The West African Economic and Monetary Union

Past and Present of an exceptional North-South-South-Integration

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Introduction
The changing landscape of the relationship of the European Union to the group of African, Caribbean and Pacific developing countries (ACP states) is harshly criticized in these days. The majority of the criticism is formulated by official, independent and non-governmental organizations such as Oxfam (2002, 2006), Bilal / Rampa (2006) and Karingi et al. (2005). These authors highlight the negative effects of the European trade policy toward associated developing countries, implemented in the future Economic Partnership Agreements (EPAs).

Being part of the latest agreement signed in 2000 in Cotonou / Benin between the EU and 78 of a total of 79 associated ACP partners, these EPAs introduce a new era of economic co-operation. Up to now the ACP countries have benefited from non-reciprocal trade preferences, but with regard to non-ACP countries these unilateral trade preferences infringe the non-discrimination principle of the World Trade Organisation (WTO). With regard to the expiration of the WTO waiver tolerating the unilateral EU-ACP trade preferences by the end of 2007 and considering the WTO membership of the EU and most of the ACP countries, the framework of the economic co-operation has to be redesigned.

With reference to the WTO principles, the new economic relationship that the EU is actually negotiating with six ACP regions should be based on reciprocity instead of unilateralism.

Although the EPA agenda which is negotiated individually with every single region may differ between the ACP regions, five key challenges are addressed in the talks: (1) improving market access preferences of the ACPs to the EU, (2) strengthening regional integration, productivity, trade capacity and development, (3) considering the development status and need of protection of single economic sectors while opening the market, (4) securing coherence between trade and development and (5) supporting ACP regions through a trade-related development co-operation.

With regard to the EPA agenda, the EU apparently tries to recollect one main target set in 1963\(^1\). It tries to foster the economic development of its associated partners and to support their sustainable introduction in the international trade arena. Indeed, the ACPs share in international trade declined continuously since the 1950s, especially in Africa\(^2\).

As African ACP countries show a fragile and weak economic performance, the EU’s insistence on the implementation of reciprocal trade relations is not necessarily to the advantage of these countries. Instead of concentrating on purely trade-related relations in accordance with the GATT and GATS rules, it is criticized that a regulation similar to the old WTO waiver regulations might better conform to the development objectives of African countries.

In order to come to a better understanding of how to formulate a feasible agenda for EPA negotiations which is satisfying developed and developing countries, one aspect should be considered more intensively: the influence of the historical incidents on the formation and success of today’s different regional integration blocs among ACP countries and its potential relevance for the agenda of the ongoing EPA talks.

The aim of this paper is to give an insight in one sustainable and far-reaching regional integration union among developing countries in West Africa\(^3\), the West African Economic and Monetary Union (WAEMU).

The paper is organized as follows: against the background of a recapitulation of the theory of trade and regional integration in section 1, the empirical validity of the theoretical motives and main objectives of such a regional co-operation is analysed in section 2 based on a

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2. See UNCTAD 2000.
3. Even though the Economic Community of West African States (ECOWAS) represents West Africa in the EPA talks, the WAEMU is an equal partner in these talks.
Development through regional integration

The range of challenges developing countries have to face is complex and so are the approaches of different scientific disciplines when it comes to analysis and the elaboration of recommendations. Regardless of that variety, a key aspect of the development debate is the implementation of a sustainable economic development in the countries in question.

From an economic perspective, the first and more prevalent theoretical approach is the analysis of trade relations between countries and the potential impacts on their development, however.

Taking into account the changing landscape of international trade and its tendency to regionalisation and considering the integration process of the European Union and the intended adoption of EPAs, the analysis of trade-interaction within the framework of regional integration theory gains in importance.

The predominant motive for entering a regional integration is mainly economic which suggests that regional integration can be considered not only as a theoretical approach, but as an important strategy in order to reduce and finally abolish tariff and non-tariff barriers.

Following Dalibor (1997: 80) this conclusion seems to be correct when he states that agreements on regional integration include the discriminating elimination of trade barriers and the implementation of specific coordination and co-operation elements between the member states.

The different steps partners can take on the integration ladder in order to ameliorate and foster their regional economic situation are shown in figure 1.

![Diagram of Degree of Integration](Image)

**Source:** following Fischer/Straubhaar 1994: 59.

**Figure 1 Possible forms of regional integration**

The *preferential area* is the weakest form of integration as it compasses only a unilateral or reciprocal reduction of trade barriers of specific goods or group of goods. The *free trade area*, the simplest and loosest integration, is characterized by an elimination of trade barriers between the partners and the maintenance of an individual foreign trade policy towards third countries. Even though the political and economic integration is low, the respect of the rules of origin limits the free trade. In contrast to the free trade area, the introduction of a common foreign policy with uniform tariffs and duties towards imports of third countries in *customs*
union is one option to solve the problem with the rules of origin. The national sovereignty and the pursuance of national interests in the domain of foreign affairs are curtailed in favour of a common decision-making process. The next step on the integration ladder is the realisation of a common market with the free movement of persons, goods, capital and services, respectively. The implementation of this free movement demands more co-ordination and cooperation from the member states and the harmonisation of the different economic policies in the areas in question. A monetary union is attached to the implementation of a common monetary policy with a common currency, whereas the economic union requires a unification of monetary, fiscal and social policies which is binding to the participating parties. This principle implicitly approves the priority of supranational to national law and the gradual loss of national sovereignty when joining an economic union. Out of this intensive form of economic co-operation the need for further harmonisation in other specific sectors can evolve and favour the formation of a political union. The political union symbolizes the highest form of regional integration and co-operation. It is characterized by a high loss of national sovereignty in favour of the implementation of a federal order and a complex institutional structure for the co-ordination of the common policies.

