THE CENTRAL AFRICAN CUSTOMS UNION

THE CENTRAL AFRICAN CUSTOMS AND ECONOMIC UNION:

THEORY AND PRACTICE

by

FATEMEH P. LEGENDRE, B.A.

A Research Report

Submitted to the School of Graduate Studies

in Partial Fulfillment of the Requirements

for the Degree

Master of Arts

McMaster University

October, 1975

MASTER OF ARTS (1975) McMASTER UNIVERSITY
(Geography) Hamilton, Ontario

TITLE: The Central African Customs and Economic Union: Theory and Practice

AUTHOR: Fatemeh P. Legendre, B.A. (National University of Iran)

SUPERVISOR: Dr. Michael J. Webber

NUMBER OF PAGES: x, 131

ABSTRACT

This paper is an attempt to examine the effects of economic integration in the Central African Customs and Economic Union. The focus is on one form of economic integration, the customs union. A review of the theoretical literature indicates that customs unions should bring changes in the patterns of production, consumption and trade of the countries involved, and would be advantageous through the enlargement of markets, stimulus to investment and competition. From the locational point of view, the formation of customs unions could aggravate the clustering tendencies of industries to few attractive locations resulting in a polarized form of development.

The examination of the Central African Customs and Economic Union shows that little change has been achieved in the first decade of the union. It appears that the traditional theory of customs union which was originally designed for the industrial countries is of limited applicability for the developing countries. It is suggested in the paper that the theory should be adapted to the particular characteristics and needs of developing countries and that, since economic integration is partly based on concepts from the location theory, more work is needed to examine economic integration and customs union in the context of location theory.

ACKNOWLEDGEMENTS

I wish to express my gratitude to my advisor, Dr. Michael Webber for his support and his judicious advice in the completion of my M.A. studies.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF MAPS AND FIGURES

INTRODUCTION

Since the United Nations Conference on Trade and Development (UNCTAD) of 1964,[1] the climate of international opinion in relation to the formation of discriminatory trading agreements among less developed countries has become more favourable. The conference recommended that regional integration should be promoted among developing countries.

The main purpose of this paper is to discuss the rationale supporting regional economic integration in order to shed light on the case of the Central African Customs and Economic Union,[2] its problems and prospects which are similar to most developing countries since they generally share similar economic characteristics: low income, widespread unemployment and underemployment of resources, poorly developed linkages, absence of external economies, and the prevalence of small-scale industry and market. I have chosen the Central African Customs and Economic Union for several reasons. Non-economic barriers (like language, customs, etc.) are less important in these countries since they were colonies of France and there have been long-term economic ties between them. Moreover, in terms of geographic location, they are adjacent territories, a characteristic which is absent in some cases such as some of the Latin American unions. Another important factor which any effective integration demands

---

[1] See Conference on Trade and Development, Vol. I, Final Act and Report, 1964, p. 11.

[2] Or Union Douanière et Economique d'Afrique Centrale (UDEAC). I will use the term UDEAC most of the time in the rest of the paper.

is partners' willingness to cooperate closely. This willingness has been shown by the members of the Central African Customs and Economic Union in the establishment of fiscal policies and monetary integration and of different harmonization plans covering investment and development.

In the first part of this paper, I will deal with the theoretical analysis of the custom union which is the form of economic integration that the members of the "Union Douanière et Economique de l'Afrique Centrale" (UDEAC) have selected. The theory is discussed in three sections: (1) static aspects, (2) dynamic aspects, and (3) related regional analysis. This is followed by an overview of fiscal harmonization and monetary integration. The second part of the paper comprises the empirical analysis of the Central African Customs and Economic Union. In conclusion, the relevance of the theory of customs union for developing countries is assessed by examining the results obtained from the case study and, at the end, some recommendations are made.

I. THEORETICAL ANALYSIS

The customs union is one of the basic forms of economic integration. According to the definition given in the General Agreement on Tariffs and Trade, a customs union must meet the following requirements: (1) the elimination of all tariffs and other forms of trade restrictions among the member countries; (2) the establishment of uniform tariffs and regulation on foreign trade with non-member countries.[1]

---

[1] GATT, Basic Instruments and Selected Documents, Vol. 1 (Geneva, 1952), Part III, Article XXIV, Sec. 8 (a).

Customs union models usually include two or more countries forming the union and a non member country representing the rest of the world. The theory is concerned with an explanation of the economic effects of integration. In general, it is treated as a branch of the tariff theory which deals with the effects of geographically discriminating changes in trade restrictions.[1] The theory may constitute an application of the theory of second best[2] if the formation of a customs union increases the aggregate welfare by bringing the world closer to the best solution. The best static solution being universal free trade because this satisfies the Pareto optimum condition, a customs union could represent a step toward universal free trade since it expands the area of free trade.[3] (The remaining constraint here is the tariff against the non-member countries.)

The theory tends to be welfare oriented. This orientation raises the question of whether the formation of a customs union leads to a welfare gain or to a welfare loss for the union members and the rest of the world. The answer to this question is not easy. It is difficult to determine the net effect of a customs union on aggregate welfare. If a change makes one or more persons better off, but, at the same time, one or more persons worse off, it is very difficult to determine the net

---

[1] R. G. Lipsey, "The Theory of Customs Unions: A General Survey", Economic Journal (September, 1960), p. 496.

[2] R. G. Lipsey and K. Lancaster, "The General Theory of the Second Best", RESTUD (1956-1957).

[3] J. Viner, The Customs Union Issue (New York: The Carnegie Foundation, 1950).

effect.[1]

In the following section on the static aspects of customs union, I examine the production effects, the consumption effects and the terms of trade without reformulating them in terms of welfare economies which is not the concern of this paper. In the second and the third sections, the dynamic and locational aspects of the theory which are both more important than the static aspects for the developing countries will be successively discussed.

A. The Static Aspects of Customs Unions

1. Production Effects

The formation of customs unions usually shifts the locus of production of some commodities. When the shift is from a high-cost source to a lower cost source, it is considered a positive effect and called trade creation. When the shift is from a low cost source to a higher cost source, it becomes a negative effect called trade diversion. If the positive effects (trade creation) exceed the negative effects (trade diversion), the efficiency of resource use will improve.[2] The distinction between the trade creating and the trade diverting effects of a customs union was first made by Viner.[3] His theorem was based on the following assumptions: perfect competition, constant cost,

---

[1] M. O. Clement, R. L. Pfister and K. J. Rothwell, Theoretical Issues in International Economics (New York: Houghton Hifflin Co., 1967), p. 176.

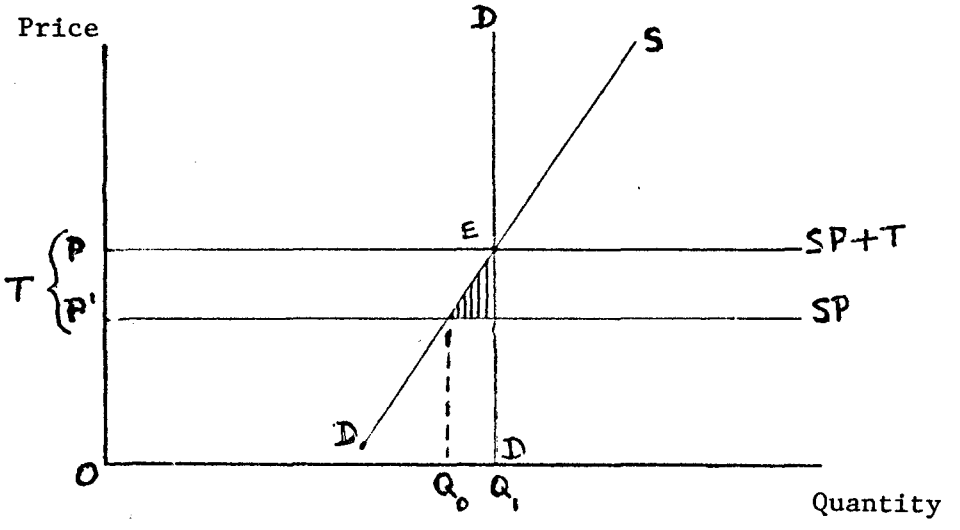
[2] Bela Balassa, The Theory of Economic Integration (Homewood, Ill.: R. D. Irwin, 1961), p. 23.

[3] Viner, op. cit.

zero transportation cost between countries, and uniform tariff. Moreover, he analyzed the production effect under the assumption that the pattern of consumption remains unchanged. Thus the demand curve of the union can be drawn as perfectly inelastic. This can be demonstrated in the following graphical analysis.

Figure 1 represents a situation of trade creation as a result of the formation of a customs union. It is assumed that countries A and B form a customs union. DS represents the domestic supply and DD the domestic demand (perfectly inelastic because of the assumption that the pattern of consumption remains constant) of country A. (SP is country B's supply curve which, under assumed constant cost of production, is perfectly elastic.) The initial equilibrium in A is at point E and the price is P. The domestic production supplies all the demand. After the formation of the custom union, the supply price in country A becomes P'

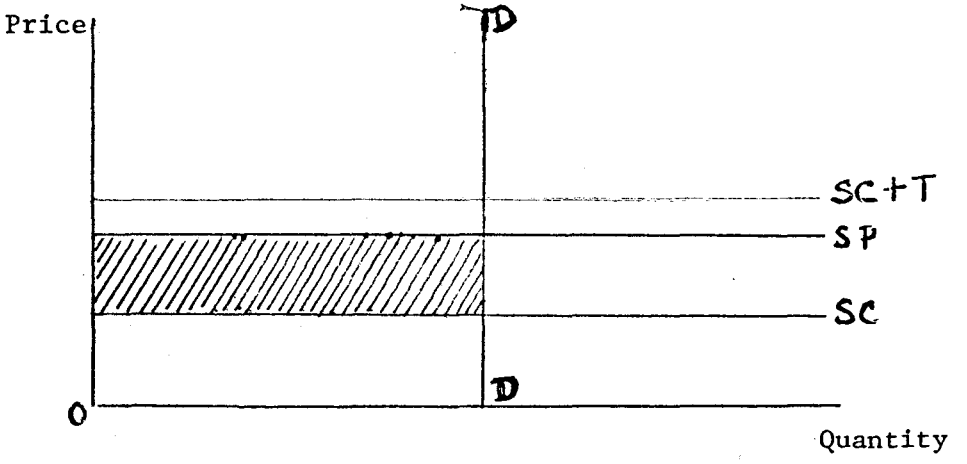
FIGURE 1



(the supply price of country B). The difference between P and P' represents then the amount of the tariff (T) which was previously imposed by A to imports in A from B. Under the new situation, domestic production is cut down to Q_o with domestic demand at Q_i. The partner country (country B) supplies Q_oQ_i. The shaded triangle represents the gain from trade creation and the saving of resources since some of the production is shifted from a less efficient to a more efficient source of production.

The case of trade diversion is similar. DD is again perfectly inelastic. SC is the world supply price (country C represents the world) and SP country B's supply price (partner country). Before the union, the home country imports from the world plus tariff T along SC+T. After the union, the source is diverted to SP which, although below SC+T, is above SC (world supply price). The shade rectangle then represents trade diversion (see Figure 2).

FIGURE 2



Viner's assumption of constant costs of production (probably made in order not to obscure the concept of trade diversion) causes SC and SP to be perfectly elastic (so they provide all the needs of country A at the same price). When the assumption of constant cost is dropped, the extent of trade creation and trade diversion depends upon the relevant elasticities of supply. That is, the gain from trade creation is greater the higher the elasticity of supply in the member country. Similarly, the loss from trade diversion is greater, the higher the elasticity of supply in the non-member country. This basic theorem was later developed and revised by other writers.

In discussing trade creation and trade diversion, Meade[1] introduced the net economic gain or loss. He pointed out that the effect of a union on trade might have an effect on the unit cost of production. Thus one cannot safely assume a constant unit cost in all cases. Even when trade is diverted, the unit cost may be lowered. This beneficial effect may outweight the trade diversion effect. Therefore, Mead suggested that the absolute amount of trade creation and/or trade diversion be multiplied by the differences in unit cost of production. This suggestion means that a customs union on balance may be beneficial even though the amount of trade diverted outweighed the trade created. Among the factors which are important in determining the impact of a customs union on production efficiency are the complementarity or the competitiveness of the participating economies, the size of the union and the weight

---

[1] J. E. Meade, The Theory of Customs Unions (Amsterdam: North Holland Publishing Co., 1955).

of tariffs.[1]

a) Complementarity or Competitiveness of Participating Economies

Prior to Viner's book, Customs Union Issue (1950), the common view was that customs unions would be more beneficial among complementary economies than rival economies.[2] Complementary economies were defined as those with different patterns of production so that each economy tended to specialize in different products. Rival economies were defined as those with similar patterns of production. The argument was that, since the cost differences were greater between complementary economies than rival economies, the union of complementary economies was more apt to be beneficial by creating greater savings in costs.

Viner argued that a union among rival economies can be more beneficial because it can generate more trade creation than complementary economies.[3] Indeed, since rival economies which form a union are producing the same goods, the countries with the lower costs of production for each good can capture most of the union market. The result is more trade creation and a greater efficiency in the use of resources. In the case of a union of complementary economies, there could be a shift from a low cost supply from outside the union to a high cost partner producer which could cause trade diversion and a less efficient use of resources.

---

[1] Balassa, op. cit., p. 29.

[2] Clement et al., op. cit., p. 187.

[3] Viner, op. cit., pp. 51-52.

Meade,[1] Makower and Morton[2] and other students of customs unions distinguished rival and complementary economies on the basis of differences in comparative costs. Rival economies are those with similar cost ratios between pairs of products. Complementary economies are those with dissimilar cost ratios between pairs of products. They argued that, if a union creates trade, the gain will be greater the more dissimilar the production cost ratios of the goods involved in trade creation.[3]

b) Size of the Union

There are different opinions about the effect of the size of a customs union. Viner[4] and Meade[5] stated that the larger the area of a customs union, the greater will be the positive production effects. Everything else being equal, there will be a greater potential for internal division of labor because of the possibilities of reallocation of production and the larger market. In addition, the larger the union the less would be the possibilities of trade diversion.

Duncan and Hawtrey expressed the opposite point of view. Duncan[6] argued that the larger the size of the union, the greater will be the

---

[1]J. E. Meade, "The Removal of Trade Barriers: The Regional Versus the Universal Approach", Economica, (May, 1951).

[2]H. Makover and G. Morton, "A Contribution Towards a Theory of Customs Unions", Economic Journal (March, 1953).

[3]Makover and Morton, op. cit.

[4]Viner, op. cit., p. 51.

[5]Meade, The Theory of Customs Unions, op. cit., p. 109.

[6]G. A. Duncan, "The Small State and International Economic Equilibrium", Economica Internationale (November, 1950), pp. 933-943.

tendencies toward autarchy and more protectionist interests like large nations. Hawtrey[1] argued that the larger the union, the greater is the possibility of excluding goods from foreign producers, and consequently of causing greater trade diversion. Balassa commented that Duncan and Hawtrey's argument is not necessarily true and that their conclusion depends on the type of countries which form a customs union and other factors as well.[2]

c) Height of Tariffs

Finally, the economic desirability of a customs union can be affected by the height of tariffs in three important ways: 1) the higher the level of tariffs among the countries forming a union, the greater will be the trade created after tariffs are removed; 2) the lower the common tariffs laid by the countries forming a union, the smaller will be the trade diversion (that is, the possibility that a partner producer will replace the outside producer); 3) the lower the tariffs of countries outside the union, the smaller will be the trade diversion.[3]

2. Consumption Effects

In the previous section of the paper, the production effects of a customs union were discussed under the assumption of constant patterns of consumption. It is obvious that changes in patterns of production as

---

[1] R. G. Hawtrey, Economic Density (London: Longmans, Green and Co., 1944), pp. 135-136.

[2] Balassa, op. cit., p. 36.

[3] Idem, p. 44; Viner, op. cit.; Meade, op. cit.

a result of the formation of a customs union will alter the relative prices and lead to changes in the patterns of consumption. For instance, if the cost of production of a given product is such that its price in country A is $10, in country B $8, and in country C $5, the union of A and B or A and C will lower the price of the product and result in an increase in the consumption and import of the product unless it has a zero elasticity. Even when there is a trade diversion if only the price of the home country is higher than the price of the partner country, their union increases the consumption and there is some economic gain in it. This increase in import when it is in excess of the amount of diverted trade is called trade expansion by Meade.[1]

Lipsey criticized Viner for neglecting the consumption effects by assuming a constant pattern of consumption. He showed that the formation of a union will change consumption and as a result welfare.[2] Furthermore, by using indifference curves, Lipsey went on to show how, allowing for consumption effects, a trade diverting customs union may have welfare improving effects by virtue of the benefits bestowed by changes in the locus of consumption.[3]

Gehrels, writing at about the same time as Lipsey, concluded that consumption effects would always work to raise welfare (that is, consumption effects were always positive). A customs union is a move in the direction

---

[1] Meade, op. cit., pp. 40-41.

[2] R. G. Lipsey, "The Theory of Customs Union: Trade Diversion and Welfare", Economica (February, 1957).

[3] See Appendix I.

of free trade and consumers always gain from the increased consumption possibilities.[1] Lipsey criticized Gehrels on this point and indicated that the consumption effects can be both positive and negative and that it is uncertain whether there is any net effect on welfare.[2] Moreover, Lipsey considered that the larger the amount of trade conducted between partner countries in comparison to trade with nonpartner countries, the more likely it is that the consumption effects will be positive. Similarly, the lower the volume of pre-union foreign trade conducted by the members, the smaller will be the possibility of negative consumption effects.[3]

Lipsey's thesis is important since he focussed on something that was not previously considered. He seems to have pioneered the use of indifference curve analysis in customs union literature. However, his criticism of Viner and labelling of his own customs union as trade diverting when he was allowing for consumption effect might not be correct. As Krauss pointed out, trade diversion is only one of the effects of a union that can occur and the term trade diversion should not be used unless the assumptions upon which it is based are made clear.[4] Lipsey's and Viner's

---

[1] F. Gehrels, "Customs Unions: A Single Country Viewpoint", Review of Economic Studies, 1 (1956-57), pp. 61-64.

[2] R. G. Lipsey, "Mr. Gehrels on Customs Unions", Review of Economic Studies, 3 (1956-57), pp. 211-214.

[3] Lipsey,"The Theory of Customs Unions: A General Survey", op. cit., pp. 508-509.

[4] M. Krauss, "Recent Developments in Customs Union Theory: An Interpretive Survey", Journal of Economic Literature (June, 1972), pp. 413-436.

analyses are consistent with one another. Viner considered a "trade diverting" customs union which should be called a "trade diverting production" customs union and Lipsey coupled to it a trade creating effect in consumption so the balance is favourable.

Meade analyzed the consumption effect of a customs union in a model where he assumed a fixed pattern of production but he allowed the pattern of consumption to change. The formation of the union in his model changed the relative prices, the pattern of consumption within the member countries and the effect of the trade among them.[1] He concluded that the net effect on welfare depends on the pre-union tariffs and the demand elasticities. The higher the pre-union tariffs were within the participant countries, the higher the consumption effects tended to be after the removal of the tariffs. The net gain was also greater when member countries had a competitive production structure. Thus the more competitive is the production structure of the countries that form a union, the greater would be the degree of substitutability among their products and the lesser the degree of substitutability between products of member and non-member countries. This condition means high elasticities of demand by union members for each other's goods and low elasticities of demand by union members for non-union members' goods. In this case, firstly the participating countries have the opportunity to exploit the lowest cost supplier among themselves. Secondly, since the participating countries are competitive, there is little reduction in imports from third countries. These would

---

[1] Meade, op. cit., pp. 44-52.

cause an increase in the amount of trade and positive consumption effects through lower commodity prices.

As one can see, Meade's argument is simply an extension of Viner's. Viner restricted his conclusion to competitiveness in production while Meade further argued that these positive effects in production might have some effect in consumption producing an increase in welfare.

Meyer however disagreed with Meade's position and came to another conclusion. He argued that welfare gains from the integration increase if the newly imported goods are complementary goods rather than competitive ones.[1] His argument was challenged by Balassa who contended that this may only be applicable to the initial stages of the integrative process because it takes the existing stock of goods as given and disregards future changes in the production and consumption patterns.[2]

In conclusion, the consumption effects of a union may be positive or negative depending on the extent of the amount of trade between the member countries, the complementarity and competitiveness of the participating economies and the size of the union. Theorists are largely in agreement concerning the fact that the larger is the union, the greater the benefits obtained. At this point, it is also important to mention that the production effects and consumption effects of a customs union interact with each other and cannot be regarded separately.

