy. Given the reality of a tripolar world and the probability that these regional organizations might become protectionist, African countries must develop strategies that will allow them to effectively participate in this new world economy.

First, Africa must develop regional economic unions which should significantly increase the size of domestic markets, improve the latter's viability, and allow domestic industries to more effectively exploit technological economies of scale. In addition, regional integration will increase the area within which infant industries can be provided the assistance they need to develop and become competitive ⟨see, for example, Johnson [1991]⟩. As discussed earlier, development of effective regional groupings will help African countries gainfully participate in a competitive global economy or one dominated by trade blocs.

Second, given the fact that political will or commitment is essential for successful integration, African countries must first work to improve their domestic political systems and reduce levels of political instability. In fact, leaders of countries in which political instability has become endemic are not likely to be fully committed to the union at the same time that they must struggle for their very survival. Some observers have questioned Nigeria's commitment to ECOWAS given the former's pervasive political instability ⟨Johnson [1991]⟩. Since 1960, when it gained independence, Nigeria has suffered several military coups, propelling the armed forces into an important player in the country's political economy. In fact, military elites have ruled the country during 22 of Nigeria's 33 years of independence. Military involvement in politics has not been limited to Nigeria. On November 17, 1958 General Ibrahim Abboud overthrew the government of the Sudan, ushering in the first successful military coup in modern Sub-Saharan Africa. Since then, many more coups have taken place and by 1989, soldiers had become part of the government in many African countries. Countries like Ghana, Nigeria, Sudan, and Libya, have been ruled by soldiers during most of their existence as sovereignties. The result of this military meddling in national politics has been a significant increase in political violence. Unless African countries can develop stable political systems, it is unlikely that they will succeed in establishing viable regional economic unions ⟨Mbaku [1988]; Mbaku [1993]⟩. Many scholars have emphasized the fact that no regional organization can succeed in Africa without the political commitment of national leaders ⟨see, for example, Aworl [1992]⟩. Such commitment is not meaningful if a country is consumed by political violence or if incumbent leaders must spend most of their time fighting to maintain a monopoly on power.

Associated with the issue of political violence is that of democratization and the provision of institutional frameworks that give citizens unrestricted access to both political and economic markets. In fact, several scholars have argued that the pervasive political conflict and violence that is endemic to sub-Saharan Africa is linked to the inability of the mass of the people to have access to national economic and political institutions ⟨see, for example, Jenkins and Kposowa [1990]; Jenkins and Kposowa [1992]; Mbaku [1992]⟩. In many African countries, while the institutions of state coercion such as the military, are relatively well developed, those of popular participation are still in their infancy. As a result, many of these countries are unable to effectively handle increased demand by the mass of citizens for popular participation ⟨Lunde [1991]⟩. In preparation for integration, then, the third strategy must involve democratization and the development of institutional frameworks that maximize popular participation. The events of the last few years, especially with respect to democratization, show that attitudes towards more competitive political and economic systems in Africa are becoming more acceptable. In fact, since 1990, many African countries have successfully conducted competitive elections which have resulted in the installation of new democratic governments. In addition, privatization and price reform programs continue to be carried out successfully in several countries. These policy reforms are very essential for successful integration. For one thing, compatibility of trade regimes is an important determinant of a successful trade bloc ⟨Schott [1991]⟩.

Fourth, economic and human development should be the basis for integration and not economic growth. Development, unlike growth, emphasizes poverty alleviation, the reduction of inequities in income distribution, improvements in human capital, and innovation. In its broadest sense, the main objective of the union would be to harmonize economic development plans and seek to eliminate poverty from within the area covered by the agreement. Emphasizing development instead of economic growth will allow the union, for example, to examine the unequal distribution of benefits from integration not only from a national point of view, but also from the point of view of individual citizens. For example, it is possible for a country's per capita income to be rising significantly as a result of integration, while at the same time, levels of poverty among certain groups within that country are rising.

Emphasis on development will allow the union to detect these problems and design programs to eliminate them ⟨see, for example, Thompson [1992]⟩. The Southern African Development Coordination Conference (SADCC) has called for a "development integration" approach which emphasizes poverty alleviation and equity in the distribution of the benefits of economic cooperation. Equity is judged from the level of the country as well as the individual. Such an approach reduces the emphasizes on increases in income per capita as a measure of gains from integration. Instead, gains from integration will be measured by examining changes in infant mortality and life expectancy rates, literacy rates, physicians per population and other social indicators which can reveal inequities in income distribution within society. Policy makers at the union level, can identity relatively underdeveloped areas within member countries either for special attention by the union or by the respective governments. The development approach allows for depressed areas within countries that have relatively high per capita incomes to be identified and assisted.