The motives for integration on a regional basis are not limited to trade-related aspects only. The consideration of monetary aspects contributes to a better understanding of the economic complexity of a regional integration and opens the floor for a broader and deeper economic analysis. In this paper, the analysis of the linkage between economic and monetary aspects will concentrate on trade- and development-related topics only.

The interaction of political, economic and monetary motives has to be considered when it comes to the regional- and country-based impact assessment.

The political motives for joining or founding an integrated regional bloc are often influenced or dominated by objectives coming from the foreign policy and security sector. In addition to the contribution to political stability as a result of the interaction of several countries, the wish for reform can also be an important aspect as it becomes more credible within the framework of regional co-operation and is therefore easier to be translated into action. The regional integration can be very attractive to small countries as it increases their political and economic negotiation power vis-à-vis larger economic blocs.

The decision to form a regional bloc is also based on economic aspects, mainly in generating welfare effects with the help of income, efficiency and trade-creating effects. Countries who decide to create or join a regional bloc can reduce their trade-related transaction costs and have the possibility to trade their goods in a larger market than without any form of integration.

The reduction of the transaction costs can induce several additional positive effects: first, the enlargement of the regional market benefits the use of dynamic economies of scale as the production volume increases and the production costs per unit decrease. On one side, this can lead to the production of capital-intensive goods if the critical market size is attained. On the other side, these economies of scale can also be an incentive to start infrastructure projects between the cooperating countries.

Secondly, the increase of trading possibilities and the intensified competitiveness can ameliorate the economic performance of the partners if they are willing and open to face the challenges of technological progress and innovation pressure with the help of an efficiency-ori-
ented re-organization of the production procedure. In that context, the benefit is not limited to the production side, the consumers gain from a diversified good supply and from price reduction which releases their spending power. The positive results of trade creation and the amelioration of production and income surpluses can only occur if intraregional comparative advantages come to fruition within the regional bloc\textsuperscript{10}. If the regional partners close their common market against cheaper goods coming from third countries by retaining their current or imposing higher tariffs on these goods, this trade diversion or suppression increases the risk of welfare losses on both sides, the regional partners and third countries, respectively.

Thirdly, the preconditions to benefit from spillover effects, especially those of a technical origin, are better within the framework of regional co-operations. The improvement of the inner-regional efficiency resulting from the dynamic economies of scale, trade creation and spillover effects can, \textit{fourthly}, contribute to an increase of region's global competitiveness. Lastly, the need to establish and respect a specific set of rules within a regional bloc fosters the credibility and transparency in and of the region and increases its attractiveness for domestic and foreign investments\textsuperscript{11}.

The potential economic effects mentioned above can be influenced by \textit{monetary aspects}, positively or negatively, respectively. The harmonisation of monetary conditions in a regional bloc such as the implementation of a common exchange rate policy with fixed exchange rates can, \textit{firstly}, minimize the volatility of large fluctuations in currency prices and, \textit{second}, stabilize the expectations on financial markets. Dependent from the openness of the regional bloc, its attractiveness for foreign direct investments will gain parallel to the increase of the transparency of the market. In addition to that, the monetary co-operation can contribute to a reduction of transaction costs, liquidity preferences, interest rates and price discrimination\textsuperscript{12}. On the other hand, the creation of a development-friendly ambience and the potential improvement of the region’s economic performance contrast with the loss of a sovereign monitoring and active correction of the exchange rate. A sovereign exchange rate policy might be advantageous if an external shock occurs or the negative effects of a bad economic policy (e.g. pro-cyclical fiscal policy like high public expenditures in economically good times which are followed by an increase of the budget deficit) have to be diminished\textsuperscript{13}.

Against this theoretical background, the next section outlines the different steps the francophone West African countries took on the integration ladder. The analysis concentrates on the motives and forms of integration and skips the assessment of trade and development aspects.

\section*{Retrospective of the regional integration process in francophone West Africa}

The foundation of the WAEMU in 1994 was the result of a long lasting integration process which dates back to the colonial era when seven of the eight WAEMU member states have tried to enhance their regional integration within different unions.

\section*{The Monetary Integration}

In the middle of the 19\textsuperscript{th} century, France introduced the French franc (FF) as a legal currency in its colonies. Controlled by the French administration, local private banks in the colonies were allowed to issue the colonial franc.

After World War I and with regard to the growing importance of the trade relations between France and its colonies, the French central bank, \textit{Banque de France}, guaranteed the exchange
of colonial franc to the franc métropolitain, the currency of the French Empire, at a fixed parity\textsuperscript{14}.

As a countermove to the fixed parity, the colonial banks of issue were obliged to conclude their foreign exchange transactions on operation accounts held by the Banque de France\textsuperscript{15}. Additionally, they had to pursue a restrictive, non-inflationary monetary policy\textsuperscript{16}.

On the eve of World War II, the inconvertibility of the French franc and the introduction of a foreign exchange control regime in 1939 delimited the geographical area within which the different francophone currencies remained convertible\textsuperscript{17}.

As a result of the monetary reform of December 26, 1945 a new common currency was introduced in the African colonies, the Franc des Colonies Françaises d’Afrique (F CFA). The F CFA was issued by the French overseas central bank (Caisse Centrale de la France d’Outre Mer). Throughout the period from 1948 to 1994 the convertibility of the F CFA to the FF remained stable at an exchange rate of 0.5 F CFA to 1 FF\textsuperscript{18}.

In the course of the decolonisation process (1954-1962) the African francophone countries opted for the maintenance of the monetary co-operation between France and them. In 1959 the existing currency partnership consisted of two F CFA zones, the Central African F CFA (franc de la Coopération Financière Africaine) and the West African F CFA zone (franc de la Communauté Financière Africaine), respectively. With the independence of the Comores in 1976 the franc zone was enlarged by the franc comorien. All three currencies were issued by the central banks, but they kept their operation accounts with the French Treasury, the Trésor français\textsuperscript{19}.