---

[1]F. V. Meyer, "Complementarity and the Lowering of Tariff", American Economic Review (June, 1956), p. 325.

[2]Balassa, op. cit., p. 62.

3. Terms of Trade

Customs union tariffs on imports from the outside countries may have the harmful effect of trade diversion which implies a reduction of the demand for outside goods as well as a reduction of the supply of the customs union to the outside countries. Under normal circumstances, union import prices will fall and its export prices will rise, causing a favorable movement in the union terms of trade. These shifts in the imports and the exports of the customs union cause a surplus in the balance of payments for the union. On the other hand, imports of the union from the rest of the world decrease, creating a harmful effect on the outside countries. If the economic size of the union is large, the effect on the terms of trade of the union will be greater. Viner[1] and Balassa[2] analyzed the subject in terms of Marshallian terminology.[3] Briefly, the trade diverting effects of a customs union can shift the union reciprocal demand for foreign goods. This shift may be due to changes in productivity and real income. Lower productivity and real income may reduce union imports from non-member countries and cause the union import demand schedule to shift to a lower position. This will affect the union's terms of trade favorably, everything else being equal. Of course, the shift in reciprocal demand schedule depends on the elasticities of supply and demand of traded commodities. In the limiting

---

[1] Viner, op. cit., p. 55.

[2] Balassa, op. cit., p. 63-64.

[3] Marshall defined the reciprocal demand of country A as the demand in country A for the "representative" import commodity from country B in terms of the "representative" goods exported by A (Balassa, op. cit., p. 63).

case when the union is so small that it cannot influence world prices (the elasticity of demand for its exports and elasticity of supply for its imports are perfectly elastic), the formation of a union is not likely to influence the terms of trade.

Another factor which influences the terms of trade is the tariff wall protecting the outside countries from union's exports. If it is high, this will tend to harm union's terms of trade because union's exports will fall. If the union has a strong bargaining power, the height of these tariffs can be negociated. The greater the size of the union, the greater could be the bargaining power of the union. Both Viner and Meade agreed upon this fact.[1]

Further effects on the terms of trade arise out of increased productivity levels. These effects can be divided into income effects and substitution effects. If increases in productivity cause increases in the real income, imports will increase and the terms of trade tend to deteriorate even in the absence of any price change. If the increase in productivity results in general price reduction (substitution effects), the terms of trade will deteriorate through a reduction in export prices. Regarding the third countries, in the case where union's terms of trade improve, this improvement is naturally at their expense. Vanek[2] suggests that, in order to ensure a gain for all concerned countries, compensations should be made to the outside countries for their losses. As mentioned earlier, we will not deal with these welfare problems. It should be

---

[1] J. Viner, op. cit., p. 96; J. Meade, op. cit., chs.5 and 6.

[2] J. Vanek, International Trade Theory and Economic Policy (Homewood, Ill: Richard D. Irwin, 1962), ch. 18.

pointed out that the measurement of the effect of integration on the terms of trade by considering the income and price effects of changes in productivity is a complicated procedure.

Regarding the terms of trade, the customs union has little effect in the case of most developing countries. The union is usually small and as a result these countries usually cannot influence world prices and the terms of trade.

In summary, the static allocation effects of customs unions seem to be more applicable within the flexible industrialized economies. A union among less developed countries is less likely to have a net positive effect in this context. Less developed countries have generally a large external trade in relation to their domestic production while the volume of trade among them is small. Moreover, since the bulk of their exports consists of primary products, they are not complementary. In this respect, they are rather competitive although they may differ with respect to the commodity composition of exports. They also cannot constitute a large enough market for their respective products. Furthermore, a large part of the import of these countries consists of intermediate products or capital goods which are not produced in many of them. Regarding the few industrial productions in which they are competitive with each other and for which costs may vary considerably, there is the possibility of trade creation if those countries permit the competition.[1] This is unlikely to

[1]Allen and Mikesell do not believe that the underdeveloped countries will permit competition within a proposed customs union to eliminate existing manufactures in one country even if they are less efficient than those of another country. But this is open to dispute if there is common planning. See R.L. Allen, "Integration in Less Developed Areas", Kyklos, 14(1961); R.F. Mikesell, "The Theory of Common Markets as Applied to Regional Arrangements Among Developing Countries", in Roy Harrod and D. Hague (eds.), International Trade Theory in a Developing World (London: Macmillan, 1963).

happen because most of their industries are regarded as infant industries. The major effect of the union among these countries may be the substitution of protected domestic manufacturing for imports from the outside and this is trade diversion. Thus a customs union among underdeveloped countries is likely to reduce rather than to increase the static efficiency of the resource use at least at the beginning.

B. The Dynamic Aspects of Customs Unions

In the literature on customs unions much more work has been done on the static effects than the dynamic effects. The dynamic efficiency of a customs union concerns possible gains from large scale economies (internal and external economies), the acceleration of technological change, stimulus to competition and investment, and the lessening of uncertainty.

1. Large Scale Economies

The assessment of the importance of large scale economies is not simple. In fact, the conclusion of some of the empirical studies are in conflict.[1] Some argue that the advantage of the United States of America is that it has a large internal market which enable its manufacturing to achieve economies of scale.[2] The opponents point to the efficiency of many small companies and the sluggishness of some large ones and note that

---

[1] Clement et al., op. cit., p. 199.

[2] P. J. Verdoorn, "The Intra-Bloc Trade of Benelux", in E.A.G. Robinson (ed.), Economic Consequences of the Size of Nations (London: Macmillan, 1960), pp. 291-318.

countries like Sweden and Switzerland have efficient manufacturing with their market extending beyond the national boundaries.[1] Therefore, the actual significance of the dynamics of a customs union varies from one situation to another and it should be noted that the possibility of exploiting economies of scale does not necessarily mean that each partner or all the members together will be better off.[2]

Balassa[3] argued that the interrelationship between market size and productivity suggests that large scale economies accompany economic integration. According to him, the limited size of the market is one of the main obstacles to the development of manufacturing industries in a given area. Widening the market through integration can provide a powerful inducement for growth by exploiting intraplant, interplant and multiplant economies. A firm may operate plants which produce commodities at the same stage of manufacturing (horizontal integration) or at different stages of the production process (vertical integration). Multiplant economies arise from integrated management and staff functions, bulk buying of materials and marketing of products.

On the other hand, external economies include various economies of specialized skills and machinery (like the development of a managerial class and a skilled labour force), and the spreading of technological and organizational know-how. An indirect effect of the enlargement of

---

[1] Charles P. Kindleberger, International Economics (New York: Irwin, 1972); E.A.G. Robinson, op. cit., Chs. 3 and 4.

[2] H. G. Johnson, Money, Trade and Economic Growth (London: George Allen and Unwin Ltd., 1962).

[3] B. Balassa, op. cit.

the market may be an increase in technological change. A larger market increases the average size of some firms which in turn could mean that more is spent on research. More research usually brings about more technological change.[1]

Another by-product of the enlargement of the market would be, according to Balassa, the gains which could be obtained by the application of the large-scale production which in some sectors causes an increase in income and, as a result, increases the demand for the production in other sectors. Balassa considered also specialization as an advantage of a larger market. Economies due to specialization are of course not new and have been discussed in the economic literature since Adam Smith.[2] A wider market allows for the use of specialized machinery and specialization in labor and management. It should be mentioned, however, that the exploitation of the economies of specialization varies among industries. In some industries, it requires a highly developed industrial structure.

Obviously not all arguments are favorable to the economies of scale thesis. Johnson, for one, was sceptical of the importance of economies of scale. According to him, "it is not all obvious that an agglomeration of national markets, each with its own language, customs and distribution methods would offer the same opportunity for mass production and distribution as a homogenous national market of the same size."[3] It should

---

[1] B. Balassa, op. cit., pp. 145-147.

[2] Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations (New York: Random House, Modern Library Edition, 1937).

[3] H. G. Johnson, "An Economic Theory of Protectionism, Tariff Bargaining and Customs Union", Journal of Political Economy, 1965.

be noted here, however, that even if the economies of scale could be reaped in a customs union, a lot would depend on the economic capacity of the countries involved to absorb the highly improved production methods.

It is also argued that the increase in productivity due to integration might be a once and for all phenomenon which occurs during a transitional period. Nevertheless, Balassa contended that, even if it is so, integration permits a continuously higher yearly absolute increase in the standard of living than during the pre-integration period. The mutual interdependence of incomes and productivity and the multiplier effect reinforce the effect of any of them.[1]

2. Stimulus to Competition

The formation of a customs union may affect the existing market structure of the countries involved by increasing or decreasing competition. In this respect, there are different opinions. Some suggested that a customs union will serve the formation of cartels and monopolies which would create inefficiencies in resource allocation. Perroux came to the conclusion that the effects of customs unions on the degree of monopoly is "the decisive factor".[2] Others like Tinbergen, disregarded the possible beneficial effects of competition. For Tinbergen, "in the field of specialization and interplan cooperation, direct steps seem to promise more

---

[1]B. Balassa, op. cit., p. 108.

[2]François Perroux, L'Europe sans rivages (Paris: Presses Universitaires de France, 1954), p. 482.

than indirect forces of competition might, in the end, perform."[1] If internal economies are important, the formation of a customs union reduces the number of firms producing a particular commodity for the total union market and, thus, the increase in concentration reduces the effectiveness of competition.

On the other hand, some theorists believed that customs unions undermine monopolies and one of the greatest gains from integration stems from more effective competition. Balassa,[2] in his framework, defined competition as a competitive pressure which takes the form of price and non-price competition as well as the development of new products and stylings. He wrote that, under this definition, competition is desirable because it contributes to technological improvements. He furthermore argued that integration can intensify competition. Among the factors which contribute to the increase in competition in an integrated area, he mentioned: a) a wider market; b) a greater number of efficient production units which could compete with each other; and c) an increase in the number of potential competitors. Scitovsky[3] was also optimistic about the effect of competition in an integrated area. He suggested that competition results in the development of the optimal method of production or, at least, of the most profitable suboptimal method of production. He considered competition

---

[1]Jan Tinbergen, "On the Theory of Economic Integration", in Selected Papers (Amsterdam: North Holland Publishing Co., 1959), p. 150.

[2]Balassa, op. cit., pp. 164-165.

[3]Tibor Scitovsky, "Economies of Scale, Competition, and European Integration", American Economic Review, 46, 1 (March, 1956): 71-91.

as an important condition of technical progress. Referring to the case of Western Europe, he wrote that monopolies' markets were large enough to use the best method of production. However, monopolies are reluctant to make any drastic changes like price reduction, the tapping of new markets, etc., because they prefer safety, certainty, and quiet life to the prospect of higher profit. As a result, the development of effective competition has been prevented. Integration, by enlarging the market and breaking down the obstacles to vigorous competition, may promote efficiency and technological progress and further growth in the countries involved.

The answer to the question whether integration contributes to more or less effective competition mostly depends on economic but also social and political conditions which differ among countries. In conclusion, no a priori answer can be given to this problem.

3. Stimulus to Investment

Integration can affect the level of investment, its geographical distribution, and its distribution between different industries and methods of production. Indeed, the removal of tariffs and other trade restrictions results in a greater mobility of capital and creates an integrated capital market which determines the volume and allocation of investment. Moreover, if integration increases competition, this affects the nature and direction of the investment.[1] It is argued that, to avoid the unsatisfactory allocation of investment funds, there should be a central planning of investments.[2]

---

[1] Scitovsky, op. cit.

[2] Maurice Byé, "Localisation de l'investissement et Communauté Economique Européenne", Revue Economique, Mars 1958.

4. Risk and Uncertainty

Economic integration eliminates uncertainties due to the possibilities of changes in trade restrictions and uncertainties associated with the complexity of administrative regulations on foreign trade. If there is a coordination of economic policies with the economic integration, the uncertainty due to possible changes in monetary and fiscal policies is also removed. It should be mentioned that the importance of eliminating these uncertainties cannot be evaluated because, firstly, these uncertainties vary among the different countries and, secondly, those related to social and political factors continue to exist after the integration.[1]

In sum, the actual significance of the dynamic production effects is open to dispute and varies from one situation to another. Concerning the developing countries, a greater emphasis has been put on the dynamic aspects of the theory. It is assumed that economic integration may increase specialization in economic activities through the principle of the comparative advantage, especially for the industries that have not yet been established. With their small national markets, avoiding duplications that cause suboptimal scale is bound to be beneficial. The extension of the market may also be effective in attracting investment opportunities. Finally, there may be gains in encouraging competition among the members to improve technical efficiency and resource allocation from less efficient to more efficient firms.

---

[1]Balassa, op. cit., p. 177.

C. Regional Analysis

In the analysis of economic integration little attention has been paid to the regional problems that may arise within a geographically integrated area. For instance, even if integration is considered to be advantageous to the members of a customs union as a whole, the benefits are not automatically reaped by each single member. This consideration is likely to be especially important when integration involves the grouping of countries which are at different stages of development. In other words, one of the probable effects of economic integration is that the factors of production of the partners countries will be attracted to one area or a few areas, possibly in only one or two of the participating countries. Thus it is relevant to examine some of the factors which contribute to the concentration of economic activities in specific locations. In the following paragraphs, our attention will focus on: (a) agglomeration tendencies in a region; and (b) poles of development or growth centers.[1]

1. Agglomerative Tendencies in a Region

Alfred Weber's work on location theory[2] is the milestone of many basic ideas in regional analysis. In his work, he first examined the locational choice for a single industry and interindustry relationships.[3]

---

[1]It is evident here that the following discussion will be limited to the most relevant arguments to the subject of this paper.

[2]Alfred Weber, Theory of Location of Industries (Chicago: The University of Chicago Press, 1929).

[3]Interindustry relationships may create connections between industries through the use of materials, labour, economic overhead, services, etc.

He argued that there are agglomerative factors[1] as well as deglomerative ones[2] operating both in individual industries and in the interrelationships between industries. When agglomerative factors, which cause a reduction in production cost, outweigh the increase in transportation costs and overcome deglomerative factors, they contribute to the concentration of manufacturing activities at a few locations.[3]

Further studies in this field were done by Lösch, Hoover, Isard, and others.[4] On the basis of these contributions, natural resources, transportation and external economies are considered to be important factors inducing the concentration of economic activities.

a) Natural Resources

The distribution of natural resources is an important factor in the location of economic activities especially (a) when economic activities are either technologically tied to the resource input like mining activities, and (b) when costs are minimized by location in the resource

---

[1]An agglomerative factor is an advantage or cheaping of production cost or marketing advantage which results from carrying the production at one place. These factors include economies of scale, specialization, skilled labour force, marketing facilities, etc.

[2]Deglomerative factors are a cheaping of production as a result of decentralization of production. They originate from the rise in land rent at the place of agglomeration. See Weber, op. cit., pp. 126-137.

[3]Idem., Chapt. VI.

[4]August Lösch, The Economics of Location (New York: John Wiley, 1967); E.M. Hoover, The Location of Economic Activity (New York: McGraw-Hill, 1963); W. Isard, Location and Space Economy (Cambridge, Mass.: The MIT Press, 1972).

area. In these cases, industries tend to locate near the resources.[1] The importance of natural resources as a factor of location should be particularly emphasized in the case of developing countries. Natural resources usually constitute the base of regional development especially in the early stages and, eventually, their exploitation may lead to large scale activities which are, of course, determined mainly by extra-regional demand. Their role depends also on the existence of a demand, on the accessibility of resources and the availability of the other factors of production.[2]

b) External Economies

External economies are advantages which arise from the availability of economic overhead facilities (gas, electricity, water supply, waste disposal, skilled labour, entrepreneurs, communication facilities, better transportation, exchange of technical information, money and banking systems, etc.). Naturally, these advantages are favorable to the further development of a region. Economic activities tend to locate where the economies of scale can be found (up to a certain point of concentration) and the efficiency of the factors of production is higher in these areas.[3]

---

[1]David L. McKee, R. D. Dean and W. H. Leahy, Regional Economics (New York: Free Press, 1970), pp. 55-56.

[2]Jos G. M. Hilhorst, Regional Planning (Rotterdam: Rotterdam University Press, 1971), pp. 24-26.

[3]Robinson argued that, when the proportion of mobile to immobile external economies increases continuously, the advantages of industrial concentration show a declining trend. See E. A. G. Robinson, The Structure of Competitive Industry (Chicago: The University of Chicago Press, 1958), p. 124.

c) Transportation Facilities[1]

The role of transportation costs has been a very important factor in industrial location in the past. As Isard put it, "historically we find that reduced transport rates have tended (1) to transform a scattered ubiquitous pattern of production into an increasingly concentrated one, and (2) to effect progressive differentiation and selection between sites with superior and inferior resources and trade routes."[2]

Improvements in transportation facilities affect agglomeration tendencies in two opposite directions. On the one hand, transportation improvements and lower transportation costs enlarge the market area and favour the concentration of economic activities. On the other hand, lower costs and better services may contribute to more specialization and less concentration.[3] They may create favorable input access locations out of input centers of secondary importance, and, more importantly, transshipment points with no particular natural advantages (like ocean ports or rail heads) can become also important production centers.[4]

2. Poles of Development

Another element which is relevant to the discussion on agglomerative tendencies in a region is Perroux's concept of development poles. In his

---

[1]This is particularly important in developing countries since the lack of adequate transportation facilities is a serious problem.

[2]Walter Isard, "Distance Inputs and Space Economy. Part I. The Conceptual Framework", Quarterly Journal of Economics, LXV (May 1951), pp. 188-198.

[3]For example, factories manufacturing parts and accessories need not be located near the user plants.

[4]David McKee et al., op. cit., pp. 56-57.

theory, Perroux wasmainly concerned with inter and intra-regional development and emphasizes the clustering tendency of economic growth in certain areas. He based his theory on the recognition that economic growth is unbalanced and that development does not appear everywhere and all at once. It appears in points or poles of development and spreads along different channels. It has also different final effects for the whole of the economy.[1]

Interindustry linkages and industrial interdependence also play a major role in Perroux's theory of development. The concepts of motor-industry ("industrie motrice") and key industry ("industrie clef") are central to the development of the poles. When a motor industry raises its output, it induces expansions in the output of the industries which are vertically integrated to it. If the rate of expansion in the later is much greater than the initial growth of the motor industry, this one becomes a key industry.[2]

The notion of cost reduction is another important element in Perroux's theory.[3] When a motor industry reaches its optimum output, it

---

[1]F. Perroux, "Note sur la notion de pôle de croissance", Economie Appliquée, VIII, 1-2 (Janvier-Juin 1955), pp. 307-320. Also in D. McKee, op. cit., pp. 93-103. Isard's concept of industrial complex is similar to Perroux's pole of development concept with the difference that Isard does not consider the non-economic (social and psychological) factors. By definition, an industrial complex consists in one or more activities which occur in one location and they have important production, marketing or other inter-relations. See E. W. Isard, "Industrial Complex Analysis, Agglomeration Economies and Regional Development", Journal of Regional Science, Spring 1959, p. 21.

[2]F. Perroux, op. cit., p. 315.

[3]Idem., p. 309.

may lower its output prices. This action of the motor industry may cause increases in the output of the vertically integrated industries.[1]

Perroux further indicated that, in the process of development, a key industry and the industries linked to it form a pole of development the growth of which is thus determined by the growth of the key industry. Poles of development have important effects on the economic structure and the development of regions. He wrote that

> "A market area grows and develops by reason of the action of the poles and not exclusively nor principally through the reduction of real costs in small units of equal size and through the increased number of such units. A market area is a complex of poles situated in their environment."[2]

He also explained that, in the entire process, structural changes happen not only to the economic system but also to the social and the institutional systems. He stressed the importance of induced technological change and non-economic factors like sociological and psychological effects in the development of poles.[3] He believed that the growth of a region is influenced by the creation of a growth mentality due to the emergence of the key industry. Along the same lines, both Hirshman and Webber agreed with the importance of non-economic factors. For one, Hirshman indicated that "once economic progress in the pioneer countries is a visible reality,

---

[1] Benefits could also be gained from income-expansion activities in the same process.

[2] F. Perroux, La Coexistence pacifique. Vol. II, Pôles de développement ou nation? (Paris: Les Presses Universitaires de France, 1958), p. 346.

[3] In this respect, Perroux's ideas were influenced by Shumpeter's theory regarding the role of entrepreneurial innovation and large scale firms.

the strength of the desire to imitate, to follow suit, to catch up obviously becomes an important determinant of what will happen among the nonpioneers."[1] Webber mentioned that "a major determinant of national rates of economic growth is the 'desire' for improvement. The ability of individuals to perceive that self-improvement is possible and desire to attain higher living standards are the principal foundation of growth."[2]

In The Strategy of Economic Development, Hirshman[3] took a similar approach to Perroux regarding the growth poles. For him as for Perroux, economic development does not appear everywhere at the same time and development is geographically unbalanced. There are certain leading industries called "master industries" which induce the growth in the related industries by high forward and backward linkages. According to him, there is a need for the emergence of some growth points which existence insures their further growth because of the external economies of agglomeration mechanism and also because of the overestimation of these economies by the economic operators.