Thompson [1992] emphasizes the fact that the most successful integration scheme is one in which "national and regional interests coincide" (p. 134). Thus, in the early stages, it is important for policy makers to identify for further emphasis, those issues that are important to the member states. For example, the refugee problem has become a very important issue in most of East and Southern Africa as a result of wars in Ethiopia, Sudan, Somalia, Mozambique, Angola, and the effects of apartheid in South Africa. Thus, developing a regional policy on refugee resettlement will greatly increase the chance of successful integration in the region. In fact, part of SADCC's early success was due to its ability to adopt the menacing threat posed member countries by apartheid South Africa into a regional problem. Adoption of a development integration approach ensures that increased trade from integration is aimed at relieving poverty and improving human development and not only to increase levels of per capita incomes. This approach's emphasis on equity also promotes a more balanced industrial policy for the union. The location of industries is done from a regional (rather than from a national) perspective so that most of the industries are not located in one state. In addition, regional industrial policy ensures that production facilities are located where they can best serve the needs of the entire region; *i.e.*, in areas where they can best mobilize regional resources, meet the needs of regional markets, and produce commercially viable products for the region ⟨Thompson [1992]⟩.

Using the region as a unit of analysis when designing integration agreements will significantly improve their chances of success. For one thing, regional sourcing will allow the more effective utilization of regional resources, especially labor and raw materials. Such an approach will definitely promote a greater dependence on African sources, and as a consequence, may result in higher short-run prices, rental and interest rates. Some researchers have suggested that these short-run higher prices should be seen as investment in the region's future ⟨Thompson [1992]⟩. It should also be noted that regional cooperation can significantly improve health care, educational, and infrastructural systems. If the group of countries faces outsiders as a region, instead of individual countries, as already mentioned, their bargaining power can be significantly raised. As Thompson (1992, p. 138) has appropriately stated, "[i]f the Tanzanian or Zimbabwean debt-servicing plans were negotiated in ways that acknowledged South African destabilization, the commercial banks might have to view their encouragement of South Africa in a different perspective." In fact, problems of individual African countries are often of a regional nature. For example, any analysis of food security problems in Kenya that does not include the burden placed on the Kenyan economy by refugees from the Sudan, Somalia, and Mozambique, is incomplete. In fact, such an analysis is more effectively carried out from a regional (East African) perspective rather than from that of Kenya. Thus, in their dealings with the outside world, African countries may stand to benefit more if their problems are examined from the regional unit of analysis perspective.

This discussion cannot be concluded without saying something about the role of the state. Definitely, the state has an important role to play in growth and development in the continent. Many observers look at the state as an engine of growth. Such a role, however, can only be performed by a highly competent and well disciplined bureaucracy. There is always the fear that statism may promote interest group objectives and undermine national development. As de Melo and Panagariya [1992] have stated, an important benefit of integration may be that policy harmonization within the bloc may significantly curtail the discretionary power of that state and subsequently constrain the activities of interest groups which traditionally have retarded economic growth. Integration results in a larger political community, significantly reducing the role played by important political groups in each member country. As a result, policy outcomes should suffer less from interest-group politics.

VI. Conclusion

This article has examined the resurgence, in the mid-1980s, of trading blocs and how this new regionalism will affect African participation in the global economy. It appears that the global economy is likely to be dominated by three major trade blocs: the EC, the NAFTA, and an East Asia community anchored around Japan. The ability of developing countries to have access to one or more of the markets of these blocs will determine the extent of economic development in these countries. For African countries, access to the markets of the developed market economies is crucial for continued economic development. Presently, the African countries have limited access to the markets of the EC countries through a set of preferences granted them by the latter.

This arrangement, which provides the African economies only marginal benefits, has its origins in the colonial relationship between Europe and Africa. While a multilateral trading system is expected to provide African countries with greater access to the markets of the developed market economies and reduce their dependency on the EC, the African countries are currently fighting against the loss of these preferences and the subsequent establishment of more liberalized trading systems. It has been suggested that aid could be used to compensate Africa for the loss of these preferences so that they could support further liberalization of the global trading system. A more liberal trading system should provide Africa more benefits, in the long run, than are currently available through the special preference systems of the EC and GSP. It must be noted, however, that given their underdevelopment, it is unlikely that African countries will be able to gainfully participate in a global trading system that is characterized by multilateralism. It may take several years for these countries to develop the wherewithal to become competitive at the global level. Formation of regional groupings can help these economies develop the skills needed to gainfully participate in a competitive global economy.

Given the fact that the global economy is opting for regionalism, Africa's hope for increased participation in global trade also rests on its ability to form effective regional unions. The latter should improve the ability of the African countries to bargain for the benefits of international trade.

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