In April 1959, the Ivory Coast, Dahomey (now Benin), Upper Volta (now Burkina Faso), Mauritania, Niger and Senegal created a common central bank, the Banque Centrale des États de l’Afrique de l’Ouest (BCEAO). The BCEAO was responsible for the emission of the West African F CFA\textsuperscript{20}.

The West African Monetary Union (WAMU) was founded by the BCEAO member states in May 1962 and joined by Togo in 1963 and Mali in 1967\textsuperscript{21}. Its constituting treaty was only ratified by November 14, 1973 with the absence of Mauritania\textsuperscript{22}.

The monetary co-operation between France and the WAMU was settled on December 4, 1973 and had to respect the following principles\textsuperscript{23}:

1. unrestricted convertibility guaranteed by the French Treasury for the entire franc zone;
2. free capital mobility between the franc zone and France;

\textsuperscript{14} See Banque de France 2002:2.

\textsuperscript{15} See Ziemer 1993: 253.

\textsuperscript{16} See Abdel-Salam 1970 : 340.

\textsuperscript{17} See Banque de France 2002: 2.

\textsuperscript{18} See Hadjimichael/ Galy 1997: 6. The exchange rate of the F CFA to the franc métropolitain (FM) remained the same after the after the currency reform in 1968. The change from franc métropolitain to franc français (FF) required the alignment of the exchange rate of the F CFA to the new FF. The parity was of 50 F CFA to 1 FF (ibid). The franc des colonies françaises du Pacifique (CFP) was introduced in the francophone colonies in the Pacific. Its parity was of 1 CFP to 5,5 FM (see Banque de France 2002: 2f.).

\textsuperscript{19} See Banque de France 2002: 4f.

\textsuperscript{20} See Banque de France 2002: 3f.

\textsuperscript{21} See Banque de France 2002: 4. Mali left the UMOA in 1962, but wanted to re-join it in 1967 (Banque de France 2002: 4 and Treydte 1973: 14). With the demand of re-application, Mali had to devalue its currency, the franc malien, by 50% (see Ziemer 1993: 253). Mali obtained its full membership on June, 1 1984 after having assigned the privilege of currency issue to the BCEAO (see Banque de France 2002: 4).

\textsuperscript{22} See Afriqueweb.

\textsuperscript{23} See Banque de France 2002:10. The treaty of the monetary co-operation between France and the UMOA was signed in 1973, but came into force on January 22 1984 (see République française 2004).
3. free convertibility of the two different F CFA and the franc comorien within the franc zone at a fixed parity;
4. centralization of the foreign exchange reserves transactions, e.g. the associated African states had to maintain at least 65 % of their foreign assets on their operation accounts with the French Treasury. These foreign assets benefited from a currency guarantee within the special drawing rights regime of the IMFP24.

Even though the French Treasury observed the foreign exchange transactions on the operation accounts at any time25 and, considering the fact of the unlimited cover of these accounts, the functioning of the principles mentioned above was backed up by an additional safety net. In order to keep a strict monetary discipline and to avoid an unsustainable debt position the West African central bank had to stick to the following preventive measures26:

1. If the balance between the net foreign assets and the sight liabilities of the central bank goes below the limit of 20 percent for three consecutive months, the council administration of the central bank has to normalize the balance with the adoption of appropriate measures such as the increase of the central bank's interest rate or the refinancing rate.
2. In the case of an occurring illiquidity of its operation accounts the statute of the BCEAO foresees the withdrawal of its own foreign assets (except French franc) held in the operations account. Additionally, the BCEAO has to demand the transfer of the foreign assets held by privates and officials in its member states in exchange for F CFA27 and it has to invite its member states to execute their special drawing rights at the IMF.
3. The BCEAO is allowed to provide credits to the government of its member states in the limit of 20 percent of the country's government revenue of the previous year.

France’s influence on and its insight in the monetary policy of its former colonies is not limited to the supervision of the operation accounts. The BCEAO is represented in each of its member states by an agency and a sub-committee, the Comité National du Crédit. Each West African member state and France sends one representative to the seven national credit committees28.

On the basis of majority decisions, these committees control the national borrowings and fix the amount of financial means required for the realisation of the economic activities and development projects29.

With France guaranteeing a fixed parity for the F CFA and the independence of the BCEAO against political influences30, the WAMU was able to pursue a continuous monetary policy with a low inflation rate31.

Following the theoretical argumentation, a low inflation rate enables the improvement of the real terms of trade and diminishes the expectations of future devaluations in order to stabilize

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24 After the introduction of the Euro, France maintains the currency guarantee of the F CFA (see Banque de France 2002: 10).
25 See République française 2004.
26 See Banque de France 2002: 11. A description of the functioning of the safeguard measures of the other central banks is described in Banque de France 2002: 11.
27 See BCEAO 1962, article 18 section 1.
28 See BCEAO 1962, article 53. In 1997 Guinea Bissau joined the WAEMU and BCEAO. By then the country also had a BCEAO agency and a national credit committee on its territory.
29 See BCEAO 1962, articles 56 and 58. In the occurring case of a stalemate the chairman’s vote is predominant (see BCEAO 1962, article 55 section 5).
30 See CBEA 1962, article 4 section 1. According to Treydte (1973: 16) France can sway the decision of the BCEAO with its 1/3 majority in the council administration. The status of the BCEAO and the UMOA treaty do not proof such an opportunity (see BCEAO 1962 and UMOA 1973).
the economic and monetary situation of a country or region. In contrast to that, the need to devaluate the currency increases the inflation rate if no other economic counter-measures are implemented.