Concerning the transmission of economic development, he suggested that, despite the fact that development occurs in geographical growth points, it also puts forces in motion which induce development in the backward hinterlands. He identified two important types of effects which result from the formation of growth points: trickling-down and polarization effects.

---

[1]Albert O. Hirshman, The Strategy of Economic Development (New Haven, Conn.: Yale University Press, 1958), p. 8.

[2]M. Webber, Impact of Uncertainty on Location (Cambridge, Mass.: The MIT Press, 1971), p. 72.

[3]Hirshman, op. cit.

Trickling-down effects are favorable effects which spread from developed regions to less developed regions. They consist for instance of (a) increases in purchases by the developed regions from the less developed regions, (b) more investment in the less developed regions and (c) the absorption of some of the disguised unemployment of the less developed regions by developed regions. This may raise the marginal productivity of labour and the per capita consumption levels in the less developed regions (of course, the effectiveness of these factors depends on the complementarities between industries in the growth centers and the hinterland).

Polarization effects are harmful effects to the hinterland originating from the developed region. Firstly, since the economic activities of the less developed regions are less competitive, competition from the developed regions may depress their economic activities. The second harmful effects consist in the migration of qualified labour force and human resources from the hinterland to the growth points. Hirshman optimistically forsaw that in the long run the external economies of the growth centers and their complementarities will lead to the spread of development.

One finds a similar approach in Myrdal who used "spread effects" for the trickling-down effects and "backwash effects" for the polarization effects. However, contrary to Hirshman, he had a rather pessimistic view of the outcome and believed that backwash effects may turn out to be stronger than the spread effects. But, along lines similar to Hirshman's, he argued that the higher the level of development of an economy, the

stronger will be the spread effects compared to the backwash effects.[1]

Agglomerative tendencies and increase in regional inequalities tend to be accentuated by economic integration and increase in economies of scale. The area which would be mostly affected in both developed and developing countries are (a) urban and industrialized areas and (b) frontier areas. Regarding urban and industrialized areas, the nature of the problem is different in developed and developing countries. In the first ones, the problem is one of adaptation to the new demand and market conditions. If they already work in full capacity, this problem may be of a temporary nature. In the developing countries where the economy is not usually working in full capacity, the problem is the lack of capital and new investment flows to meet the cost of adjustment to the expanded market and new demands. For frontier areas in both developed and developing countries, integration has a favorable effect on these areas especially when they are poor and neglected. The abolition of trade barriers increases the possibility of exploiting existing advantages and reduces the disadvantages due to the distortion in the location of industry created by the existence of national boundaries.[2]

Concerning the advantages or disadvantages of developing growth poles, the question is open to dispute and the outcome depends on the different plans and economic strategies that each country has. I believe, however, that the growth pole strategy is advantageous for developing

---

[1] G. Myrdal, Economic Theory and Under-Developed Regions (London: Duckworth, 1957).

[2] This is not true for frontiers at the frontier of the agglomeration: e.g. Scotland, Southern Italy, etc.

countries because the opposite approach of dispersing their limited resources is too costly and less efficient. Moreover, the polarization approach is compatible with the formation of a customs union. The later in fact accentuates the natural tendencies toward concentration and centralization. However, there seem to be political limitations to this pattern of development. In the presence of the strong feelings of sovereignty and the political instability which characterize developing countries, unrefrained polarization may be undesirable especially if it means that one or two countries get all the industrial growth. This problem could be solved (at least partly) if there was a system of compensation for the members of the union which do not benefit directly from industrial development. For the time being, this is especially desirable because the economic advantages from the economies of scale and the concentration of economic activities are among the most important benefits of integration, particularly where the infrastructure is developed enough to support a strategy of development based on concentration.

3. Problems and Prospects

Developing countries are faced with problems related to the small size of the national market, low income and low productivity. They are usually engaged in the production and export of primary commodities with the related problems of export instability (especially for the agricultural products). Their industrial production is usually protected and can hardly compete on the export markets with commodities from developed countries. The latter have a firm hold on markets through their well

established trade connections, external and internal economies, research foundations and marketing facilities, while the developing countries are affected by the lack of capital for investments and insufficient foreign exchange to import the essential materials and capital goods for their development projects.

Economic integration among developing countries is supposed to help the members to undertake a certain degree of industrial development more economically by taking advantage of specialization and economies of scale, larger markets, more investment opportunities; by using collective protection instead of independent national protection for the infant industries; and by establishing an aggregate import substitution program that can be attained at a lower total cost and with a greater degree of specialization than if each member had to proceed with its own program independently. When the countries involved export the same commodities, economic integration gives them a greater bargaining power for the prices of their primary products vis-à-vis the developed countries and, when they export different commodities, economic integration reduces the variance of their export income. Finally, economic integration enables also the participating countries to establish joint research organizations.

At this point, it may be useful to summarize the argument in favor of the relevance of customs unions for developing countries. In terms of statics, trade diversion most probably will occur. But this trade diversion would have occurred any way through the protection of industries against other nations' competition by each individual nation. It is also argued that trade diversion may have positive effects on developing

countries. As long as the trade diversion diverts the import of the non-inputs from the advanced countries, it fulfills one of the objectives of the customs union between developing countries. It enable the members to free more foreign exchange for scarce input imports and capital goods necessary for their development projects. There would also be a stimulating effect on capacity use and growth. The dynamic aspects of the union are supposed to be more relevant especially for the industries to be established in the future through specialization and economies of scale.[1]

From the regional analysis point of view, we saw that, although integration may promise potential benefits to the region as a whole, the additional industries and the potential income and product gains which result from the greater rate of growth may be unevenly distributed among its members because of the agglomerative tendencies and the concentration in the growth centers. This might be beneficial for the union as a whole, but unacceptable for the poorer countries, and planning and policies are necessary to correct the losses resulting from these inequalities to the partners.

Finally, it is important to note that potential benefits derived from customs unions may appear only in the long-run. Immediate gains should not be over-estimated and, unless a union is strong enough to adopt measures to redistribute the gains more evenly, its stability is threatened. This problem is clearly stated in an UNCTAD study.

---

[1]Sidney Dell, A Latin American Common Market? (New York: Oxford University Press, 1966), pp. 15-18.

> "It would appear that the problem of ensuring an equitable distribution of the benefits of integration is more difficult to solve as between developing than as between developed countries. No doubt, the principle that countries in unequal situations should not be treated equally is as valid in relations between developing countries as it should be in those between developing and developed countries. But for objective and subjective reasons, developing countries would seem to have even more difficulties in acting upon this principle in their mutual relations. Not only are the differences between developing countries within one region often more pronounced than those between developed countries in the same region; in addition, in as much as the specific guarantees which the weaker partner understandably wants before agreeing to integration imply a transfer of resources or other apparent sacrifices by the more advanced partner countries, the later have at their disposal comparatively smaller resources for such measures than are available to developed countries in a similar process. Above all, these more advanced developing countries often have, within their own borders, large backward areas whose level of development is as low as that of their less advanced partners, and hence it is policically difficult for them to mobilize the resources for dealing with what appears to be another country's problem; in those cases, national integration might appear to deserve priority, and any regional scheme would have to be conceived in such a manner as not to jeopardize action in the national framework. Therefore, for a scheme to be politically negotiable, both the less advanced and the more advanced partner countries must have the feeling that each would gain concrete benefits from it."[1]

D. Fiscal Harmonization

In the previous section, I pointed out that regional disparities are likely to be accentuated as a result of economic integration. For an effective integration, some measures of harmonization are required to reduce the inequalities created by the market mechanisms. This can be done by a set of fiscal policies. First, I examine some control measures

---

[1] UNCTAD secretariat, Trade Expansion and Economic Integration Among Developing Countries (New York, 1967), p. 21.

that are of a negative character. These measures are more used in developed nations. They are applied mostly to congested areas to restrict expansion. An example is the direct control on factor movements (labor and capital). The purpose of these control measures is to modify the allocation of resources and the location of industries. Policies of a negative character can be better used in a national context than in an interregional context. Moreover, they usually work against the aims of integration which are to remove artificial impediments to labor flows and the efficient location of industries by easier capital movement.[1] Among positive fiscal policies, those affecting labor migrations should be mentioned keeping in mind that the displacement of workers is not the primary aim of a union among sovereign nations. The rest of the section takes up some of the important policy instruments concerning (1) government expenditures, (2) incentives to private investments, and (3) taxation. (It should be noted that an effective regional integration normally requires some degree of tax harmonization.)

1. Labor Migrations

The geographical mobility of labor could be encouraged by subsidies and loans to meet the cost of migration. In cases where vocational retraining is involved, this cost could be covered too. Subsidies to migrants may be general or selective, going to those migrants who are

---

[1]Walter Isard et. al., Methods of Regional Analysis: An Introduction to Regional Science (Cambridge, Mass.: The MIT Press, 1960), p. 689.

moving in some desired directions. Unassisted migrations can be attained too. The removal of trade barriers, the increase in communication between countries of the union and the greater diffusion of information and knowledge about each country are factors which contribute to lessen the social barriers to migration. Improvements in transportation are also likely to influence the patterns of migration.

2. Public Expenditures

One form of government spending which raise less difficulty in a customs union is direct public investment like investment in infrastructure (which is done independently by each government). It has less direct interference with trade and factor movement is less involved. Moreover, it is the only policy instrument which does not need any harmonization. In the case of less developed nations where resources are more limited, there might be a need for joint investments or foreign aid to subsidize investment programs.

3. Regional Incentives to Private Industry

Grants, loans and tax exemptions are the three major incentives to private industry. Grants or loans on easy terms are the most popular inducements especially for the purpose of expansion in poor areas. Other inducements are related to transportation. Transport rates usually vary widely not only according to weight and distance but also with value, thus favoring the shipping of raw materials to market centers and low weight processed goods to raw material areas. The real value of these incentives

seems however to be limited. In more economically developed countries such as Canada, regional policies of this type met with limited success. Within a customs union, this set of instruments can only be used subject to the agreement of the member countries.[1]

4. Taxation

Taxation differences affect the spatial allocation of resources and thus prevent the use of productive resources in their optimal place. In less developed countries where most of the governmental income is derived from indirect taxes on particular products and taxes on business profits, taxation thus constitutes a key instrument of economic intervention. Production taxes are levied either at the origin or at the destination of the products. Where the principle of origin is applied, taxes are levied in the country of origin on both production for home consumption and exports to partners at the rates imposed in the producing country. Where the principle of destination is applied, taxes are levied according to the tax rates appropriate to the consuming country.

If, within a customs union, the tax rates vary widely, the effects may have an influence. For instance, if the tax rates on a particular product are markedly divergent and the origin principle is applied, production will be discouraged in the country imposing the higher rate.[2]

---

[1] Richard M. Bird, "Regional Policies in a Common Market", in C. S. Shoup (ed.), Fiscal Harmonization in Common Markets, Vol. I (New York: Columbia University Press, 1967), pp. 385-406.

[2] There is no evidence to support this in the U.S.A. See Edgar M. Hoover, An Introduction to Regional Economics (New York: Alfred Knopf, 1971).

On the contrary, if the destination principle is applied, the consumption of the product will be discouraged in the country which has the higher tax rate irrespective of the country of origin of the product. As a result, production will continue to be distributed between the partners on the basis of comparative costs. In terms of economic efficiency, the destination system should be recommended if tax rates are to differ, since it will not interfere with the operation of comparative advantages within the union. However, it does not eliminate certain practical difficulties. The most important one is that it will encourage smuggling from the area of low tax levy to the area of high tax levy, thus giving rise to losses of revenue in the later area. A similar problem is created if the origin principle is used. If smuggling becomes very profitable, the inter-territorial movement of goods will have to be policed and this will reduce the administrative savings of the customs union. Thus whether the destination or origin principles of taxation are employed, tax differences will have to be kept down to limit the profitability of smuggling or differences confined to articles whose movement can be controlled.

The taxation of business profits and the provision of investment concessions is a second area in which a need for harmonization arises in a regional integration scheme. If the differences in these areas are large, it is likely to affect the initial location of new firms and the location decision of existing firms which contemplate expansion. Member countries whose business taxes are relatively harsh will be less attractive for new investments. On the other hand, unrestricted competition between countries to attract investments through tax breaks

could mean an important loss of revenues to the union members.

Thus for a combination of reasons related to economic efficiency, and revenue and administrative considerations, effective regional integration normally requires some degree of harmonization of internal taxation, both as to methods and rates, if integration gains are to be optimized. However, harmonization creates its own difficulties by reducing the freedom of choice of the participating countries as to the means which they can employ to increase tax revenues, since major unilateral tax increases are to be ruled out. In the interest of effective integration, it is not merely the existing tax policies which must be harmonized. It is even more important to provide assurances that harmonization will continue in the future. This will help to reduce the uncertainties which must inevitably exist in a regional integration scheme not supported by a supra-national political authority.[1]

To sum up briefly, negative controls are unlikely to have a significant effect. Moreover, it is not appropriate to create new barriers to the free movement of economic factors. Direct public investments (in infra-structure for example where it seems to be in accordance with the aims of customs unions) and concessions to private industries can be used subject to the common agreement of the members of the union or a supra-national authority. Assistance to labor migrations is unlikely to be of much help since it is costly and difficult to achieve due to social and political factors.

---

[1] For the question of tax harmonization, I have used Carl S. Shoup (ed.), op. cit., especially Chapter 1 by D. Dasser, "Economic Analysis of Tax Harmonization".

Thus in order to attain the benefits of economic integration, a great degree of political and economic unity is needed to harmonize the different policy measures involved. A supranational authority is probably the best structure to realize this objective (which is not easy to establish). In its absence the need remains for joint action and coordination of economic policies especially in less developed countries because of the limitations mentioned before.

E. Monetary Integration

Monetary integration and the harmonization of monetary policies is important for effective economic integration. A harmonized monetary policy affects the level and character of public and private investments (assurance for current transactions and preferably capital transactions). These in turn affect productivity and growth.[1] Monetary arrangements in an integrated area range from complete integration (monetary union) to complete autonomy.

1. Monetary Union

With a monetary union, a complete integration is formed with a single monetary authority, common unallocated reserves of external assets, and a common currency. A world currency can be used. If so, transformation of one type of money into another is not necessary and all the troubles connected with it such as changes in exchange rates, risks and inconvertibility can be avoided.

---

[1]The main source used for this section is J. Tinbergen, International Economic Integration (Amsterdam: Elsenier, 1954), pp. 126-135.

An important condition in this case is monetary equilibrium for each separate country or region. This condition of monetary equilibrium limits the countries with no reserves and the countries who wish to keep their rights to create money and make deficits if their policy implies such a course of action. Because of these limitations an agreement among the members of the union is necessary on the credit policies which are going to be pursued. With a common currency and external reserves not being separately identified, expansion of credit by one of the member countries either as a result of granting credit to government or as a result of increasing commercial credit will usually increase that country's import and cause reduction in the common reserves. Consequently, part of the burden of a more vigorous development policy by one member fall on the other members.

Policies and agreements are also needed regarding the extra help that each member country may receive if necessary. They are equally needed concerning the transfer of the surplus reserves from one area to another if there are special periodical or seasonal needs (this is true especially in the case of the developed countries with agricultural economy).

2. Complete Autonomy

This is the usual situation where each country has its own currency and autonomous monetary authority. Trade between the members of the union and also the rest of the world is settled through the supply and demand for foreign exchange. Each country maintains its own external reserves and preserves its own credit and interest rate which is best for its own need to maintain the equilibrium in the long run on its external account.

In this case, if the conditions of monetary equilibrium are fulfilled, this can also provide advantages such as the common currency, but the problem of change in exchange rates and troubles of convertibility remain.

The problem of the changes in exchange rates obliges the other countries (here member countries) to adjust themselves to the changed condition in order to maintain their competitive position (for instance, certain risks for trade and capital movement if the changes are larger).

Between these two extremes, there are a number of arrangements that are more flexible. For example, an arrangement with a common currency and harmonized monetary policies[1] but independent external reserves is possible. In this case, transformation of one type of money to another and other problems like change in exchange rates, risks and inconvertibility can be avoided. At the same time, member countries are more independent regarding their monetary policies and their reserves while common monetary policies regulate the independent activities of each member regarding the aims of the integration.

In still another type of arrangement, monetary policies are harmonized, but separate currencies and external reserves are maintained. With this arrangement, a degree of independence may be achieved to the extent that a country uses external controls that are different from the rest of the member countries (on its own credit, interest rate, and so on). And again, monetary policies can regulate the activities of the different countries to insure that they do not work agains the aim of integration.

---

[1]Harmonization refers to the necessity for the union members to adopt policies which do not work at counter purpose even if they are not necessarily exactly similar, especially regarding money supply, stable exchange rate, and exchange restrictions.

II. EMPIRICAL ANALYSIS: THE CENTRAL AFRICAN CUSTOMS AND ECONOMIC UNION

On the basis of the previous theoretical discussion, a customs union of developing countries which is fulfilling its functions should at least accomplish some of the following economic changes: (a) increase in the size of the internal market; (b) increase in the gross domestic product and national income; (c) increase in the industrial and manufacturing production; (d) greater use of the natural resources; (e) greater private consumption; (f) increase in investments; (g) increase in the amount of trade in particular among the countries of the union; (h) increase in competition; (i) greater specialization of economic activities; and (j) economies of scale in production. The objective of the second part of the paper is thus to assess how effective is the formation of customs unions among developing countries in achieving these results by studying the case of the Central African Customs and Economic Union. As it will become evident in the following pages, it has not been possible to evaluate all the economic changes previously enumerated with the same success because of the variable quality of the information which was available to me.

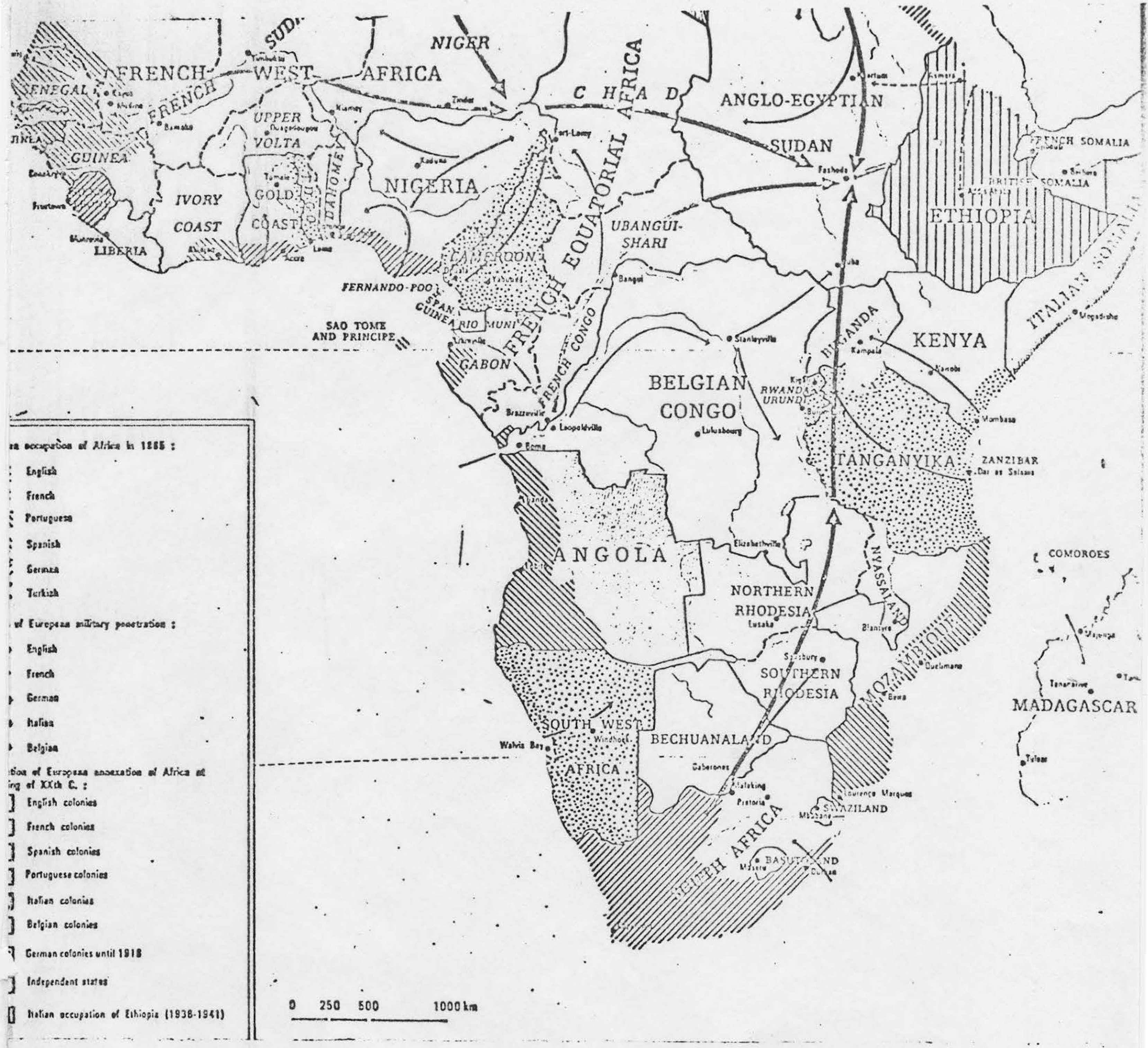
Before preceeding with the economic analysis itself, I will briefly give an historical account of the creation of UDEAC, its structure and its major functions. This first section will be followed by a short description of the geographical and economic characteristics of the various countries which belong or belonged (in the case of Chad) to the union.