Against this background and despite the potential positive effects of the “import” of monetary stability, the inability of devaluing the F CFA without France’s consent was accompanied by the fact that the impact of potential advantages of a monetary union was limited in the WAMU. The promotion of intraregional trade and investment fell short of expectations. So did the minimization of the transaction risks and costs. Due to the sub-optimal harmonization of the national politics and a persistent stability problem, the improvement of commercial relations in francophone West Africa remained at a low level between 1959 and 1994. The unsatisfying economic integration forwarded the conversion of the WAMU to the West African Economic and Monetary Union (WAEMU) in 1994.

**The Economic Integration**

**The Conseil de l’Entente**

In 1959, in the course of the decolonisation process, the West African Federation (Afrique Occidentale Française, AOF) fell into two political blocks. The short lasting Mali Federation with Mali and Senegal on one side, and its institutional and political counterpart the Sahel-Benin-Union with the Ivory Coast, the main initiator for building this union, Dahomey (now Benin), Upper Volta (now Burkina Faso) and Niger on the other side. The Sahel-Benin-Union changed its name into Conseil de l'Entente the same year and was joined by Togo in 1966.

The alliance between the two Sahel countries, Upper Volta and Niger, and the two coastal countries, the Ivory Coast and Dahomey, was more than obvious if one considers their long lasting integration. Since the time of the AOF, the coastal areas were and to some extent still are the main destination points for labour migrants coming from the Sahel zone. According to their geographical position and taking into account their importance in foreign trade, these countries have been the main transfer point for imports and exports of the region and from third countries.

Seeing itself as a political and economic union, the main objectives of the Conseil de l’Entente were the harmonisation of its member states policies and the realisation of development projects within its borders. One development project was to coordinate the member states’ competences and efforts and to strengthen the international competitiveness of the tourism sector in francophone West Africa. The promotion of the landscape, the flora and fauna, the lifestyle and the harmonisation of the hunting, tariff and police formalities were part of this project.

Considering itself as a free trade area with a common external tariff and unified harbour, railway and highway sector policies, the Conseil de l’Entente gave up its political aims in favour of economic ones. Furthermore, after the transformation of the solidarity fund into the member states should surmount their budgetary deficits with the help of the solidarity fund (see Church...
an aid and solidarity fund in 1966, the development issue became more important. Little and medium-sized enterprises, foreign agricultural investments and the tourism sector were financially supported within the framework of the aid and solidarity fund (Fonds d'Entraide et de Garantie des Emprunts du Conseil de l'Entente (FEGECE)).

Profiting from the long lasting border disputes between Dahomey and Niger which led to a deviation of the labour migration and the trade flows from the Sahel to the Ivory Coast and being the most important contributor to the FEGECE, the Ivory Coast was able to enlarge its influence within union continually.

Whilst the Conseil de l'Entente is still in power, one of its five special organizations, the Communauté Économique du Bétail et de la Vente (CEBV) which is responsible for the implementation of a uniform livestock promotion and production, was incorporated in the WAEMU in 1994 on France's advise.

The West African Customs Union

Despite the political discrepancies between the single West African states and the block building mentioned above, the Ivory Coast, Dahomey, Mali, Mauretania, Niger, Upper Volta and Senegal joined together and founded the West African Customs Union (Union Douanière de l'Afrique de l'Ouest, UDAO) on June 9, 1959. The UDAO was the direct successor of the West African Federation (AOF). The full realization of the intended customs union was mainly delayed by the rivalry between the two economic and political powerful UDAO members Senegal and the Ivory Coast. Leaving the leadership problem unsolved, the economic co-operation was reorganized in 1966 and the UDAO was replaced by the Customs Union of West African States (Union Douanière des États de l'Afrique de l'Ouest, UDEAO).

The new union intended to maintain and to foster the trade relations of its member states by reducing the import tariffs of the products being fabricated within the UDEAO region. Another purpose of the UDEAO was the implementation of the following measures:

- Introduction of common external tariffs for products coming from third countries, except member countries of the franc zone and the European Community who benefited from preferential tariffs;
- Introduction of an internal duty of 50 percent for products coming from third countries which are similar to UDEAO products. The member states were free to raise the duty up to 70 percent in the case their industries were threatened by the imported goods;

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43 1969: 55.
46 See Ministère des Affaires étrangères et européennes, Structure. Within the framework of technical and financial co-operation between France and the Conseil de l'Entente, the CEBV was transferred to the WAEMU on France's advice (see Ministère des Affaires étrangères et européenne, Relations bilatérales). Being in charge of the equipment of the tourism sector, the Sorentente was controlled by national authorities from 1985 on and two special units of the Conseil de l'Entente being transferred to the ECOWAS, only the Ivorian education and formation centre (Centre Régional de l'Enseignement et de l'Apprentissage) remained in the Conseil de l'Entente (see Ministère des Affaires étrangères et européenne, Structure).
48 See Baumhögger 1988: 481f.
49 See Tamboura 1972: 313.
50 Following Treydte 1973: 23f., own completion.
51 Due to the coexistence of the Conseil de l'Entente and the UDEAO, the overlapping of measures like the introduction a common external tariff in the different sphere of activities of the two unions was inevitable.
Free movement of goods within UDEAO borders. In the case of an occurring deficit in a country’s foreign trade position, a temporary introduction of intra-regional import quotas was permitted. Even though these ambitious measures were important for the UDEAO member states’ development process, its outcome remained unsatisfactory. The non-existence of institutions or a secretary general had a negative effect on the information flow and the decision-making process within the UDEAO.

Another reason for the UDEAO failure was the member states’ fiscal arbitrariness with regard to their levy of unannounced and additional financial import and export burdens which had a negative effect on the countries’ balance of trade.

The fiscal disadvantage could have been minimized, if the UDEAO had implemented a tariff pool. The financial means of such a pool could have been used to compensate economically disadvantaged member states.

The concentration on development effects only and the neglect of additional development-related economic reasons, persuaded the heads of state of the UDEAO countries to reconstitute the union after four years.

The West African Economic Community

On June 3, 1972 the only two countries in the region with an industrial structure worth mentioning, the Ivory Coast and Senegal, respectively, and the economically less developed and poorer countries Dahomey, Mali, Mauritania, Niger and Upper Volta brought the CEAO into being.

According to Baumhögger (1988: 482) the transformation of the UDEAO into the West African Economic Community (Communauté Économique de l’Afrique de l’Ouest, CEAO) can be ascribed to the Ivory Coast’s initiative.

Whereas to Foroutan (1992: 5) the driving force behind this third West African integration attempt was France. Interested in keeping up its long-lasting monetary and economic relations to and influence in the francophone region, France wanted to counterbalance the integration attempts of anglophone West African around its political and economic centre Nigeria.

The UDEAO treaty and bilateral treaties among the CEAO member states stayed in force until 1974.

The pure tariff orientation of the UDEAO was replaced by an organized exchange zone. The main characteristics of this newly organized interstate trade were the following:

1. introduction of a common import tariff and harmonization of the different duty and tariff regulations within the region;
2. intensification of the cooperation in different sector policies;

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55 Ibid.
60 See Foroutan 1992: 5.
62 See CEAO 1972, article 49 and Tamboura 1972: 324. In exceptional cases, the bilateral agreements can stay in force after 1974 (ibid).
64 See CEAO 1972, article 6 section 1 dash 1 in combination with article 16.
3. harmonization of investment and production conditions⁶⁶;
4. free movement of persons and capital and the implementation of a non-discriminatory legislation with regard to the right of establishment, investment and occupation⁶⁷;
5. implementation of a special preferential trade regime⁶⁸.

Agricultural commodities trade was free of regulations within the community⁶⁹ whereas the import of industrial goods produced in the CEAO was in some cases limited by the newly introduced preferential trade regime⁷⁰. Moreover, CEAO industrial goods were subject to the regional co-operation tax (Taxe de Coopération Régionale, TCR)⁷¹. Depending on their production facilities and their development efforts, the CEAO member states were allowed to vary the TCR level from product to product and from export country to export country⁷².

In order to reduce the imbalances between the single member states, the losses in tax revenue of the economically weakest CEAO members were compensated by financial transfers from the union's development fund, Fonds Communautaire de Développement (FCD)⁷³. A member state's contribution to the FCD varied with its export share of industrial goods which were subject to the regional co-operation tax TCR⁷⁴. In this context, it is not surprising that, due to their economic power, the Ivory Coast and Senegal were the main contributors to the FCD⁷⁵.

Both countries predominantly financed the second disparity minimizing instrument introduced in the CEAO framework, the solidarity fund (Fonds de Solidarité et d'Intrvention pour le Développement Économique de la Communauté (FOSIDEC)), respectively. Member states with a weak economic performance were allowed to obtain credits and subsidies from the FOSIDEC in order to finance their development projects⁷⁶.

As the introduction of the different support measures in the CEAO framework was on behalf of the landlocked countries, the preferences of the economically smaller Mali, Niger, Upper Volta and Dahomey and those of the powerful Ivory Coast and France were reconciled⁷⁷.

Despite its ambitious objectives, the CEAO had to face several obstacles since its foundation. The export of tropical fruits, groundnut and cotton being the economic backbone of most CEAO members, the regional trade lacked of a relevant economic basis and remained inferior. Additionally, the weak infrastructure of the landlocked countries and the concentration of the manufacturing sector on coastal areas, especially on the Ivory Coast and Senegal, led to a concentration of the trade flows on both economic centres. Benefiting from such a one-directional intraregional trade the economic exchange between both countries increased⁷⁸.

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⁶⁵ The co-operation within the CEAO was focussed on the following sectors policies: agricultural and industrial development, trade and production promotion, commercialisation of livestock, transports and telecommunications (CEAO 1972, articles 23 – 28).
⁶⁶ See CEAO 1972, article 29.
⁶⁷ See CEAO 1972, article 39.
⁶⁸ See CEAO 1972, article 6 section 1 dash 3.
⁶⁹ See CEAO 1972, article 6 section 1 dash 2 in combination with article 7 to 9.
⁷⁰ See CEAO 1972, article 6 section 1 dash 2 in combination with article 11 and 12.
⁷¹ See CEAO 1972, article 11-16. For a detailed description of the functioning of the regional co-operation tax see Badiane 1996: 183.
⁷² See Badiane 1996: 183.
⁷⁴ See CEAO 1972, article 34 sentence 3.
⁷⁶ Ibid.
⁷⁷ See Treydte 1973: 25, 28f.
⁷⁸ See Treydte 1973: 30f.
Another obstacle the CEAO had to face was the multiple memberships of its member states and the resulting conflict of aims. Apart form the financial development support of different funds in favour of the countries with a weak economy, the introduction of a common external tariff was an intersection with the objectives of the Conseil de l'Entente. The intensification of the economic co-operation among its members was another aim also pursued by the Organisation Commune Africaine et Mauricienne (OCAM). From 1965 until its dissolution in 1985, Dahomey, the Ivory Coast, Mali, Niger, Senegal, Togo and Upper Volta were members of the OCAM.

The most important intersection resulted in 1975 when the Economic Community of West African States (ECOWAS) was founded by the anglophone, francophone and lusophone states of West Africa. The ECOWAS committed itself “to promote co-operation and integration, leading to the establishment of an economic union in West Africa in order to raise the living standards of its peoples, and to maintain and enhance economic stability, foster relations among Member States and contribute to the progress and development of the African Continent.”