A. Historical Origin and Institution of UDEAC

The Central African Customs and Economic Union was originally formed by four states of the former French Equatorial Africa comprising the Central African region--Congo (Brazzaville), Gabon, the Central African Republic and Chad (see Map 1). All these countries achieved independence in the summer of 1960. Some measure of integration between the four had existed since 1910 when the federation of French Equatorial Africa was established with a governor-general and a high commission located in Brazzaville. The government-general was to undertake a limited range of common services, including defense, transport, posts and telegraphs, and the collection and distribution of customs duties (a major source of revenues). Its functions were to be limited to guiding and giving coherence to territorial policies.[1] During the early fifties, this system of operation was increasingly criticized by its members due to disproportionate spending of resources in individual territories. Furthermore, Gabon, the richest of the four, objected to subsidize the poorer members. As a result, cooperation ended. However, in January 1959, delegations from the local government of the four territories met in Paris to establish an equatorial customs union, the Union Douanière Equatoriale (UDE), and to coordinate the internal taxes of the four countries. Provision was also made for the establishment of a central organization, for the continued operation of rail and river

---

[1] For more historical information on the period before 1958 see V. Thompson and R. Adolff, The Emerging States of French Equatorial Africa (London: Oxford University Press, 1960).



MAP 1

COLONIAL AFRICA

Source: Regine Van Chi-Bonnardel, The Atlas of Africa (Paris: Editions Jeune Afrique, 1973), p. 49.

transport services, and for the maintenance of their monetary union.[1]

In 1960, the regional customs arrangement was strengthened. A common external tariff was supplemented by provision for the free movement of capital and goods. An interesting, indeed a unique aspect of the UDE, was the harmonization of the fiscal treatment of industrial investments. This was achieved by two measures: the "taxe unique" (single tax) and the investment code. The single tax is an indirect tax levied on locally manufactured commodities (usually import substitutes) at the source of production in return for the exemption of manufacturers from import duties on raw materials and equipment coming from third countries. As such, it resembles a value added tax similar to the invoice consumption variety applied in the countries of the European Economic Community (EEC).[2] Similar to the value added tax, the single tax may contribute to more domestic investment, increase governmental revenues for financing governmental services and act as a stimulus to exports and import substitutes. Originally, the single tax was pitched at a level lower than the original import tariffs on the corresponding products. The revenues from the tax are distributed to the countries where the products are consumed. For this reason, records are kept by

---

[1] See Traité instituant une Union Douanière et Economique de l'Afrique Centrale (Brazzaville: 8 décembre, 1964); Recueil des conventions relatives aux organismes communs aux quatre états de l'Afrique Equatoriale, Secrétariat géneral, Conférence des Chefs d'Etat, Brazzaville. Fascicule.

[2] R. W. Lindholm, "The Value Added Tax: A Short Review of the Literature", Journal of Economic Literature, 8, 4(December 1970): 1178-1189, p. 1179. See also Edwin S. Cohen, "Foreign Experience with a Value Added Tax", National Tax Journal, 24, 3(September 1971): 399-402.

the producers of the places to which their products are consigned within the union. The purpose of the single tax was twofold: (a) to encourage the local manufacturing of consumer goods (import substitution goods) and (b) to compensate for a fall in fiscal revenue resulting from a fall in import duties on equivalent goods and to distribute the revenues fairly. The gross revenue which each member state received from customs duties was also affected by the solidarity fund which was created mainly to take account of errors in the customs declarations but partly to compensate to some extent for the different economic position of the various members of the union and also for the differences in the benefits which they derived from the union. The fund received twenty percent of all the common import duties levied by offices operated by the common custom service.

Several observations can be made on the taxe unique scheme. First, the UDE Treaty contains no provision for its extension to agricultural production (thus it cannot be an instrument for a common agricultural policy). Moreover, in the case of slightly processed products, such as tea, sawn wood,frozen meat and preserved meat, the distinction between an agricultural and an industrial product is not clear and gives rise to argument. Second, from the investor's point of view, the system is an encouragement to establish a plant because it eliminates any uncertainty as to the tax system that will be applied to his products in various markets. Third, there are too few means of checking the basic information in the files supplied by the firms. There is no costing section which could check the prices given by the firms. Once the matter is settled, there are no means of finding out whether the

statement made by the industrialists is correct. Experience has showed that firms give too high figures for costs, and figures which are too low for the proportion of raw materials per unit of product. This dual distortion results in a lowering of the applicable rates. However, this single tax system cannot be condemned just because it is imperfect in some areas. It is worth mentioning that the principle of a single tax is at present being tried out in a similar manner in East Africa and in the Central American trading area, and that it is even studied in Europe for the European Economic Community.

The taxe unique scheme was amplified by a common investment regime which provided for the incorporation of enterprises needing access to the markets of two or more member countries into the taxe unique scheme. The investment code also provided for the harmonization of fiscal charges concerning enterprises working for a single domestic market or those which were particularly important for the development of a member country of the UDE. Decisions concerning these two types of enterprises were to be made at the national level, while those concerning "regional" industries were to be handled by the UDE authorities.

In June 1961, the union was strengthened and enlarged by the addition of the fifth state, the Federal Republic of Cameroon, which was created out of the former French Cameroon and the Southern part of the old British Cameroon. A new arrangement was worked out by the Council of the Chiefs of State and by the Management Committee. By mid 1962, an external common tariff for the five countries had been established.[1]

---

[1]See Appendix II for more details about the functions and responsibilities of the various organisms involved.

On December 14, 1965, the common investment convention was published. It had a wider scope than the other provisions of the treaty since it applied not only to industrial enterprises but also to enterprises engaged in the production and processing of industrial crops (cotton, tea, cocoa, etc.) and in animal husbandry, forestry, fishing, tourism, mining, power production and oil propsecting.

Another area from which UDEAC countries benefit is their monetary integration. In Equatorial Africa, a local monetary system had been in existence since 1940. Although an independent issuing institution dates only from 1955. At independence, the UDEAC countries and Cameroon entered into an arrangement to preserve their monetary links. In 1960, the issuing institution was termed a Central Bank (Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun) and its constitution was revised to better serve a monetary union of sovereign states. The Bank was given the sole rights to issue the currency of the UDEAC states and has been acting as the linking body between that monetary zone and the franc zone by means of a working account.[1]

Among other things, the UDEAC countries agreed also to centralize their external reserves in the Bank, and to guarantee freedom of movement of currency and transfers in the area. They also adopted common rules in relation to foreign exchange control, legislation concerning cheques and bills of exchange, the organization of banking, and the distribution and control of credit. Concerning the provision of credit by the Bank (an

---

[1]For a summary of the main provisions regulating the structure and operations of the Central Bank, see Dispositions organiques (Paris: Banque Centrale, 1962).

important function), a ceiling was fixed for total direct and indirect financial support to governments. This ceiling is expressed as a small fraction of the average level of bank deposits or budget revenues of the member countries. Its main function in the field of credit has been in fact to provide short and medium term credit to the private sector.

Payments through banks between the member states and between anyone of them and abroad can be readily identified for the most part. The monetary system in UDEAC places narrow limits on the abilities of its members to pursue different monetary policies, especially since these countries are at different development levels and have different needs.

On the first of January 1966, this treaty entered into force and the scope of UDE was extended with the formation of the UDEAC. During the same year, the integration of fiscal systems was furthered and a system of differential taxes on industry by country was introduced to assist the policy of re-location in favor of Chad and the Central African Republic.[1] In addition, the members of the union sought to form multi-national industrial projects (the agreement to site a single oil refinery at Port Gentil, Gabon, is an example of the implementation of this policy).

---

[1]The harmonization of direct and indirect taxation systems is regarded as an aim the achievement of which would help to make uniform the conditions under which enterprises can be established and operate. However, a fiscal system should be adapted to the economic and social conditions of a given country and to the level of trade. Thus a country such as Cameroon may wish, and rightly so, to base its domestic tax revenue on indirect taxation, while Chad may think otherwise. Here again, reliance must not be placed on the fiscal system alone for the creation of conditions making regional harmonization possible.

However, even the fairly detailed redistribution measures incorporated in the 1966 agreement failed to overcome the growing discontent felt by the C.A.R. and Chad with the operation of the differential tax system, the handling of the transit trade problem, and the slowness of established patterns of trade to change. In 1968, both left the Union. Later that year, however, the C.A.R. applied for readmittance.

In November, 1972, a convention established in Brazzaville laid the foundation of a new type of monetary cooperation in the franc zone of that area. The name of the central bank was changed to Bank of the Central States. The new arrangement gave greater autonomy to the countries where credit expansion is concerned and provided for terms which are more favorable to development.[1] This is a very important part of the integration since perfect monetary coordination, stability of the common currency and harmonization of credit policy do much to facilitate the harmonization of national policies and the growth of trade.

B. Geographical and Economic Setting

Before engaging in the evaluation of UDEAC, it is necessary to give a brief description of the geographical and economic structure of the area, its opportunities, problems and prospects.

---

[1]See Appendix III for the details of these changes.

1. Population

Generally, the countries of Central Africa share a number of similar characteristics such as low per capita income, low productivity, traditional subsistance sector, unskilled labor force, lack of industries producing capital equipment, inadequate infrastructure, limited internal markets, etc. The area as a whole strikes by its vast size and its low population density. The UDEAC countries have a total area of nearly 2,985 thousand km^2. Chad alone represents 43 percent of the total area (see Table 1). Population figures are not too reliable but the total for the area may be put at 12,662,000 in 1970 (or 8,956,000 without Chad), an increase of 50 percent over the corresponding figures for 1961.

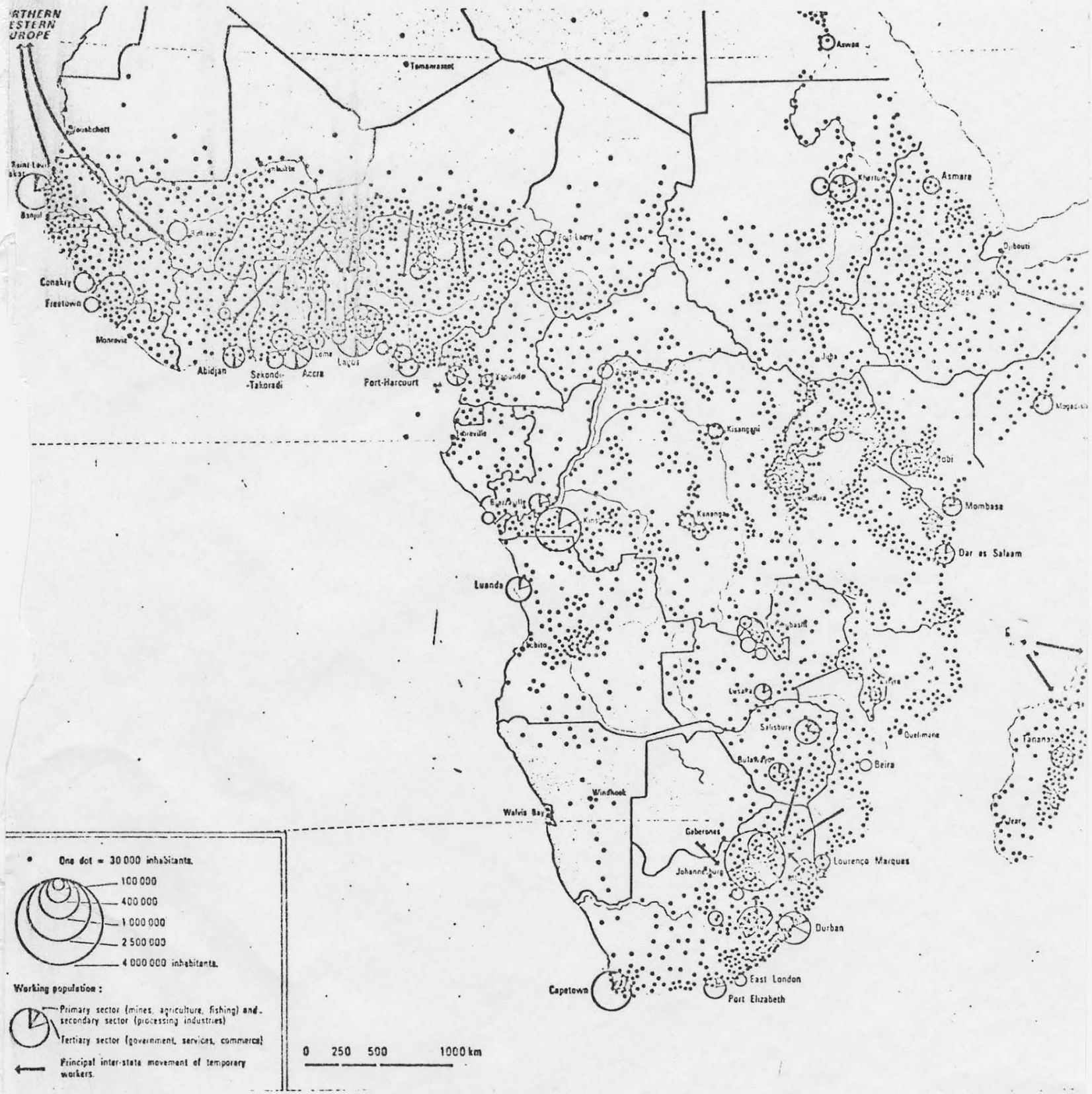
TABLE 1

Area, Population and Population Density, UDEAC Countries
1961 and 1970

Country	Area in 000 km^2	Population 1961	Population 1970	Population Density N/km^2
Cameroon	475	3,303,000	5,836,000	12.2
Chad	1,284	2,541,000	3,706,000	2.8
Central African Republic	617	1,224,000	1,600,000	2.5
Congo	342	816,000	1,020,000	3.0
Gabon	267	434,000	500,000	1.8
Total	2,985	8,318,000	12,662,000	4.2

Source: Survey of Economic Conditions in Africa, 1971 (New York: United Nations, 1972); Report of the ECA Mission on Economic Co-operation in Central Africa (New York: United Nations, 1966).

Cameroon is by far the most populated country with 46 percent of the total followed by Chad with 29 percent. The average population density for the area as a whole is a low 4.2 h/km^2 (or 5.2 h/km^2 without Chad) and ranges from a high of 12.2 in Cameroon to a low of 1.8 in Gabon (see Table 1). However, these figures are poorly representative of the distribution of the population on the territory. In fact, the population is concentrated in areas which are separated from each other by vast quasi-deserts covering several hundred kilometers (particularly in Chad, the Central African Republic and Cameroon) (see Map 2). This is well supported by the contrast between the density of the population calculated on the basis of the total territory and the one calculated on the basis of the amount of arable land (see Table 2). In all countries, the later density is several times greater than the former (ten times as dense in the case of the C.A.R.). The same figures indicate also that the consideration of arable land is crucial to properly represent the density of the population and the problems which might be related to it. Thus, while Gabon ranks last in density as calculated on the basis of the total territory with a density one sixth that of Cameroon, the situation is reversed when density as calculated on the basis of the amount of arable land is considered: Gabon's density is five times greater than that of Cameroon. The small differences between total density and rural density confirm also the expected fact that the population of these countries is predominantly rural, especially in Chad where the level of urbanization is only 8 percent (see Table 2). The figures of the population growth rate support also another expected fact. The rate is highest for those countries which have



MAP 2

POPULATION DISTRIBUTION

Source: Van Chi-Bonnardel, op. cit., p. 61.

TABLE 2

Estimated Population and Annual Growth Rate, UDEAC Countries, 1970

Country	Estimated Population ('000)	Estimated Growth Rate	Urban Pop. (%)	Population Density (per km^2 of arable land)[a]		
				Total Population		Rural Pop.[b]
				For total area	For area of arable land	
Cameroon	5,836	2.1	16	12.2	80	75
Chad	3,706	2.3	8	2.8	53	51
Central African Republic	1,600	2.1	25	2.5	27	24
Congo	1,020	1.7	28	3.0	162	124
Gabon	500	1.2	22	1.8	394	364

[a]Includes land planted to permanent crops.
[b]Very rough estimates only.

Source: Survey of Economic Conditions in Africa, 1971. Part 1 (New York: United Nations, 1972); P. Borel, "Economic Co-operation and Integration in Central Africa", in Economic Co-operation and Integration in Africa: Three Case Studies (New York: United Nations, Department of Economic and Social Affairs, 1969), p. 101.

the lowest density per km^2 of arable land and are the least urbanized (Chad, Cameroon and the C.A.R.)

Differences between countries regarding the proportion of the population aged 15 to 64 correspond also to the same pattern. Chad with the highest growth rate and the largest proportion of rural population has the smallest proportion of adults (53.1 percent) (see Table 3). At the opposite extreme, Gabon has 61.1 percent of its population in this age group. Figures on the annual rate of growth of this proportion of the population simply reflect the existing distribution by age. A consequence of this is

that Chad faces a population explosion and will become a large pool of labor. This is also reflected in the lower rate of activity (43.9 percent) and the lower proportion of salaried employees (4.4 percent) in Chad (see Table 3).

One problem for economic integration is raised by the pattern of distribution of the population on the territory. The concentration of population in various areas separated by great distances creates local markets which are very difficult to link together and hampers the development of economic exchanges. The most important of these markets are the

TABLE 3

Population by Age, Sex, Activity Rate and Salaried Employment, UDEAC, 1970 and 1980

Country	A Total Population (1970) (million)	B Population Aged 15-64 (1970) (%)	C Annual Rate of Growth of (B) (1970-80) (%)	D Female Population (est.) (1980) (%)	E Active Population (1970) ('000)	F Number of Salaried Employees (1970)	(F) in Total Population
Cameroon	5,8	55.9	2.41	51.1	3,000(51.7)*	350,000	6.03
Chad	3,7	53.1	2.59	51.6	1,495(43.9)	150,000	4.4
C.A.R.	1,6	54.8	2.50	51.3	0,791(52.7)	91,500	6.1
Congo	1,0	54.9	2.54	51.3	0,501(50.1)	75,000	7.5
Gabon	0,5	61.1	1.07	52.3	0,260(52.0)	50,000	10.0

*Activity rate.

Source: National Publications, ECA, United Nations Population Division; Ettore Denti, "Africa's Labour Force", International Labour Review, 104, 3 (September, 1971); David Kom, Le Cameroun (Paris: Editions Sociales, 1971), p. 244.

following: (a) central, southern and western Cameroon with Yaoundé and it shinterland, the entire coastal region and the mountainous Bamenda area; (b) north Cameroon, with Garoua, Maroua and Fort Foureau, and the continuous areas of Chad (the western and south-western areas, with Fort Lamy, Moundou and Fort Archambault), the main cotton-growing region; (c) the Bangui region and the western part of the C.A.R. in the area of Bouar and Berbérati; (d) the south-western region of Congo along the line Brazzaville-Niari-Pointe-Noire, with a branch toward Franceville; (e) the Libreville-Port-Gentil area and its hinterland in Gabon (see Map 3).