Regardless of the comprehensive ECOWAS targets some instruments show parallels to CEAO instruments. In addition to the insertion of compensation and a development fund, the ECOWAS intended to implement the following steps on its way to a common market:

1. the liberalisation of trade by the abolition, among Member States, of customs duties levied on imports and exports, and the abolition among Member States, of non-tariff barriers in order to establish a free trade area at the Community level;
2. the adoption of a common external tariff and a common trade policy vis-à-vis third countries;
3. the removal, between Member States, of obstacles to the free movement of persons, goods, service and capital, and to the right of residence and establishment.

The economic congruence of some aspects between the ECOWAS and the CEAO can also be found in the monetary sphere, with an insertion of the ECOWAS and the zone franc. In addition to the intended economic integration, the ECOWAS wants to promote its monetary and financial integration by harmonising and facilitating the intra-regional payments transactions, improving the multilateral clearing system, introducing a single currency and last establishing a common currency zone.

In the course of repeating quarrels between its member states because of the imposition and the level of the regional co-operation tax, the CEAO was dissolved by March 14, 1994 and replaced by the West African Economic and Monetary Union (Union Économique et
The literature leaves it open if the numerous overlapping of aims favoured the CEAO's dissolution.

The existence of different and partly parallel attempts of economic integration with an overlapping set of objectives undermined the success of the economic and monetary co-operation of francophone West African states.

**The West African Economic and Monetary Union**

In the light of the low degree of economic integration and a weakened monetary co-operation of the past, the Heads of State and Government of Benin, Burkina Faso, the Ivory Coast, Mali, Niger, Senegal and Togo founded the West African Economic and Monetary Union (Union Économique et Monétaire Ouest-Africaine, UEMOA) on January 10, 1994 in Dakar/Senegal.

Seeing itself in the tradition of the UMOA, its monetary branch, the new union completed the monetary objectives by introducing different areas of competence, reorganizing its sovereignties and including several targets of its economic predecessors.

The following aims are to be implemented under the WAEMU:

1. Strengthening the economic and financial competitiveness of the member states within the framework of an open and competitive market with an harmonized juridical environment;
2. Ensuring the convergence of the different economic policies of the member states and their economic performance with the help of a multilateral monitoring process;
3. Establishing a common market by guaranteeing the free movement of persons, goods, services and capital, the right of establishment for self-employed and employed persons and introducing a common external tariff and a common trade policy;
4. Co-ordinating national sector policies by realizing common actions and coming to an understanding on a common procedure in the areas of labour, environmental planning, transport and telecommunication, environment, agriculture, energy, industry and mining;
5. Harmonizing the legislation of the member states, especially the tax regime, in order to support the functioning of the common market.

In accordance with the theoretical argumentation in part one, the following section concentrates on a brief assessment of the objectives mentioned above and their contribution to trade, regional integration and development. The analysis will be based on a short macro- and socioeconomic characterization of the WAEMU member countries and the actual situation of convergence in the region.

Seven of eight WAEMU member states are classified as low income and least developed countries whereas the Ivory Coast, the member state with the highest population rate in the WAEMU, is the only country in the union being classified as low middle income country. Even though the Ivorian civil crisis which started in 2002 was accompanied by a shrinking gross national income per capita, in 2004 the Ivory Coast was still the WAEMU country with

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88 See Lavergne 1996: 43.
89 See UEMOA treaty 1994, preamble sentence 7 and article 2.
90 See UEMOA treaty 1994, article 4.
91 The characterisation and analysis of the WAEMU is based on the tables 1 to 5 in the appendix.
92 The United Nations classify the every country by its development status and its income. The income margin for low income countries (LIC) is 755 US$ per annum. The margin for lower middle income countries (LMC) is from 756 to 2995 US$ per annum.
the highest GNI per capita (770 US$)\textsuperscript{93}. In correspondence with its low total consumption (79.5\% of GDP) and with regard to the share of exports and imports of GDP, only the Ivorian trade balance showed a surplus in 2004. The other WAEMU countries performed deficits in their trade balances, mainly due to high shares of total consumption to GDP (around 90\%)\textsuperscript{94}.

In view of the economically inferior position of most of the WAEMU member states in comparison to the rest of the world and the socio-political instability of the Ivory Coast which led to migratory pressures in the surrounding countries, Mali and Burkina Faso, respectively\textsuperscript{95}, the new integration process started with a devaluation of the F CFA in 1994. The Heads of State and Government of the union's member states agreed on the devaluation in order to meet the challenges mentioned above and to boost the economic development in the union by enhancing the competitiveness of their commodities.

The devaluation had become inevitable as the massive deterioration of the terms of trade in the period from 1985 to 1992 (-45\%) in the CFA zone and the incapacity of the governments to reduce their budgetary expenditures\textsuperscript{96} (especially the excessive consumption of fiscal resources caused by high public wage bills\textsuperscript{97}) precipitated a decline of the external competitiveness of the CFA zone and an increase of the budget deficit and a high inflation rate (35 \% in 1994)\textsuperscript{98}. It was an appropriate monetary measure with which the WAEMU member states wanted to counteract the growing macroeconomic instability of the region and to maintain France’s monetary reinsurance\textsuperscript{99}.

The effects of the devaluation are complex. The economic activity was resuscitated and became more flexible. The devaluation stimulated the reorganisation of the public finance sector which in return should foster economic growth in the medium-term. In addition to that, with the change of the F CFA parity the WAEMU member states were given the opportunity to boost the regional integration by increasing the share of intra-regional trade\textsuperscript{100} and by harmonising the fiscal and tariff regulations in the region since 2002. Since then, several decisions and regulations have been adopted\textsuperscript{101}. With the agreement on the introduction and implementation of a tariff and statistic nomenclature for a common external tariff in 2002 and slight modifications in the following years\textsuperscript{102}, the process of tariff standardisation seems to be completed whereas the fiscal standardisation is still in progress. Another positive effect of the devaluation of 1994 was the growing conscience for the necessity to reinforce macroeconomic convergence in the CFA zone and for the solidity of the common currencies of the two francophone monetary unions.

In the light of the adjustment process which followed the events of 1994, the WAEMU countries adopted a regional Convergence, Stability, Growth and Solidarity Pact in 1999 based on the respect of a catalogue of convergence criteria by its member states. This set of criteria can be divided in two categories, primary and secondary criteria, respectively\textsuperscript{103}.

\textsuperscript{93} See table 1 in the appendix.

\textsuperscript{94} See table 2 in the appendix. A detailed composition of the share of GDP by sector is given in table 3 in the appendix.

\textsuperscript{95} See McGowan 2005: 6.

\textsuperscript{96} See IZF a.

\textsuperscript{97} See Rama 2000.

\textsuperscript{98} See IZF a and b.

\textsuperscript{99} The replacement of the FF by the Euro as a common European currency had no effect on the existing monetary co-operation between France and its associated monetary partners in Africa.

\textsuperscript{100} Considering the data of table 4 in the appendix, the WAEMU countries have reached a higher degree of regional integration in trade than their regional counterpart, the ECOWAS.

\textsuperscript{101} See UEMOA a.

\textsuperscript{102} See UEMOA b.

\textsuperscript{103} Table 5 in the appendix highlights the general margins of the different WAEMU criteria and the country-based compliance with these criteria in 2006.
The most important criterion is the basic fiscal balance whose ratio to nominal GDP must be 0 percent or more and which should enable the WAEMU member states to implement a sustainable fiscal policy. The non-respect of this criterion initiates a sanction mechanism which, in the worst case, can lead to the withdrawal of public financing and the suspension of tendering procedures in the country in question. Three other indicators (average annual inflation rate, outstanding domestic and foreign debt in relation to nominal GDP, no accumulation of domestic and external payment arrears in the current financial period) are part of the set of primary criteria. If one of these criteria is not respected the WAEMU Council of Ministers is entitled to formulate explicit recommendations the member state in question has to implement. Another four secondary criteria (public wage bill to tax revenue, domestically financed public investment to tax revenue, current external deficit excluding grants to nominal GDP and tax-to-GDP ratio) have to be respected by the WAEMU countries; if not, recommendations formulated by the same board have to be implemented in the medium-term.104

In contrast to the success of the increase of intra-regional trade and to some extent to that of the harmonization of fiscal and tariff regulations, the process of convergence seems to be the Achilles tendon of the WAEMU.

According to the latest WAEMU report on the multilateral surveillance of June 2007, only three countries (Benin, Mali and Niger) respected the first criterion. The ratio of the basic fiscal balance to nominal GDP of the other member states fell short of the set margin of 0.

The implementation of the growth cum debt-development strategy of prior decades is causally related to the unsustainable fiscal position of most WAEMU countries of today. In accordance with this strategy, the countries in question tried to raise their financial means on their own by taking loans in order to boost their economy in critical periods and to pay off the outstanding amount in economically good times. For several reasons this strategy was not successful and the WAEMU member states accumulated a high position of external public debt in the past which additionally limits positive economic impacts in the present.

In order to minimize their external debt position, all eight WAEMU member states where among the first countries who participated in the initiative for “heavily indebted poor countries” (HIPC) aiming at reducing the debt position on a sustainable level. Since the beginning of the initiative in 1996, only five of the WAEMU member states have reached the completion point as they maintained macroeconomic stability under a PRGF-supported program and carried out key structural and social reforms, and implemented satisfactorily a Poverty Reduction Strategy for one year. Guinea Bissau attained the decision point whereas Togo and the Ivory Coast remained at a stage of pre-decision.

The compliance of the WAEMU countries with the other three primary criteria is better whereas the countries' compliance with the secondary criteria is more sobering. No WAEMU member state met the tax-to-GDP ratio and only one of eight countries respected one of the remaining criteria.

With reference to the Commission of the WAEMU, the main reason for the diverse picture of the countries' compliance with the union's criteria is their inability to benefit from the

104 For detailed information on the sanction mechanism see Article 64 to 75 of the WAEMU Treaty (UEMOA 2003).
105 The main reasons cited in the literature for the failure are bad investment, embezzlement and misuse of the loans, inappropriate conduct of structural adjustment programmes, see for example Kohnert 2005: 2f.
106 See AfdB 2006, country fact sheets.
108 PRGF is an acronym for poverty reduction and growth facility.
110 See table 5 in the appendix.
111 See UEMOA 2007: 6f.
global consolidation in economic growth. Regardless of the sensible slowdown of annual economic growth the two economically largest countries in the union, Senegal and the Ivory Coast, respectively, had to face in the period from 2000 to 2004, an important obstacle to economic growth is the low degree of export diversification in the WAEMU\textsuperscript{112}.

The variety of the WAEMU exports is limited to contributions of the agricultural and mining sector whereas the imports are mainly manufactures\textsuperscript{113}.

Considering the uncertainty of the production output due to the high dependency of the cash crop cultivation on favourable weather conditions and the price volatility on world markets, the focus on primary commodities\textsuperscript{114} exposes the WAEMU to income fluctuations.

With regard to the low share of gross domestic savings, private investments and domestic credits given to the private sector of GDP\textsuperscript{115} and given the high expenditures for transfers and subventions related to wage rises, personnel recruitment and the improvement of the administrative functioning, the fiscal situation in the union remains precarious.