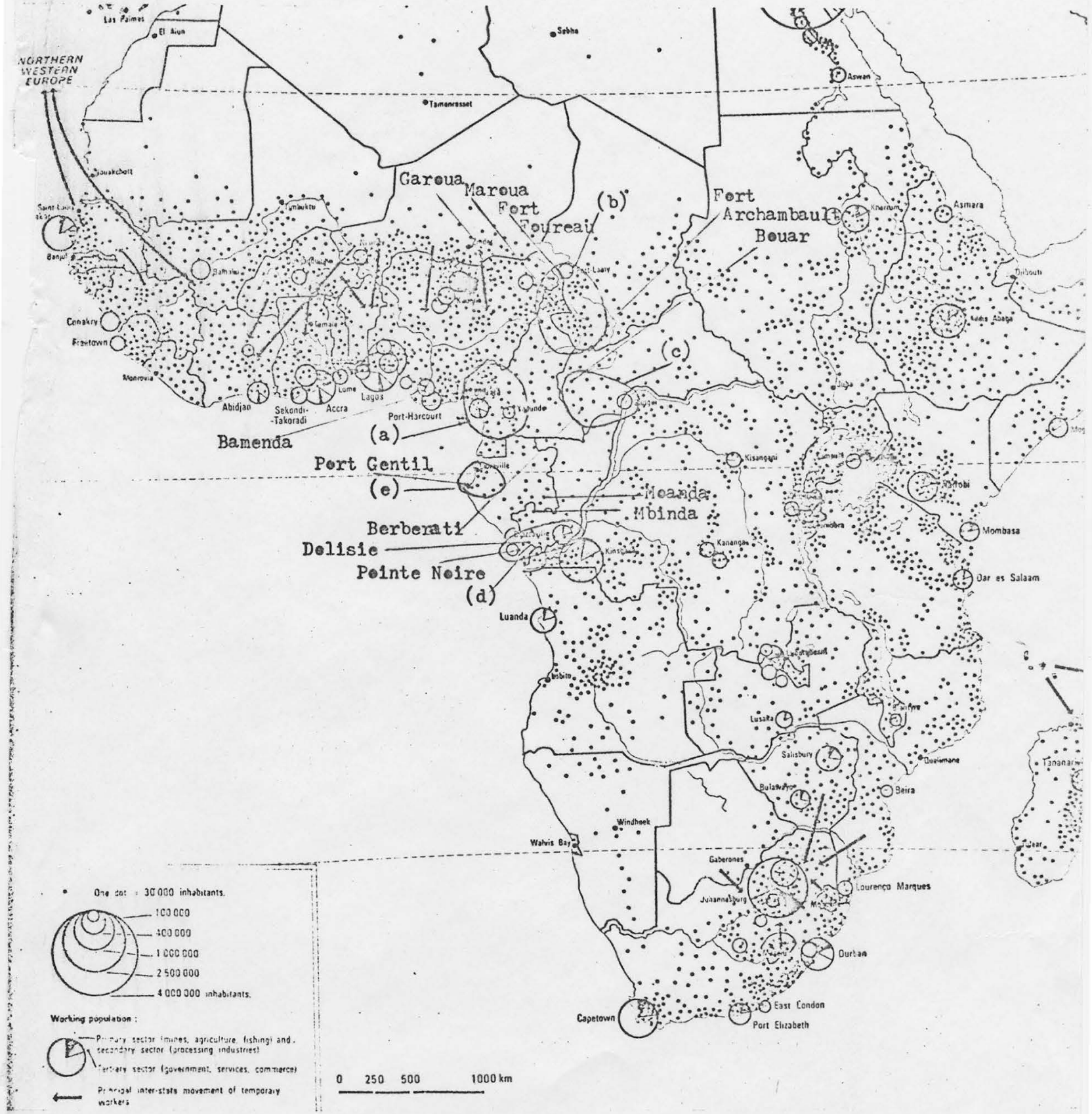
2. Transportation[1]

This vast area is on the whole poorly provided with transport facilities. Railways are few and the road system, both within and between the countries, is bad (see Map 3). In this part, the purpose is not the description of a purely factual account of the transport facilities (road, rail, water and air transportation), but the indication of the main features of the existing system and some of the work under way to improve it.

Congo is served by what is known as the "trans-equatorial route" ("la voie trans-équatoriale") which starts from Pointe-Noire. The Congo-Ocean railway runs to Brazzaville (510 km) where traffic proceeds up the Congo and Oubangui rivers to Bangui (1,300 km). Both rivers are navigable all the year round. Up to now, this has been the main commercial artery

---

[1]The following information comes from Report of the ECA Mission on Economic Co-operation in Central Africa, op. cit., pp. 47-54.



MAP 3

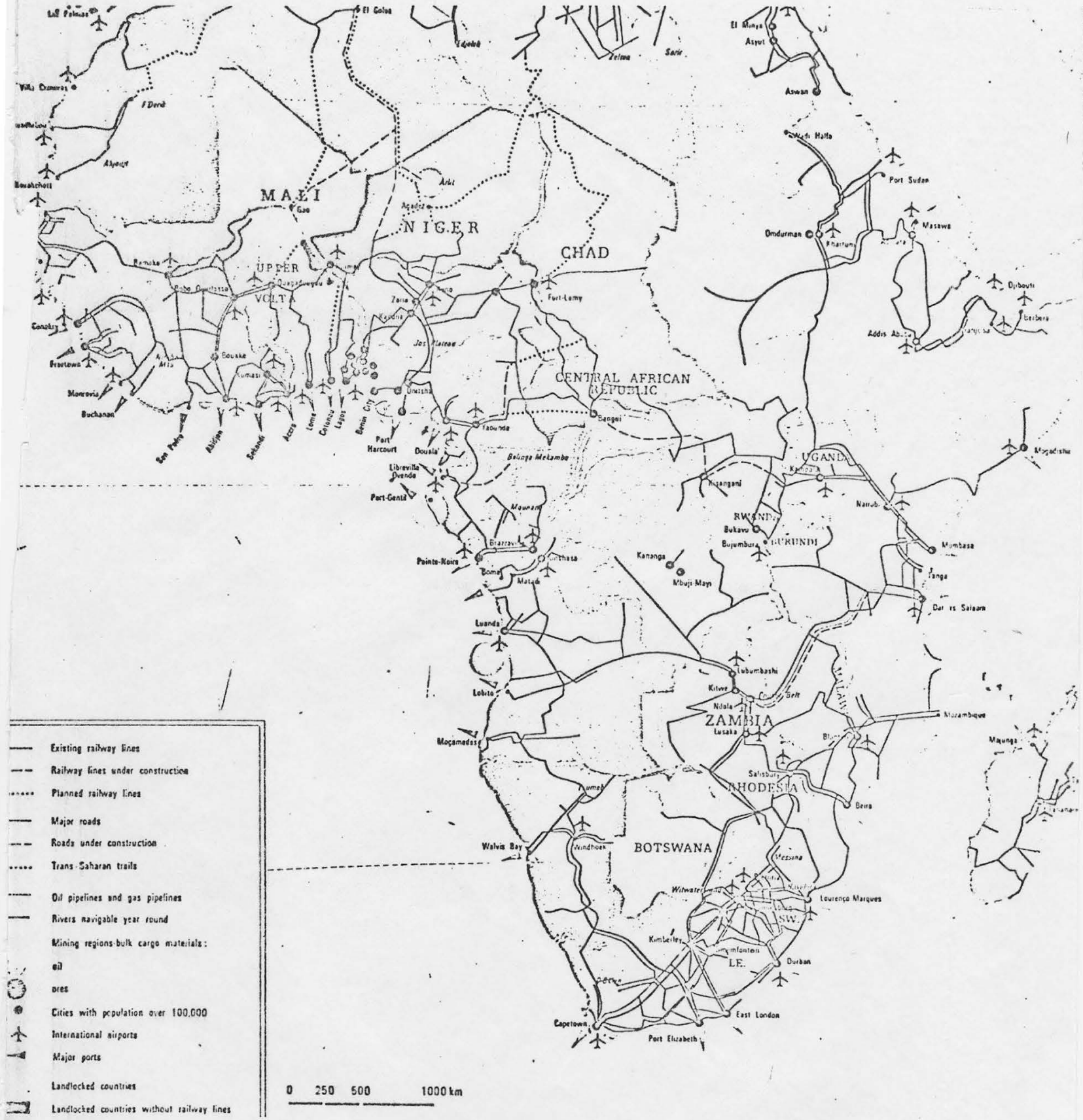
MAJOR MARKET AREAS IN CENTRAL AFRICA

Source: Van Chi-Bonnardel, op. cit., p. 61.

of four of the UDEAC countries and the chief means of access to the sea for its two landlocked members. Point-Noire is the most important port in Central Africa with a present traffic capacity of 3 million tons (which can be tripled). The Congo-Ocean railway has another branch from Mont-Bele (which is at 200 km from Pointe-Noire) that runs to Mbinda, south of the Gabon border, and links with industrial line serving Gabon's manganese ore deposits at Moanda. The country has extensive plans to improve the road system.

Gabon has undertaken the construction of a railway from Omendo to Belinga, a distance of 570 km. The western part of the country is well served by rivers which are important means for taking the timber to the coast. However, the only rivers which are suitable for normal navigation are the Ogooué from south-west of N'Djolé to Port Gentil, and the N'Goumie from just south of Sindara until it joins the Ogooué north of Lambaréné. There is also a road running south-east from Libreville through Lambaréné, Mouila and Ndende across the frontier of Congo and to Dolisie. It is an earth road with number of ferries which is open all year. The remainder of the road system is liable to seasonal interruptions and an extensive programme of development is in the process of being done. Improved connections with neighbouring territories, particularly Cameroon, have been one of the objectives of Gabon's development programme.

In Cameroon, the main line of the railway links the port of Douala with Yaoundé and with Mbalmayo. Douala is also connected by rail to Nkongsamba to the north-east and a branch line is under construction from Mbanga to Kumba to serve western Cameroon. A continuation of the



MAP 4

COMMUNICATIONS AND TRANSPORTATION

Source: Van Chi-Bonnardel, op. cit., p. 69.

trans-Cameroon Railway from Yaoundé to Ngaoundéré is under construction. The railroad line from Douala to Yaoundé and the northward road provide an alternative outlet to the sea for Chad.[1]

There is no railway in Chad at present but there is hope that the trans-Cameroon railway will eventually be extended to Moundou and Fort Archambault. Chad is ill served by its present road network and for several months of the year circulation is not possible. The country has two rivers: the Chari and the Lagone. The first one flows north-west through Fort Archambault to Fort Lamy and then to lake Chad. It is navigable between July and December. The other river flows through Moundou and north to join the Chari at Fort Lamy.

The Central African Republic has no railway either but it is hoped that Bangui, the capital, will be connected with the trans-Cameroon railway. The roads which are open all year are better than in Chad but they need improvement.

An important aspect of the transportation system are the inter-country links. The situation in general is poor. There is no road connection between Congo and Cameroon. There is, of course, the trans-equatorial system, i.e. the Congo-Oubangui waterway but it constitutes an indirect means insofar as economic relations between Congo and Cameroon are concerned. Apart from the Comilog railway, the only connection between the Republic of Congo and Gabon is the Dolisie-Libreville road which is open all the year round but is a candidate for improvement.

---

[1]It is about 1,250 miles, approximately the distance involved in the two routes which link Fort Lamy to the sea through Nigeria.

The only connection at present between Gabon and Cameroon is by road and the system clearly requires improvements. The trans-Cameroon railway system would greatly improve the connection between Cameroon and the Central African Republic and Chad.

In summary, there are tremendous internal problems within each of the UDEAC countries and to develop the internal system will require many years of heavy investment in transport, much of it having to be financed from outside. Chad represents the extreme case of isolation. However, the situation should not last much longer. Indeed if the planned links of Chad and the C.A.R. with the trans-Cameroon railway and the construction of a modern road from Fort Lamy to Bangui should materialize, they will have important implications for the future pattern of industrial economic activity in the common market in opening new possibilities for industrial development.

C. UDEAC Customs Union and Economic Performance

Economic development is usually discussed in terms of changes in a country's economic resources and their utilization. The available economic resources of a country consist in the domestic production of that country plus its imports. The uses to which these resources are put are identified by private and public consumption, gross domestic capital formation (including increases in stocks) and exports of goods and services.

The objective of this section is to examine these different economic components in UDEAC countries in order to evaluate their past and present economic performance. After a brief analysis of the gross domestic product,

I will examine the development of private and public consumption, the gross fixed capital formation, and the foreign trade of the members of the union.

1. Gross Domestic Product

a) General Statistics

A crude comparison of the Gross Domestic Product (GDP) of UDEAC countries indicates wide differences between them. Cameroon is by far the dominant economic partner of the union with a GDP three times larger than the GDP of the second ranking country, Gabon, and more than five times larger than the GDP of the C.A.R., the country occupying the last position (see Table 4). Thus Cameroon is in a class by itself while the other countries are grouped together at a fairly comparable level (especially Chad, Congo and Gabon).

The evolution of the GDP since 1960 reveals that Cameroon occupied its dominant economic position since the beginning of that period. As for the other countries, their positions changed for a while but by 1965 Congo and the C.A.R. were already in their present positions (respectively fourth and fifth) and by 1968, Gabon had supplanted Chad in the second position.

During that decade, Gabon experienced the largest GDP increase. Its GDP (as valued at current factor cost) tripled between 1960 and 1970. The C.A.R. is the country whose GDP growth was the smallest. Its GDP increased by less than a half during that period. The growth of the GDP can however be more exactly measured at constant market prices instead of the current factor costs which are artificially raised by inflation.

TABLE 4

Gross Domestic Product at Current Factor Cost, UDEAC, 1960 to 1970

Country	1960	1965	1968	1969	1970	Index (1960=100)
		(million U.S. dollars)				
Cameroon	406.0	469.7	781.5	865.0	895.0	220
Gabon	99.7	151.6	251.6	281.3	300.4	300
Chad	151.0	195.0	221.0	224.0	233.0	154
Congo	93.0	144.0	200.0	214.0	220.0	236
C.A.R.	119.0	129.0	175.0	174.0	170.0	142

Source: Survey of Economic Conditions in Africa, 1970 (New York: United Nations, 1971); Survey of Economic Conditions in Africa, 1971 (New York: United Nations, 1972), Part 1.
Both reports give statistics for 1968 and 1969 but with discrepancies between the two series of figures. I preferred to rely on the second one which is more recent and likely to include revised data. Most differences are in favor of a larger GDP (especially for Gabon).

Unfortunately, the figures which are available cover only the three-year period between 1969 and 1971 (see Table 5). The "real" growth of the GDP during that short period has been generally much more modest than in the previous years. Only two countries, Chad and Gabon, did increase their GDP throughout the entire period. The C.A.R. and Congo had both smaller GDP in 1971 than in 1969. Only two of the annual rates of growth reported in Table 5 are relatively high rates of growth: 4.6 percent between 1969 and 1970 for Cameroon and 6.1 percent between 1970 and 1971 for Gabon.

TABLE 5

Amount and Growth Rate of Gross Domestic Product at Constant 1970 Market Prices in UDEAC Countries, 1969-1971

Country	Amount (million U.S. dollars) 1969	1970	1971	Annual Growth Rate 1969-1970	1970-1971
Cameroon	977.3	1,021.9	1,017.5	4.6	-0.4
Gabon	330.7	335.2	355.8	1.4	6.1
Chad	284.3	288.1	294.2	1.3	2.1
Congo	240.0	235.5	237.2	-1.9	0.7
C.A.R.	193.5	194.1	192.1	0.3	-1.0
UDEAC	2,025.8	2,074.8	2,096.8	2.5	1.0

Source: Survey of Economic Conditions in Africa, 1972 (New York: United Nations, 1973).

Taken as a whole, the GDP for UDEAC increased during the same period but its annual rate of growth fell from 2.5 percent to only one percent. This is certainly not a positive indicator of economic development[1] especially if one realizes that these figures do not match the annual increase of the population (about 2.5 percent--see Table 3) and do not reflect the distribution of the GDP in the population.

[1]Obviously no firm conclusion can be drawn from observations limited to such a short period of time. In recognizing the limitations of my assessment of their economic performance, notice must be taken of the limited amount of information available on the national accounts of these countries and their statistical shortcomings.

b) GDP per Head and Income Distribution

As mentioned earlier, statistics of gross domestic product in developing countries have to be interpreted with caution. In themselves, they are not only subject to a considerable margin of error but their relative levels do not constitute necessarily a measure of the welfare of the people of the country. As for income distribution, statistics on Africa are inadequate. Apart from the gap between expatriates and nationals, there are also marked differences of income among Africans: between rural and urban dwellers and among different urban groups. Urban wage earners are in fact a privileged minority. In 1966, in Cameroon, the annual income of cocoa growers in the south was estimated at $177 (U.S.), that of cotton growers in the north at $108 and the inhabitants of the mountain regions were getting $24.[1] For the same year in the C.A.R., urban salaried employees representing with their families about 20 percent of the total population received an income three times more than the peasants received for their products (that is, with their families, the rest of the country's population).[2] Gabon offers perhaps the extreme example of economic dualism, that is, wide structural differences in income between the expatriates and the Africans. In 1960, a little over one percent of the population (the expatriates) accounted for one third of the consumption of the country and the consumption ratio between the two groups was one to forty-one.[3]

---

[1] Mission on Economic Co-operation in Central Africa (New York: United Nations, Economic Commission for Africa, Report on the ECA, 1966), p. 7.

[2] Pierre Kalck, La République Centrafricaine (Paris: Berger-Levrault, 1971).

[3] Mission on Economic Co-operation in Central Africa, op. cit., p.7.

While the GDP per head cannot reflect these wide differences in the distribution of the country's wealth in the population, it can indicate more truly if there has been a real increase in this wealth during a given period by reflecting changes in the size of the population. Thus the GDP may increase but a parallel increase in the population may not only result in keeping the wealth of the country at the same level but even result in reducing it. Thus in the preceding table, we observed that between 1969 and 1970, Cameroon, Gabon and Chad recorded increases in their GDP which were translated in a rate of growth of the GDP respectively 4.6, 1.4 and 1.3 percent. In fact, this was not real growth since in all three cases, increases in population offset the economic gains made and their rate of growth as measured by the GDP per head was negative. It declined from 137 to 136 in Cameroon, from 54 to 51 in Chad and from 471 to 460 in Gabon (see Table 6).

What is more remarkable, however, is the decline in the GDP per head in Chad and the C.A.R. between 1960 and 1970. This ten year period is long enough to indicate relatively long term trends. These are the two countries which are landlocked and their geographic location seems to have been an important factor in the benefits which they derived from their membership in UDEAC as will be seen in the rest of the analysis. The decline in GDP per head was particularly accentuated in the C.A.R. (23.5 percent). It should be noted also that all the countries of the union experienced a decline in the GDP per head between 1969 and 1970. If these figures and those of the growth rate of the GDP for 1970-71 provide any indications, it is that all the countries, except possibly Gabon, experienced again a decline in their GDP per head in 1970-71.

TABLE 6

Gross Domestic Product per Head at 1966 Market Prices, UDEAC Countries, 1960 and 1968-1970

Country	Gross Domestic Product per Head (in U.S. dollars) 1960	1968	1969	1970	1971*	Index in 1970 (1960=100)
Cameroon	106	130	137	136	decline	128
Gabon	283	454	471	460	increase	162.5
Chad	61	56	54	51	decline	83.6
Congo	74	173	185	174	decline	235
C.A.R.	115	97	93	88	decline	76.5

*These are my own estimations based on the GDP figures for 1971 (see Table 5).

Source: Survey of Economic Conditions in Africa, 1971 (New York: United Nations, 1972), p. 243.

c) Structure of Production and Industrial Composition of the GDP

An important dimension of the GDP is its composition by industrial origin. Change in this composition over time can be a good indicator of the economic evolution of a country. In this respect, the data are particularly revealing. The economy of three countries, Cameroon, the C.A.R. and Congo, is dominated by the service industry (see Table 7). The case of Congo is particularly striking with 62.6 percent of the GDP coming from this sector alone. Again this does not seem to be a healthy sign of economic development to me. The industrial sector dominates only in Gabon (45.4 percent) while agriculture dominates in Chad (47.5 percent). Congo and Gabon are clearly not agricultural producers with respectively 13.9 and

TABLE 7

Distribution of the GPD by Industrial Origin in Percentage at Constant 1970 Factor Cost, UDEAC Countries, 1960, 1970 and 1971

Country	GDP by Industrial Origin (in percent)											
	Agriculture			Industry			Services			Manufacturing		
	1960	1970	1971	1960	1970	1971	1960	1970	1971	1960	1970	1971
Cameroon	38.4	34.7	34.8	19.4	21.2	21.9	42.2	44.1	43.4	10.0	11.2	11.3
Gabon	30.8	18.7	19.5	32.6	45.4	45.4	36.6	35.9	35.2	6.2	4.1	4.7
Chad	55.1	45.1	47.5	12.2	16.9	17.1	32.7	37.1	35.4	4.5	8.8	9.1
Congo	19.4	13.2	13.9	21.5	23.1	23.6	59.2	63.7	62.6	9.6	12.7	12.2
C.A.R.	48.8	36.6	38.3	12.6	19.9	20.5	38.6	43.5	41.3	6.0	11.0	10.7

Source: Survey of Economic Conditions in Africa, 1972 (New York; United Nations, 1973), p. 52.

contribution of services declined in all countries, the smallest decline being 0.7 percentage points in Gabon.[1]

In summary, the picture is one of an area which, as a whole, is heavily concentrated on the production of agricultural and forest products. More than half of the total production is accounted for by these activities in Chad, a largely traditional and pastoral agricultural economy (see Map 5). Needless to say, the agricultural sector consists largely of subsistence production. Modern and large scale production is at present confined mainly to Congo (sugar plantations) and to Cameroon (banana plantations). However, the important forest industry, chiefly in Gabon and Congo, is mainly modern and commercialized.

Except in Gabon where petroleum, uranium, manganese and iron ores are exploited, known mineral resources are few (see Maps 6 and 7). Oil is exploited on a small scale in Congo and there is a diamond industry in the Central African Republic. Industry (including mining) generates only a small fraction of the GDP. Saw milling is found in Cameroon and Congo. The area includes also industries which are involved in the processing of minerals, forest and agricultural products in small scale (cotton ginneries, coffee hulleries, oil and soap mills, etc.). In addition, both Congo and Cameroon have a small range of light manufacturing industries (cigarettes, matches, etc.).[2] This situation has changed little in the decade since the creation of the customs union.

---

[1]Table 8 gives the absolute figures in greater details for the same period of 1960 to 1970.

[2]See the various reports of the Economic Commission for Africa from 1970 to 1973 under the general title of Survey of Economic Conditions in Africa.

TABLE 8

Gross Domestic Product at Current Factor Cost by Industry, UDEAC Countries, 1960 to 1970*

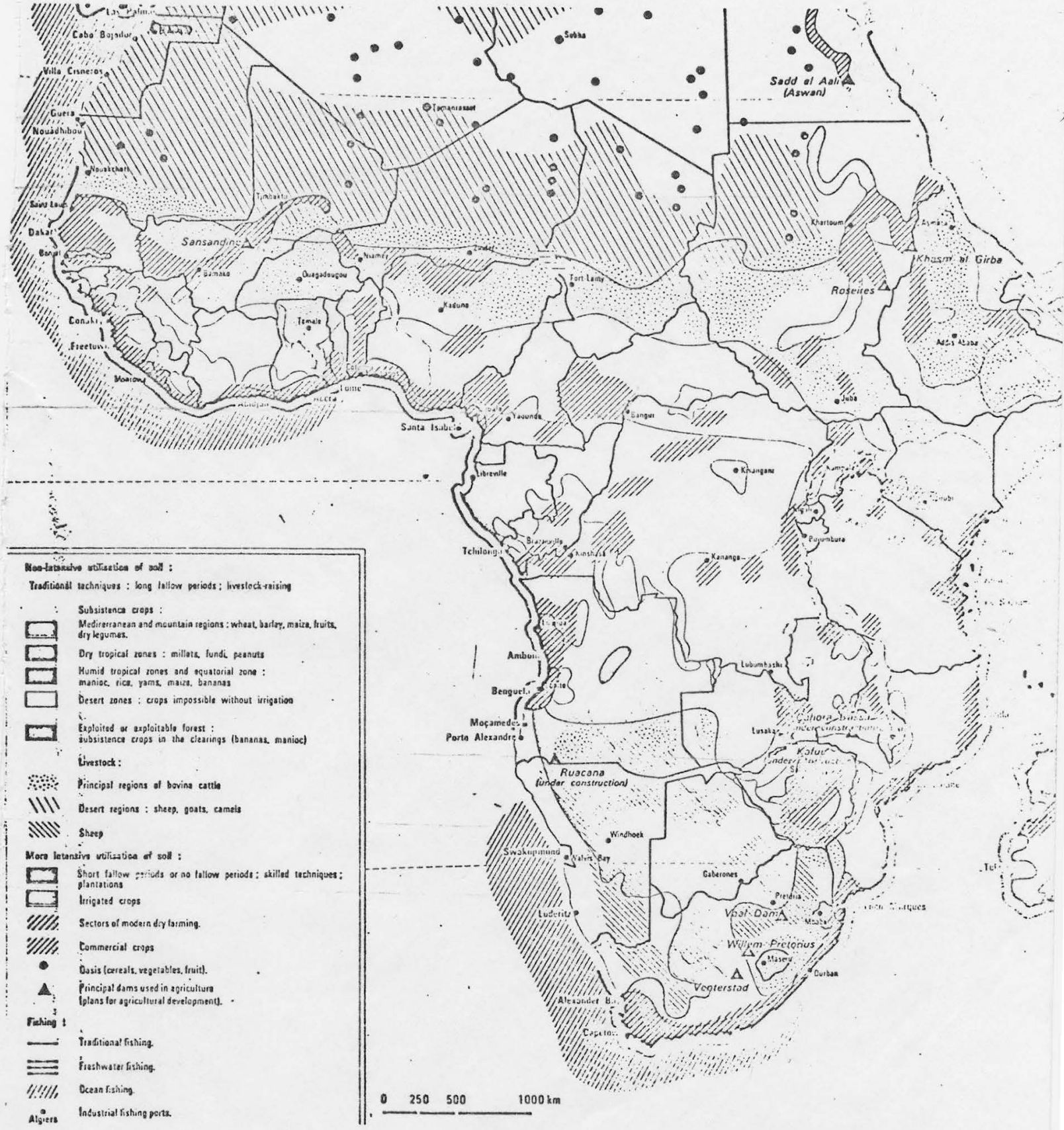
Country	Gross Domestic Product (million U.S. dollars)						
	Agri-culture	Mining	Manufac-turing	Cons-truction	Commerce	Transport	Total#
Cameroon							
1960....	172.0	1.0	56.0	23.0	72.0	22.0	406.0
1965....	215.0	1.0	85.0	42.0	91.0	34.0	569.7
1968....	299.7	2.0	117.0	50.0	138.0	44.0	781.0
1969....	334.0	2.0	130.0	56.0	154.0	48.0	865.0
1970....	306.0	2.0	141.0	62.0	174.0	53.0	895.0
Gabon							
1960....	28.7	17.3	7.3	8.7	17.6	5.5	99.7
1965....	46.8	29.3	8.8	10.9	18.6	10.5	151.6
1968....	44.1	81.0	18.3	15.8	42.8	13.7	251.6
1969....	48.5	94.7	19.6	17.7	46.2	15.0	281.3
1970....	50.3	96.6	21.5	19.7	50.0	16.3	300.4
Chad							
1960....	83.0	-	6.0	8.0	27.0	2.0	151.0
1965....	99.8	-	10.0	9.0	34.0	3.0	195.0
1968....	112.0	-	15.0	13.0	35.0	3.0	221.0
1969....	109.0	-	17.0	13.0	35.0	3.0	224.0
1970....	106.9	-	18.0	15.0	38.0	4.3	233.0
Congo							
1960....	18.0	1.0	11.0	8.0	23.0	16.0	93.0
1965....	22.0	1.0	19.0	13.0	33.0	22.0	144.0
1968....	28.0	2.0	24.0	21.0	53.0	27.0	200.0
1969....	28.0	1.0	26.0	21.0	56.0	29.0	214.0
1970....	23.0	10.0	27.0	16.0	58.0	30.0	220.0
C.A.R.							
1960....	56.0	4.0	7.0	4.0	23.0	2.0	119.0
1965....	52.0	8.0	13.0	4.0	20.0	3.0	129.0
1968....	66.0	11.0	26.0	5.0	23.0	4.0	175.0
1969....	67.0	10.0	28.0	5.0	26.0	4.0	174.3
1970....	59.0	8.0	26.0	5.0	29.0	5.0	170.0

*Figures come from two different sources. Those of 1960 and 1965 come from the first source, and the other figures come from the second source.

#The total includes also other sources of production.

Source: Survey of Economic Conditions in Africa, 1970 (New York: United Nations, 1971); Survey of Economic Conditons in Africa, 1971

(Cont'd. p. 79)



MAP 5

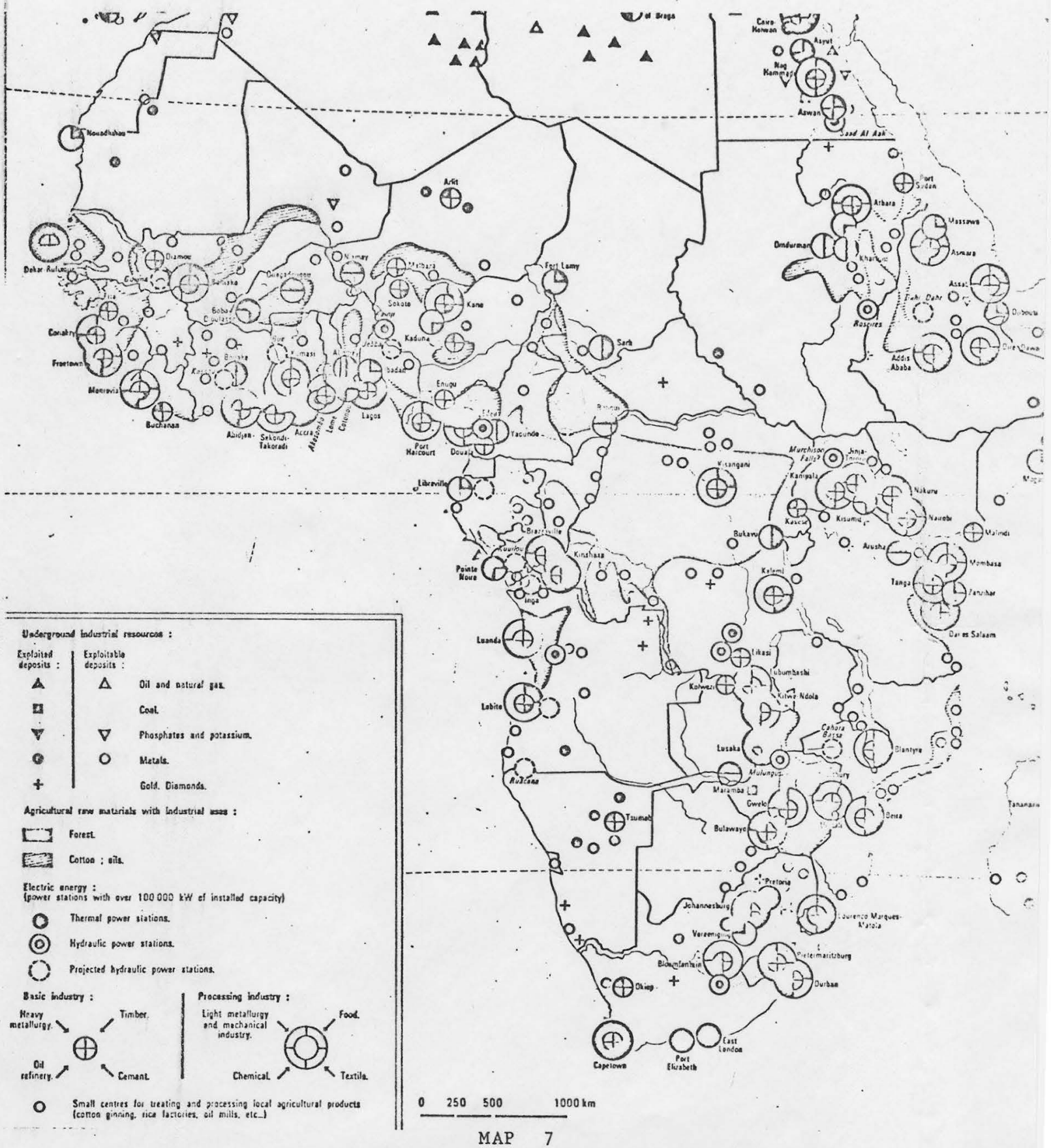
AGRICULTURE, LIVESTOCK, FISHING

Source: Van Chi-Bonnardel, op. cit., p. 63.

MAP 6

MINERAL RESOURCES

Source: Van Chi-Bonnardel, op. cit., p. 189.



MAP 7

ENERGY, RAW MATERIALS AND INDUSTRY

Source: Van Chi-Bonnardel, op. cit., p. 67.

It is interesting at this point to examine more closely the evolution in three important sectors for which more data are available: agriculture and food production, mining, and manufacturing.

1) Agriculture and Food Production

The extra information which is given in Table 9 concerning agriculture and food production does support the previous analysis showing the declining contribution of agriculture to the GDP. However, it indicates much more clearly the differences between countries. Thus while Cameroon and Gabon improved their agricultural production by about 30 percent over the period 1961 to 1971, Congo went through a bad slump which brought its production down by about 20 percent in the middle of the period and has been steadily recovering since but without being able to do it completely as of 1971. Chad barely managed to improve its situation during the same period and the C.A.R. fared better managing a 15 percent increase.

The figures given on the annual rate of growth in percent show that there have been wide fluctuations which in itself constitute probably a good indication of the vulnerability of this sector of production, especially in Cameroon, Congo and Chad.[1] Gabon did particularly well in this respect with a fairly constant positive rate of growth.

The same remarks apply generally to food production which is obviously very closely tied up with agricultural production.

(New York: United Nations, 1972). Both reports give statistics for 1968 and 1969, but with discrepancies between the two series of figures. I preferred to rely on the second one which is more recent and likely to include revised data. Most differences are in favor of a larger GDP (especially for Gabon).

[1]Chad was one of the most affected countries by the drought which plagued the sub-Sahara region in 1973.

TABLE 9

Index Numbers of Food and Agricultural Production in UDEAC Countries 1965 and 1968-1971. 1961-1965 Average = 100

Country	Agricultural Production					Annual Rate of Growth (in percent)			
	1965	1968	1969	1970	1971	1965-68	1968-69	1969-70	1970-71
Cameroon	109	130	125	125	133	6.0	-3.8	0.0	6.4
C.A.R.	100	109	111	111	115	2.9	1.8	0.0	3.6
Chad	99	107	101	99	105	2.6	-5.6	-2.0	6.0
Congo	82	83	89	90	97	0.4	7.2	1.1	7.8
Gabon	105	118	121	125	129	4.0	2.5	3.3	3.2
Total Central Africa	104	124	123	124	129	6.1	-0.8	0.8	4.0
Total Independent Developing Africa	106	114	118	121	126	2.4	3.5	2.5	4.1
	Food Production*					Annual Rate of Growth (in percent)			
Cameroon	105	126	119	122	128	6.3	-5.6	2.5	4.9
C.A.R.	98	106	108	108	113	2.7	1.9	0.0	4.6
Chad	99	101	99	98	103	1.7	-2.0	-1.0	5.1
Congo	80	82	88	89	96	0.8	7.3	1.1	7.9
Gabon	106	119	122	126	130	3.9	2.5	3.3	3.2
Total Central Africa	103	112	122	124	129	6.4	-1.6	1.6	4.0
Total Independent Developing Africa	105	114	117	121	125	2.8	2.6	3.4	3.3

*Food crops include cereals, pulses and vegetables, starchy roots, sugar, citrus fruits, bananas, wine, edible oil crops, nuts, cocoa and livestock products.

Source: Survey of Economic Conditions in Africa, 1971 (New York: United Nations, 1972).

When UDEAC countries are compared to other African countries, they do relatively poorly. Cameron and Gabon achieved the average level of growth of the Central African region but the other countries were well below average, in particular Chad and Congo.

2) Mining

Contrary to the situation in many other developing areas, mining contributed very weakly to the GDP of UDEAC countries. The only exception has been Gabon with 31 percent of the GDP in 1971 (see Table 10). In all the other countries, mining's contribution has been below 4 percent of the GDP. Even considering the absolute figures, the amounts of money involved have been insignificant except maybe for the C.A.R. where it reached few million of dollars (6.5 million in 1971).

Moreover, in all countries except Congo, that contribution has been diminishing or stable and in all, but Gabon and Congo, its rate of growth has been negative. The outstanding rate of growth of mining in Congo between 1970 and 1971 should not mask the very small size of that activity in this country and its insignificant contribution to the GDP. In all the countries, except Congo, mining has had a rate of growth inferior to the rate of growth of the GDP.

A comparison with the average rate of growth for Central Africa and West Africa accentuated the weakness of UDEAC countries' mining sector (see Table 10). In UDEAC countries, the contribution of mining to the GDP is well below average (except for Gabon) and the rate of growth is also well under the average figures (including Gabon but excluding Congo for 1971).

TABLE 10

The Importance of Mining in UDEAC Countries Compared to Other Regions of Africa, 1969-1971

	GDP at Constant 1970 Factor Cost in million U.S. dollars			Contribution of Mining to GDP in million U.S. dollars			Contribution of Mining to GDP in percent		
Country	1969	1970	1971	1969	1970	1971	1969	1970	1971
Cameroon	868.8	903.5	884.7	1.5	1.4	1.4	0.2	0.2	0.2
C.A.R.	169.4	169.9	169.6	9.2	6.8	6.5	5.4	4.0	3.8
Chad	249.4	254.2	260.3	0.4	0.4	0.3	0.2	0.1	0.1
Congo	222.4	216.5	217.5	1.0	1.0	2.4	0.5	0.5	1.1
Gabon	278.9	279.8	295.6	92.5	89.7	91.2	33.2	32.1	30.9
Total Central Africa	3,700.2	3,910.6	4,010.2	262.7	287.9	292.0	7.1	7.4	7.3
Total West Africa	12,259.0	13,225.0	14,048.8	935.3	1,354.5	1,762.0	7.6	10.2	12.5

	Annual Rate of Growth of GDP in percent		Annual Rate of Growth of Mining in percent	
Cameroon	4.0	-2.1	-5.5	-4.0
C.A.R.	0.3	-0.2	-25.7	-5.7
Chad	1.9	2.4	-8.2	-6.1
Congo	-2.6	0.4	-3.9	141.6
Gabon	0.3	5.6	-3.1	1.7
Total Central Africa	5.7	2.5	9.6	1.5
Total West Africa	7.9	6.2	44.8	30.1

Source: Survey of Economic Conditions in Africa, 1971 (New York: United Nations, 1972).

3) Manufacturing

Industrialization usually receives much attention by development specialists. The rate of growth of manufacturing activities constitutes a good index of the success or failure of programs of industrialization. In the case of UDEAC countries, one should certainly not speak of success but maybe of failure insofar as the progress has been very limited. In general, manufacturing made a small contribution to the GDP (not more than 12 percent, see Table 11). This contribution has been relatively stable but its annual rate of growth has been fluctuating both downward and upward. The only country which has been showing some real signs of progress is Gabon, the least populated and lest industrialized member of the union (see Table 11). Chad has been the only country to show improvement in both periods of comparison.

However, the situation of UDEAC countries is not very different from the average situation in Central and Western Africa. Although the contribution of manufacturing activities in UDEAC is below the average of Central Africa, it is above the average of Western Africa.[1] Except for Gabon though, the rate of growth of UDEAC manufacturing sector has been inferior to the average rate of growth in Western Africa.

2. Private and Public Consumption

An analysis of the patterns of private and public consumption in UDEAC countries between 1960 and 1971 reveals wide variations between

---

[1] Regional averages should not be used without caution. Their values are very often biased by the excessive size and economic importance of one or two countries such as Zaire or Nigeria which constitute exceptional cases.

TABLE 11

Contribution of Manufacturing Industry to GDP at Constant 1970 Factor Cost, UDEAC Countries, Central and Western Africa, 1969-1971

Country	Contribution of Manufacturing to GDP in million U.S. $			Percentage of GDP			Annual Rate of Growth of Value Added by Manufacturing to GDP in percent	
	1969	1970	1971	1969	1970	1971	1969-1970	1970-1971
Cameroon	97.8	101.2	101.0	11.2	11.2	11.4	3.4	-0.2
C.A.R.	17.7	18.6	18.2	10.4	10.9	10.8	5.3	-2.0
Chad	21.9	22.3	23.8	8.8	8.8	9.1	1.7	6.5
Congo	28.2	27.4	26.6	12.7	12.7	12.2	-2.7	-3.3
Gabon	10.1	11.5	13.9	3.6	4.1	4.7	14.0	20.8
Total Central Africa	514.7	510.6	504.0	13.9	13.1	12.6	-0.8	-1.3
West Africa	1,125.4	1,200.6	1,303.7	9.2	9.1	9.3	6.7	8.6

Source: Survey of Economic Conditions in Africa, 1971 (New York: United Nations, 1972).

countries as well as variation over time.

a) Variations Between Countries

In 1960, total consumption varied from a low of 59.8 percent of the GDP in Gabon to a high of 100 percent in Congo (see Table 12). The same variations existed in 1971 if only greater: Gabon was still occupying the lowest position (59.4 percent) and Chad had replaced Congo in the top position (106.6 percent). Total consumption figures for the other countries were falling somewhere in between these two extremes but closer to the highest figure than the lowest one.