In addition to that the irregular supply with electricity provoked a drop in the production of different enterprises for consecutive trimesters and affected their competitiveness. On the other side, the slackness of the production of the industry sector hinders the necessary reformation and reform process of enterprises (especially in the agricultural sector). It also induces an uncertainty for employment and a reduction of the taxation basis resulting from the drop in turnover.

Apart from the weak distribution of revenues and the increase of transfer expenditures for the support of weak industrial branches, it is the limited base of economic productivity and the persistence of socio-political crises in certain member states which determine for the unsatisfactory convergence in the WAEMU.

**Conclusion**

In contrast to the theoretical approach in which a gradual integration seems to be the best strategy for the co-operating partners to benefit from their comparative advantages, the co-operation among francophone West African states is an unorthodox example of regional integration. Regardless of the fact that the colonial legacy of the exceptional structure of the monetary co-operation with France backs the credibility of the common currency in the WAEMU at a regional and international level, it also handicaps the WAEMU’s possibilities of action taking in minimizing negative effects of external shocks by using the instrument of devaluation.

With regard to the persistent low export diversification resulting from the export concentration in agricultural commodities, both, the exclusion of the devaluation power and the fixed parity of the F CFA to the Euro, limit the long-term international competitiveness of the region’s goods.

On the other hand, the income fluctuations resulting from such an export focus increase the need to compensate the deficits by taking loans and boosting the region’s development, thus thereby accelerating the countries’ indebtedness. Additionally, the meaningfulness of the existing development paradigm arising from the Ricardian and Heckscher-Ohlin model is limited. Though the countries have concentrated on the export of goods in which they have a comparative advantage, the gains of trade and the contribution to development fell short of the expected results, thus favouring the *growth cum debt*-strategy.

\textsuperscript{112} See table 2 in the appendix.

\textsuperscript{113} See CIA 2007, country fact sheets. In addition to the export of cocoa, coffee and cotton, some WAEMU countries export mining products like Niger uranium and Mali gold.

\textsuperscript{114} See EU 2003: 2.

\textsuperscript{115} See table 2 in the appendix.
In order to avert a new debt crisis and to contribute to diminution of the socio- and macro-economic heterogeneity in the WAEMU by fostering their economic development, the intended economic partnership agreement with the European Union should consider the comparative advantage of the WAEMU in primary commodities and not subject the agricultural sector and its manufacturing branch to reciprocal economic agreements. The EPA should rather include an appropriate catalogue of measures to promote the productivity and trade capacity of these sections instead. A first step in this direction could be the co-operation of farmers in co-operatives and the implementation of co-operative banks. The improvement of the coordination between the farmers and the access to money could have another positive side effect: the social safety net in rural areas could be built up or extended. Assuming that there are similar organizations in rural areas, they should undergo a reform in order to become more efficient and reflect the local needs.

With regard to the existence of two trade hubs in the WAEMU and the unstable socio-economic situation in the Ivory Coast, the extension of additional trade centres in different areas in the region could minimize the trade-flow dependence of land-locked countries and external trading partners on the political conditions in two countries. On the other hand, such a diversification could strengthen the integration of the region and contribute to a minimization of the macro- and socio-economic disparities of the member states. In view of the limited financial and technical capacity of the developing countries in creating a trade- and development-related infrastructure, the European partners could fill that gap by elaborating public-private-partnership programmes (PPP) in their countries which meet the needs of their developing partners. If the agreements on PPP follow the course of objective public procurements, the competition criterion is respected and the need for additional reciprocal agreements in other economic sectors becomes obsolete.

Besides the purely trade-related side of the EPAs, the success of the WAEMU depends particularly on the seriousness of implementing several policy measures like the adoption of a regional Convergence, Stability, Growth and Solidarity Pact or the tariff and statistic nomenclature for a common external tariff.

In that context, a political dialogue with the European Union could have a positive impetus on the WAEMU on how to deepen their regional integration considering the experiences the EU made in its integration process.

The success of an inter-regional economic co-operation depends in particular on the consideration of the negative effects of the historical incidents the WAEMU member states still keep struggling with and the internal difficulties they are currently facing and which they have to solve in order to respect their convergence criteria. If those aspects are not fully contemplated and a clear declaration of belief in development is missing in the ongoing EPA talks, the accomplishment of the EPA might be limited to the implementation reciprocal trade with unpredictable negative effects for the WAEMU. The degree of reciprocity might just tip the scales for a potential failure.
References


EU (European Union)(2003): EU-Western Africa Trade.


Oxfam (2006): Unequal partners: How EU-ACP Economic Partnership Agreements (EPAs) could harm the development prospects of many of the world’s poorest countries, Oxfam Briefing Note, September.


## Appendix

### Table 1  Development indicators of the WAEMU countries

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<td></td>
<td>thousands of sq km</td>
<td>in millions</td>
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<td>in US$</td>
<td>Average annual growth (%)</td>
<td>Years</td>
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**Notes:**
LDC = least developed country  
LIC = low income country (margin : 755US$)  
LMC = lower middle income country (margin: 756 -2995 US$)  
ODA = official development assistance

**Sources:** AfDB 2005, country fact sheets; AfDB 2006, country fact sheets;UNCTAD 2005, country fact sheets; World Bank 2006, own calculations.
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<th>GDP growth</th>
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*Sources: AfDB 2005, country fact sheets; AfDB 2006, country fact sheets; UNCTAD 2005, country fact sheets; World Bank 2006, own calculations.*
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<td>(% of GDP)(^1)</td>
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Notes:
\(^1\) own calculation

Source: AfDB 2006, country fact sheets, own calculation.
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**Notes:**
1) own calculation
2) ECOWAS without Mauritania

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Source: UEMOA 2007: 100.
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