TABLE 12

Private and Public Consumption as Percentage of GDP at Constant 1970 Market Prices, UDEAC, Central, Western and Total Africa, 1960 and 1969-1971

	Private Consumption				Government Consumption				Total Consumption			
Country	1960	1969	1970	1971	1960	1969	1970	1971	1960	1969	1970	1971
Cameroon	71.4	68.9	72.1	71.9	13.8	16.1	16.4	17.7	85.2	85.0	88.5	89.6
C.A.R.	73.0	69.9	73.6	73.1	17.9	19.6	20.0	18.6	90.9	89.5	93.6	91.7
Chad	82.7	85.4	87.1	86.9	13.1	17.2	20.9	19.7	95.8	102.6	108.0	106.6
Congo	80.7	55.3	58.8	60.3	19.3	20.4	19.1	19.5	100.0	75.7	77.9	79.8
Gabon	45.2	41.5	41.2	41.1	14.6	17.5	17.9	18.3	59.8	59.0	59.1	59.4
Total Central Africa	68.5	60.1	61.8	63.7	15.4	18.5	21.2	21.1	83.9	78.6	83.0	84.8
West Africa	82.0	74.2	73.7	72.1	8.6	12.3	11.2	11.2	90.6	86.5	84.9	83.3
Total Independent Developing Africa	74.8	64.4	65.3	65.8	13.1	16.1	16.5	16.9	87.9	80.5	81.8	82.7

Source: Survey of Economic Conditions in Africa, 1971 (New York: United Nations, 1972).

b) Variations Over Time

Three countries, Cameroon, the C.A.R. and Chad, followed the same pattern: increase in total consumption between 1960 and 1971. Chad had the most important increase: more than 10 percentage points. Congo and Gabon were exceptional cases. Gabon's total consumption remained stable at its low level. Contrary to the other countries, Congo lost 20 percentage points, decline which was totally due to a reduction in private consumption (from 80.7 percent to 60.3 percent of the GDP).

Thus in terms of total consumption, the majority of the countries followed the increasing trend manifested in Central Africa between 1969 and 1971. However, this increasing trend has not been general throughout Africa. West Africa's variations were downward during the same period. Over the longer 10 year period, the general trend has been toward a lower consumption level in all of Africa except for Central Africa and the three countries of UDEAC where it increased. These three countries were also exceptional in that their levels of total consumption was above the average for Central Africa as well as for the rest of Africa.

c) Private Versus Public Consumption

Private consumption generally absorbs a high proportion of available resources in all the subregions of Africa. It is the same situation also in most of the UDEAC countries. However, the trend has been for public consumption to increase its share of the GDP (particularly Cameroon, Chad and Gabon). On the contrary, private consumption's share of the GDP either remained stable (Cameroon and the C.A.R.) or went down sometimes

very drastically as in the case of Congo (from 80.7 in 1960, it reached down to 55.3 in 1969 to recover slightly at 60.3 in 1971--see Table 12).

While the effect of these changes was to maintain wide differences between these countries in the private consumption sector, differences were reduced in the public sector. In 1971, only 2 percentage points separated the low of 17.7 in Cameroon from the high of 19.7 in Chad. On the basis of these figures alone, there does not seem to be much difference among these countries regarding the public investment policies.

Despite these changes, the level of private and public consumption in UDEAC countries was not closer to the average of Central Africa as a whole. Regarding the first sector, Cameroon, the C.A.R. and Chad were all above average, while Congo and especially Gabon were below average. In the case of public consumption, all UDEAC countries were below the average of Central Africa while being above the same average for Africa as a whole.

3. Gross Domestic Capital Formation and Savings

One finds here the same pattern of differences between UDEAC countries which was observed earlier in analyzing consumption: two groups, the one including Cameroon, the C.A.R. and Chad, and the other made of Congo and Gabon. In the first group, the gross domestic capital formation has been lower than the average for Central Africa and Africa as a whole and remained at this level even if it had a tendency to increase (see Table 13). On the contrary,it was much higher than the average for Central Africa in the case of Congo and Gabon and remained above average despite

TABLE 13

Gross Domestic Capital Formation and Savings as Percentage of GDP at Constant 1970 Market Prices, UDEAC, Central Africa and Africa, 1960 and 1969-1971

	Gross Domestic Capital Formation as Percentage of GDP				Savings as Percentage of GDP*			
Country	1960	1969	1970	1971	1960	1969	1970	1971
Cameroon	10.2	13.4	13.9	15.4	14.8	15.0	11.5	10.4
C.A.R.	15.9	13.9	12.2	14.1	9.1	10.5	6.4	8.3
Chad	11.3	10.8	13.9	14.4	4.2	-2.6	-8.0	-6.6
Congo	52.7	31.6	24.6	28.3	0.0	24.3	22.1	20.2
Gabon	39.2	29.8	29.5	27.6	40.2	41.0	40.9	40.6
Total Central Africa	14.2	19.7	23.2	25.7	16.1	21.4	17.0	15.2
Total Independent Developing Africa	16.7	16.9	17.7	18.3	12.1	19.5	18.2	17.3

*Estimates.

Sources: Survey of Economic Conditions in Africa, 1972 (New York: United Nations, 1973), Part 1, p. 60.

sharp reductions, especially in Congo.[1]

With regard to savings, there were contrasting differences between the five countries. Chad had the lowest level of savings (-6.6) and was the only country with no savings. While Cameroon and the C.A.R. did have some savings (respectively 10.4 and 8.3 percent of the GDP), Congo with 20.2 and especially Gabon with 40 percent were doing much better. A

[1]In the early 1960s, the rates were high in these two countries because of the need for mining equipment and exploration.

TABLE 14

Savings and Foreign Investments in UDEAC Countries, Average for 1968 to 1970

Country	GDP	Foreign Investments (in million U.S. $)	Foreign Investments (in % of GDP)	Gross National Savings (in million U.S. $)	Gross National Savings (in % of GDP)	Balance Between Foreign Investments & Savings
Cameroon	966.1	128.5	13.3	139.1	14.3	-10.6
Gabon	232.2	90.8	39.1	127.3	54.8	-36.5
Chad	230.3	33.9	14.7	15.0	6.5	18.9
Congo	211.8	55.1	26.0	45.7	21.5	9.4
C.A.R.	189.3	34.3	18.1	24.4	12.9	9.9

Source: Report on the Enlargement of the EEC.

comparison with Central Africa and the rest of the African continent nations shows that Cameroon, the C.A.R. and especially Chad were below average and were likely to remain so if the same trends continued. Congo and Gabon were above average and likely to remain in the same position.

Beside savings, foreign investments can be an important source of capital for a country and are usually crucial for developing countries which generally have problems in generating enough capital to adequately finance their economic development programs. A brief examination of the situation of UDEAC countries shows that foreign investments have been very important in the past. For the period 1968 to 1970, their volume exceeded that of local savings in three countries: Chad, the C.A.R. and Congo (see Table 14). In the other two countries, Cameroon and Gabon, foreign investments, while not matching exactly the volume of national savings, were considerable.

In Cameroon alone, their volume was superior to the total foreign investments in Chad, the C.A.R. and Congo ($128.5 million compared to $123.3 million). By far the least populated country of the union, Gabon received as much as $90.8 million in foreign investments during that period.

Cameroon and Gabon have also had the best record regarding international liquidity (see Table 15). Chad and the C.A.R. have occupied the last position well below the two dominant countries, especially Cameroon. It should be noted however that Chad improved its position very substantially in 1971. On the contrary, Cameroon went through two years of decline in 1971 and 1972 and its liquidity was reduced by almost half the level of 1970 (from $80.81 million to $43.64 million). This reduction has been due only to a decrease in its amount of foreign exchange. Congo and Gabon were also affected by a decrease in foreign exchange in 1972 but it was not big enough to affect their liquidity significantly.

4. Foreign Trade

The import and export of goods and services are particularly sensitive indicators of the economic life of a country. A brief analysis of the situation of the UDEAC countries shows that there has not been much improvement in the recent years. Exports increased in absolute terms in all countries except Congo (see Table 19), but their relative importance in the GDP declined in three countries (Cameroon, Chad and Congo) and they continued to be limited to very few commodities which were generally of an agricultural and raw materials nature. UDEAC

TABLE 15

International Liquidity of UDEAC Countries, 1969 to 1972

Country	Year	Gold	SDR's	Reserve Position in the Fund	Foreign Exchange	Total
			(in million U.S. dollars)			
Cameroon	1969	-	-	2.70	45.39	48.09
	1970	-	3.06	6.90	70.85	80.81
	1971	-	7.38	7.49	58.73	73.60
	1972	-	11.41	7.49	24.74	43.64
Gabon	1969	-	-	1.15	7.13	8.28
	1970	-	1.60	2.37	10.77	14.74
	1971	-	3.44	2.61	19.34	25.39
	1972	-	5.14	2.64	15.45	23.23
Congo	1969	-	-	1.28	4.47	5.73
	1970	-	0.03	1.56	7.29	8.86
	1971	-	1.43	1.77	7.59	10.79
	1972	-	2.80	1.88	5.63	10.31
Chad	1969	-	-	1.28	0.7	1.35
	1970	-	0.04	-	2.27	2.31
	1971	-	-	-	11.22	11.22
	1972	-	1.22	-	-	-
C.A.R.	1969	-	-	1.15	0.04	1.19
	1970	-	0.01	1.33	0.05	1.39
	1971	-	-	0.15	0.06	0.21
	1972	-	1.31	0.31	0.09	1.71

Source: IMF, International Financial Statistics, Volume XXVI, No. 3 in Survey of Economic Conditions in Africa, 1972 (New York: United Nations, 1973).

countries were still very dependent on the European Market (in particular France) for both imports and exports, and were not able to increase trade between themselves as much as it was hoped.

a) Importance

Foreign trade accounted for close to or well above the GDP of UDEAC countries. In general, the volume of trade has been smaller in the two landlocked countries. Thus while Chad had a combined total of exports and imports of 46.1 percent of the GDP in 1971, Gabon had a total of 86.8 percent (see Table 16). The only coastal country doing poorly was Cameroon with a combined total of 45.7 percent. Except for Gabon for the entire period and for Cameroon until 1970, import percentages were always greater than export percentages, markedly so in the case of Chad where the gap has been increasing throughout the period (from a difference of one third in 1960 to an almost threefold one in 1971).

TABLE 16

Exports and Imports of Goods and Services as Percentage of GDP at Constant 1970 Market Prices, UDEAC Countries, 1960 and 1969-1971

	Exports				Imports			
Country	1960	1969	1970	1971	1960	1969	1970	1971
Cameroon	24.2	23.8	23.1	20.3	19.7	22.2	25.5	25.4
C.A.R.	17.5	22.8	20.6	20.7	24.3	26.3	26.5	26.5
Chad	15.5	14.6	14.5	12.5	22.5	28.0	36.4	33.6
Congo	34.2	37.2	31.4	25.0	86.9	44.6	34.0	33.1
Gabon	38.3	46.4	47.8	49.9	37.3	35.2	36.5	36.9

Source: Survey of Economic Conditions in Africa, 1971 (New York: United Nations, 1972), p.61.

Gabon constituted an exception throughout the period. Not only have its export percentage been greater than its import percentage since 1960, but the difference has been increasing since. While the respective figures of export and import percentages for 1960 were 38.3 versus 37.3, they had become 49.9 versus 36.9 in 1971 (see Table 16).[1]

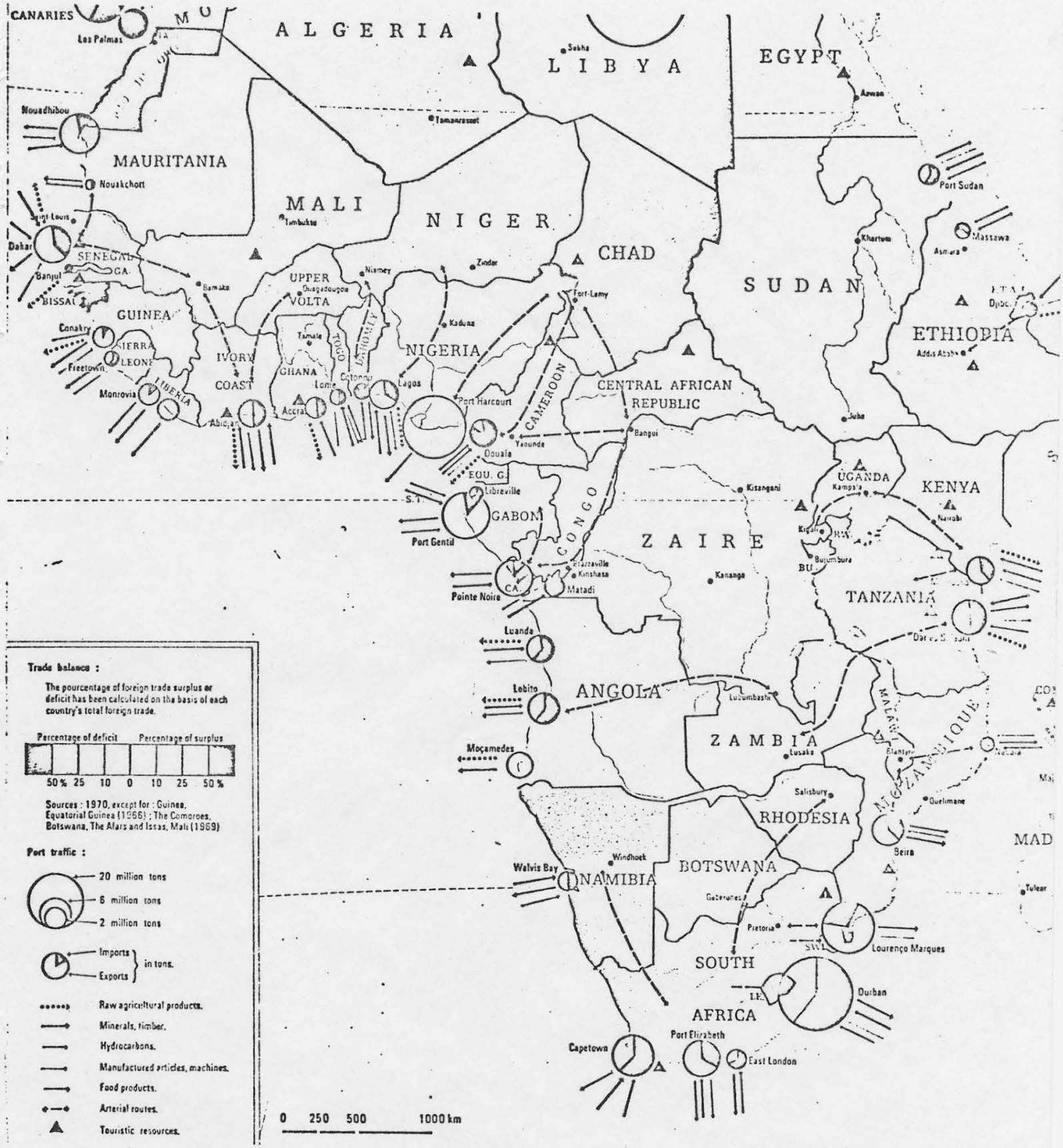
b) Foreign Trade Structure

The structure of imports and exports of these countries reflects very well the satellite position of these developing countries. This is indicated both by the nature of the products and the range of products involved in the trade (see Map 8).

1) Exports

The salient feature of the sub-region's export structure is the narrow range of a few traditional primary commodities and its relatively high share in the GDP. The mono-production pattern is a specific feature, not only of the Central African region, but equally of other African sub-regions and one of the conspicuous indicators of underdevelopment. As indicated in Table 17, the major export products consist of raw agricultural products, lumber and minerals. There is no manufacturing products nor services involved. Furthermore the lack of diversity is clearly demonstrated by the overwhelming importance of the one or two dominant products. For instance, the dominant product alone accounted for 60 percent of exports in Congo in 1970 and 70 percent in Chad. In the later country,

[1]Due to extraction activities.



MAP 8

DOMESTIC AND FOREIGN TRADE

Source: Van Chi-Bonnardel, op. cit., p. 73.

TABLE 17

The First Two Export Commodities in UDEAC Countries in 1963 and 1970

Country	Percentage of Exports Represented by the Commodity						Commodities in Order of Importance
	First		Second		First and Second		
	1963	1970	1963	1970	1963	1970	
Cameroon	32.2	24.3	20.1	23.5	52.3	47.8	Cocoa beans, coffee
C.A.R.	48.4	40.5	25.1	21.9	73.5	62.4	Diamonds, cotton lint
Chad	76.9	70.5	12.2	18.0	89.1	88.5	Cotton lint, meat
Congo	34.0	60.1	46.3	9.4	80.3	69.5	Lumber, diamonds
Gabon	53.6*	40.8	19.0#	32.8	72.6	73.6	Crude petroleum, lumber

*Lumber.
#Manganese.

Source: Survey of Economic Conditions in Africa, 1971 (New York: United Nations, 1972), Part 1.

the two dominant products alone, meat and cotton lint, represented 88 percent of exports.

This situation does not seem to have been much of an improvement over the one existing earlier. According to the figures in Table 17, only two countries have clearly made some progress since 1963, the C.A.R. and Cameroon. Both countries are less dependent on one product and both are less dependent on the two dominant products. The case of Congo is less clear. While the country is less dependent on the two dominant products by a good margin (80.3 percent in 1963 compared to 69.5 percent in 1970), it has become far more dependent on the major export product, lumber (34.0 percent in 1963 compared to 60.1 percent in 1970). This situation of Chad and Gabon remained quite the same with a slight improvement due

to a smaller dependence on the dominant product but an overall dependence which is the highest of all UDEAC countries.

In brief, the structure of exports of the UDEAC countries continued to be characterized by the predominance of primary commodities and to be affected by the special difficulties connected with this type of low elasticity of supply, depressed and unstable prices and revenues. Furthermore, many primary products have been encountering growing competition from substitute materials. Because of their continuing reliance on a limited number of commodities, UDEAC countries have been particularly vulnerable to that threat of product substitution.

2) Imports

There were wide variations in the volume of imports by end-use in the UDEAC countries. Two major patterns were evident. In the first one, which characterizes Cameroon, the C.A.R. (and most likely Chad), consumer goods imports clearly dominated with about half the total imports (54.6 for Cameroon in 1969). Capital goods and intermediate goods imports shared the rest about equally with a small difference favoring capital goods imports. In the second pattern, the importation of intermediate goods dominated with about 40 percent of the total imports, followed by consumer goods and capital goods. This represented the situation in Congo and Gabon. However, there was a marked trend in Congo toward greater consumer goods imports. In 1970, they had almost reached the level of intermediate goods imports (see Table 18).

TABLE 18

Imports by End-use in UDEAC Countries, 1969 to 1971

Country		Total Imports	Consumer Goods	Capital Goods	Intermediate Goods
Cameroon	1969	100.0	54.6	24.6	20.8
	1970	100.0	51.6	26.8	21.6
	1971	100.0	50.6	27.1	22.3
C.A.R.	1969	100.0	49.8	26.7	23.5
	1970	100.0	49.8	26.7	23.5
	1971	100.0	-	-	-
Congo	1969	100.0	32.5	25.1	42.4
	1970	100.0	39.1	20.2	40.7
	1971	100.0	-	-	-
Gabon	1969	100.0	30.4	29.6	40.0
	1970	100.0	27.8	28.7	43.5
	1971	100.0	-	-	-

Source: Survey of Economic Conditions in Africa, 1971 (New York: United Nations, 1972)

There were no firm trends concerning the changes in these patterns although imports in capital goods have had a tendency to decrease compared to imports of intermediary goods. If this trend was to maintain itself and imports of consumer goods were to remain at the same level, this does not constitute a positive sign of development, particularly for Cameroon and the C.A.R. where capital goods and intermediate goods imports should have increased their share of the total.

c) Direction of Foreign Trade

UDEAC's foreign trade has been dominated by the overwhelming importance of the European Economic Community. This can be easily understood historically due to the close economic links which were established with France during the colonial era.

When the treaty of Rome was signed, France still had responsibility for these territories. Even with the establishment of the EEC, France remained anxious to maintain the preferences which it had enjoyed in the colonial territories. Moreover, during the colonial period, the territories received from the metropolitan powers grants-in-aid and technical assistance which had to be maintained. As a consequence, UDEAC countries became associated overseas territories of the EEC under the Yaoundé convention which replaced Part IV of the treaty of Rome of 1957. Although Africa's association with the EEC originated in the past colonial and historical links, it is generally recognized as a relationship between independent states seeking to develop a more effective form of co-operation in order to enhance their economic development.[1]

The African countries require the assistance of the EEC in their development and optimum access for their products while European countries require a regular supply of raw materials (agricultural and mineral) which are important to the maintenance of their industries. Africa is also a market for their finished products.

---

[1]The association governs many aspects of the economic relations especially free trade, financial aid and technical cooperation, right of establishment, payments, services and capital transfers, and common institutions for consultation and joint decisions.

Thus, on the export side, the EEC accounted for a very high percentage of the total exports in 1970: 76.1 percent in the case of Cameroon and 73.8 percent in the case of Chad (see Table 19). On the import side, all countries obtain most of their goods from the EEC. Over 70 percent of Cameroon's, the C.A.R.'s, Congo's and Gabon's imports came from the EEC in 1970.

However, the U.S.A. became a relatively important trading partner for a number of African countries during the 1960's such as Cameroon whose exports to the U.S.A. increased from 6.3 to 9.7 percent while its imports increased from 4.0 to 7.7 percent. Significant increases in exports were also noticeable for Gabon.

d) Intra-regional Trade Flows

Available data on intra-regional trade flows are hard to obtain and are not as reliable as one would expect. A good deal of trade goes unrecorded either because not all enterprises are liable to the single tax, or because of errors, illicit trade, barter trade, intra-tribal trade, etc.[1] Due to these problems and others as well, one finds important discrepancies between figures for the same year according to different but reputed reliable sources (for instance the United Nations). If these data problems make it difficult to analyze and interpret changes from year to year, they are not severe enough to prevent the analysis and interpretation of trends and major changes over longer periods.

---

[1]Borel, op. cit., p. 107.

TABLE 19

Foreign Trade of UDEAC Countries, 1965 to 1972, in Thousand U.S. Dollars

Source: Foreign Trade Statistics for Africa (New York: United Nations, Series A, Direction of Trade, Nos 7 to 22, 1968 to 1974. * Indicate figures for the first nine months

Country	Partner	Imports											Exports									
		1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Cameroon	World:	101848 100%	108305 100%	115829 100%	133645 100%	131683 100%	177348 100%	188427 100%	207182 100%	242072 100%	187359* 100%	219595* 100%	103367 100%	120240 100%	121680 100%	118600 100%	131391 100%	122058 100%	188796 100%	227491 100%	225927 100%	159290* 100%	160594* 100%
	EEC: (enlarged)	65616 64.4	74114 68.4	84953 73.3	101653 76.0	103524 78.6	138928 78.3	141991 75.3	154274 74.4	178192 73.6	136831* 73.0	157286* 71.6	83686 80.9	98751 82.1	101769 83.6	93418 78.7	91327 69.5	91400 74.9	137342 72.7	171446 75.3	161868 71.6	107271* 67.3	111072* 69.1
	U.S.A.:	5709 5.6	5260 4.8	4877 4.2	8062 6.0	6113 4.6	9095 5.1	10796 5.7	12442 6.0	18598 7.7	13981* 7.4	16884* 7.7	6454 6.2	6323 5.2	8525 7.0	12442 10.5	19946 15.1	15617 12.8	19670 10.4	13504 5.9	22028 9.7	16063* 10.1	16989* 10.6
Congo	World:	67820 100%	61853 100%	64840 100%	64707 100%	69826 100%	81985 100%	83645 100%	78637 100%	57233 100%	-	-	35141 100%	706 100%	47407 100%	46802 100%	43378 100%	47514 100%	49528 100%	44103 100%	30828 100%	-	-
	EEC:	53386 78.7	46221 74.7	48848 75.3	50513 78.1	54879 78.6	63778 77.8	66189 79.1	60390 76.8	44674 78.0	-	-	25480 72.5	31121 74.6	29344 61.8	39134 83.6	34603 79.8	36432 76.7	37608 75.9	28999 65.7	18634 60.4	-	-
	U.S.A.:	2576 3.8	4239 6.8	3291 5.0	3918 6.0	3243 4.6	3362 4.1	4347 5.2	5328 6.8	3627 6.3	-	-	2063 5.9	214 -	289 -	264 0.56	152 0.35	843 1.8	1191 2.4	826 1.9	729 2.4		
Gabon	World:	38767 100%	48105 100%	55668 100%	62482 100%	66371 100%	67444 100%	64700 100%	77991 100%	79831 100%	-	-	58710 100%	73423 100%	91312 100%	96976 100%	100796 100%	120234 100%	124800 100%	142213 100%	121284 100%	-	-
	EEC:	28148 72.6	34499 71.7	39759 71.4	46729 74.9	51464 77.5	52962 78.5	52700 78.4	61576 78.9	61708 77.3	-	-	44896 76.4	50571 68.8	60856 66.6	65415 67.4	66199 65.7	73495 61.1	66400 53.2	77486 54.5	71903 59.2	-	-
	U.S.A.:	3801 9.8	5690 11.8	7006 12.5	7303 11.7	7226 10.9	6167 9.1	6200 9.6	8348 10.7	8976 11.2	-	-	2006 3.4	9645 13.1	14706 16.1	17557 18.1	21008 20.8	23323 19.3	15300 12.2	15550 10.9	4659 3.8	-	-
C.A.R.	World:	25215 100%	26385 100%	29851 100%	27450 100%	30710 100%	40120 100%	35470 100%	35011 100%	31620 100%	32600 100%	-	14218 100%	22000 100%	28929 100%	26360 100%	30750 100%	29028 100%	35711 100%	35636 100%	30579 100%	35666 100%	-
	EEC:	18022 71.4	20044 75.9	22291 74.7	21506 78.3	24965 81.3	33521 83.5	29345 82.7	26584 75.9	24914 78.8	26448 81.1	-	9014 63.3	11763 53.4	16458 56.9	14993 56.9	17585 57.2	14645 50.4	17219 48.2	23925 67.1	21747 71.1	24785 69.5	-
	U.S.A.:	1302 5.1	1348 5.1	1479 4.9	1666 6.0	1367 4.4	1466 3.6	1780 5.0	1733 4.9	1837 5.8	1777 5.4	-	1923 13.5	3860 17.5	4366 15.1	3489 13.2	5799 18.8	8722 30.0	11274 31.6	3151 8.8	72 0.2	207 0.6	-
Chad	World:	29113 100%	29031 100%	34585 100%	31214 100%	32256 100%	40108 100%	54270 100%	53697 100%	61995 100%	62008 100%	43673* 100%	16545 100%	22708 100%	26511 100%	27232 100%	23689 100%	26876 100%	30752 100%	31005 100%	29549 100%	28040 100%	27588* 100%
	EEC:	18552 63.7	18381 63.3	21551 62.3	18678 59.8	20340 63.0	26434 65.9	28634 52.8	27444 51.1	34028 54.9	34908 56.3	25926* 59.4	9903 59.8	15312 67.4	17355 65.4	16754 61.5	14484 61.1	10712 73.3	22182 72.1	26076 84.1	21791 73.7	4777 17.0	620* 2.2
	U.S.A.:	1096 3.7	2162 7.4	2608 7.5	2783 8.9	3604 11.2	3991 9.9	3466 6.4	2715 5.0	2510 4.0	1981 3.2	1506 3.4	10 -	2 -	- -	- -	- -	20	6	14	-	-	-

In general, the information indicates that intra-regional trade has remained limited in volume and extension. Although it increased in the period under study, it still represent a very small proportion of the total trade of UDEAC countries as a whole. Furthermore, it has been very lop-sided in favor of the coastal countries.

1) Importance

Intra-regional trade represents a very small proportion of the total trade of UDEAC countries (between 5 and 6 percent in 1964 and 1965) (see Table 20). This is due to the fact that it was a very small part of the trade of the three most important trading countries: Cameroon, Congo and Gabon. When considering each country, two observations clearly emerge. First, UDEAC trade is very small for three countries (Cameroon, Congo and Gabon). In the case of Cameroon, it did not represent more than 2 percent of its total trade in 1965. For the two remaining countries, Chad and the C.A.R., UDEAC trade is important but in a different way for each. While UDEAC has been the main import market for the C.A.R. (55.3 and 75.1 percent respectively in 1964 and 1965), UDEAC was a major export market of food and cotton for Chad (36.0 and 27.7 percent respectively in 1964 and 1965).

Second, UDEAC products have to some extent replaced foreign products in Chad and the C.A.R. since the coastal countries became more industrialized (see Tables 21 and 22). This is more readily the case when figures for the manufactured products subject to the single tax are considered (see Tables 23 and 24). The balance sheet of these exchanges was neatly in favor of Congo and Cameroon, the two major exporting countries.

TABLE 20

Trade Between UDEAC States as Percentage of Total Trade, 1964, and 1965

Country	UDEAC Trade as a Proportion of Total (in percent)				Imports of Finished Products 1st half of 1967
	Exports		Imports		
	1964	1965	1964	1965	
Cameroon	1.9	2.7	1.4	1.6	-
C.A.R.	15.7	12.7	55.3	75.1	19
Congo	6.8	10.2	2.7	3.0	2.6
Gabon	-	2.0	5.9	6.7	11.2
Chad	36.0	27.7	12.1	11.5	43
UDEAC (average)	5.4	6.3	4.9	5.8	15

Source: P. Borel, op. cit., Tables 10, 11 and 12, pp. 110, 111 and 112.

In Table 24, for instance, columns 8 and 9 show the breakdown of production in each country between domestic trade and trade with other UDEAC partners. Line 8 and 9 show the breakdown of consumption in each country between domestic production and imports from UDEAC members. Focussing on production and leaving aside Gabon since its very low figures are of little significance (sales of veneers), Congo emerged as the principal exporting country (54 percent) followed at a considerable distance by Cameroon (13 percent) and the C.A.R. (14 percent). Chad did not export anything because of high prices and distance from markets.[1] Looking at consumption, Gabon (with 89 percent) and Chad (with 66 percent) and the C.A.R. (with

[1] Borel, op. cit., p. 112.

TABLE 21

Trade Between UDEAC States, 1964 (Million of CFA francs)

Origin \ Destination	Cameroon	C.A.R.	Congo	Gabon	Chad	UDEAC States	Rest of the World	Total	UDEAC/Total (percent)
Cameroon		81	84	348	189	676	33,848	34,225	1.9
C.A.R.	12		68	-	511	591	3,168	3,759	15.7
Congo	32	480		348	-	860	12,554	12,554	6.8
Chad	387	665	264	65		1,330	2,357	3,687	36.0
UDEAC States	473	1,226	579	761	674	3,713	67,230	70,943	5.4
Rest of the World	32,494	991	20,860[a]	12,029	4,897[b]	71,271			
Total	32,967	2,217	21,439	12,790	5,571	74,984			
UDEAC/Total (percent)	1.4	55.3	2.7	5.9	12.1	4.9			

[a]Including undeclared diamonds.

[b]Including CFA fr 4,269 million from Lagos and Port Harcourt.

Source: P. Borel, op. cit., p. 110.

TABLE 22

Trade Between UDEAC States, 1965 (Million of CFA francs)

Origin \ Destination	Cameroon	C.A.R.	Congo	Gabon	Chad	UDEAC States	Rest of the World	Total	UDEAC/Total (percent)
Cameroon		124	124	485	224	957	33,406	34,363	2.7
C.A.R.	13		12	1	503	529	3,631	4,160	12.7
Congo	61	812		428	-	1,301	11,457	12,758	10.2
Gabon	152	-	164[a]		-	316	14,943	15,259	2.0
Chad	382	767	200	87		1,440	3,759	5,199	27.7
UDEAC States	608	1,707	500	1,001	727	4,543	67,196	71,739	6.3
Rest of the World	37,132	564	15,850	13,893	5,597[b]	73,036			
Total	37,750	2,271	16,350	14,894	6,324	77,589			
UDEAC/Total (percent)	1.6	75.1	3.0	6.7	11.5	5.8			

[a]This figure has been repeated from 1964.

[b]Including CFA fr 4,624 million from Lagos and Port Harcourt.

Source: P. Borel, op. cit., p. 111.

TABLE 23

Products Subject to Single Tax, Inter-UDEAC Trade, 1965

(Millions of CFA francs)

Origin \ Destination	Cameroon	C.A.R.	Congo	Gabon	Chad	Total
Cameroon		110	101	309	163	683
C.A.R.	-		12	1	305	318
Congo	13	812		370	1,738	2,933
Gabon	-	-	-		-	-
Chad	-	4	-	-		4
Total	13	926	113	680	2,206	3,938

Products Subject to Single Tax, Inter-UDEAC Trade, 1966

Cameroon		125	155	370	264	914
C.A.R.	12		34	11	492	549
Congo	62	1,130		701	1,556	3,449
Gabon	38	16	37		21	112
Chad		12	1	-		13
Total	112	1,283	227	1,082	2,333	5,037

Source: B. Borel, op. cit., p. 108.

TABLE 24

Internal Trade and Sales of Products Subject to Single Tax, First Half-year 1967

(Millions of CFA francs, except as indicated)

Consumer Country / Producer Country	1 Cameron	2 C.A.R.	3 Congo	4 Gabon	5 Chad	6 Total Exports	7 Total Production	8 Production for domestic market (in percentage)	9 Production for Export to UDEAC
1. Cameroon	5,158	202	119	205	252	778	5,937	87	13
2. C.A.R.	32	825	25	6	362	425	1,250	66	14
3. Congo	170	395	1,192	274	560	1,399	2,591	46	54
4. Gabon	34	10	16	63	16	76	139	45	55
5. Chad	-	4	-	-	634	4	638	100	-
6. Total Imports	236	611	160	485	1,190	2,682			
7. Total Consumption	5,394	1,436	1,352	548	1,824		10,555		
8. Consumption of Domestic Products (percentage)	96	58	88	11	34				
9. Consumption of Imports from UDEAC (percentage)	4	42	12	89	66				

Source: P. Borel, op. cit., p. 100.

42 percent) were the major consumers of UDEAC manufactured products because of their low level of industrialization.

2) Individual Cases

The conclusion of the preceding discussion are supported when one looks more closely at some countries, for instance, Gabon, Cameroon and Chad.

The lack of reciprocal trade between Gabon and the rest of the common market has been underlined before and is furthermore illustrated by the figures in Table 25. Although there has been some improvement, UDEAC trade accounted for a relatively small proportion of Gabon's foreign trade in 1968 (11.8 percent of its imports and 16.1 percent of its exports). The sharp increase in export in 1968 was related to the development of the oil industry in Gabon.

TABLE 25

Value of Exports and Imports of Goods and Services, Gabon, 1965 to 1968

	Exports (in million U.S. dollars)					Imports (in million U.S. dollars)				
	1965	1966	1967	1968	1969	1965	1966	1967	1968	1969
Foreign Trade Including UDEAC	106.5	105.7	121.6	148.7	-	69.8	74.3	76.2	73.2	-
Foreign Trade Excluding UDEAC	104.9	105.0	120.2	124.8	148.7	62.5	66.4	67.4	64.5	81.8
UDEAC only	1.57	0.73	1.37	23.96	-	7.27	7.93	8.78	8.68	-
Percent of total	1.4	0.69	1.1	16.1		10.4	10.7	11.5	11.8	

Source: Survey of Economic Conditions in Africa, 1971 (New York: United Nations, 1972), Part 1, p. 194.

The lack of reciprocal trade between Gabon and the rest of the Union is bound up with the fact that since 1945 and during the early years of independence, the main focus of its development effort was placed on the expansion of export-oriented production, mainly of mineral and forest products. Although this was successful in terms of the generation of domestic product, it has fostered the development of an economy characterized by an extreme form of economic dualism in which a highly capital intensive export sector operates beside an agricultural sector which produces mainly for subsistence and between which there is little else.

The evolution of Cameron's trade with UDEAC illustrates one of the benefits of a customs union: the increase of the volume of commercial exchanges between member countries. Thus between 1963 and 1972, the volume of trade between Cameroon and the other UDEAC partners increased significantly passing from a total export-import value of $3.119 million in 1963 to $32.708 million in 1972 (as estimated on the basis of the first 9 months) (see Table 26). However UDEAC trade still represent a small proportion of the total foreign trade of Cameroon (8.1 percent of its total exports and 5.2 percent of its total imports in 1972).

TABLE 26

Trade Between Cameroon and UDEAC Countries, 1963 to 1972

Year	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Exports	2.698	2.815	3.876	3.288	2.169	12,601	8.770	13.449	11.921	13.112
Imports	0.421	0.737	1.875	1.657	3.411	8.735	6.962	12.851	9.959	11.418

Source: D. Kom, Le Cameroun (Paris: Editions Sociales, 1971).

Figures in Table 26 indicate also that Cameroon's imports from UDEAC increased much more rapidly than its exports with the result that its position within the union evolved from a clearly dominant exporting one to a more balanced one where the value of its imports had become much more closer to the value of its exports (46.5 percent of the trade were imports compared to 53.5 for exports in 1972). On the basis of these figures alone, there are suggestions that the customs union may have begun to fulfill some of its functions concerning foreign trade. It is unfortunate that more detailed data are lacking to carry the analysis further. However, some limited informations about Chad tend to confirm our previous conclusion in an indirect way. Indeed, figures in Table 27, show that since this country pulled out of UDEAC on 1968, its volume of trade with UDEAC countries declined significantly from a high level of 11.532 million dollars in 1968 to 6.745 million dollars in 1972. The balance of trade was still negative in 1972 although it had improved since its imports were running at a lower ratio of 2 to 1 over its exports compared to an almost 4 to 1 ratio in 1969 (see Table 28). It is interesting to note that Cameroon was a major trade partner within UDEAC for Chad (one third of Chad's imports and almost half its exports were with Cameroon in 1972).[1]

---

[1] Foreign Trade Statistics for Africa, op. cit., No. 22.

TABLE 27

Chad's Trade with UDEAC, 1968 to 1972, in Million U.S. Dollars

	1968	1969	1970	1971	1972*
Total trade	11.532	10.338	10.950	7.775	6.745
Index (1968 = 100)	100	89.6	95.0	67.4	58.5

*Estimated.

Source: Foreign Trade Statistics for Africa (New York: United Nations, 1968 to 1974), Series A, Direction of Trade, Nos. 11 to 22.

e) Trade Balance

An important indicator of the economic situation of a country is its balance of trade with other nations. Insofar as the balance of trade is improving over the long period, some credit must be given to the existing customs union. On this basis, the results of foreign trade for UDEAC countries between 1962 and 1971 are not encouraging. Only one country, the Central African Republic, improved its trade balance from one which was largely negative (a ratio of export/import of 56.4 in 1962) to one which has been about balanced since 1968. Gabon always enjoyed a positive balance of trade during the period (a ratio of export/import above 150) but after two years of sharp increase in the ratio in 1967 and 1968, its balance of trade has been deteriorating since from the peak of 192.8 in 1968 to the low of 150 in 1971 (see Table 29). Despite its favorable coastal position and its stronger economy, Cameroon did not manage too well in its foreign trade. From a positive balance of trade in 1962, 1963 and

TABLE 28

UDEAC Inter-country Trade in Local Products, 1965 to 1972, in Million U.S. Dollars

	Imports from UDEAC								Exports to UDEAC							
ountry	1965	1966	1967	1968	1969	1970	1971	1972	1965	1966	1967	1968	1969	1970	1971	1972
ameroon	1.875	1.657	3.411	8.735	6.962	12.851	9.959	11.418	3.876	3.288	2.169	12.601	8.770	13.449	11.971	13.112
ongo	-	-	-	-	0.906	1.812	-	-	-	-	-	-	4.754	9.508	-	-
had	-	-	-	8.973	8.223	8.160	5.360	3.374	-	-	-	2.559	2.115	2.790	2.415	1.685
.A.R.	-	-	-	-	0.204	0.253	0.289	-	-	-	-	-	1.278	1.644	0.927	-
abon	-	-	-	-	-	0.109	-	-	-	-	-	-	-	0.134	-	-

ource: Foreign Trade Statistics for Africa (New York: United Nations, Series A, Direction of Trade, Nos. 11 to 22, 1968 to 1974).

1964, it moved to a negative balance for the succeeding three years with an all time low of 68.8 in 1967, then back in a positive position in 1968 and 1969, to end up in a negative position again with a trade balance which has been deteriorating since 1970 to a ratio of 73.1 in 1972.

As for the last two countries, Congo and Chad, their trade balance was always negative during the period and very largely so in most years. In both cases their trade balance improved for a while in the early 1960s but it declined in the second half to a worse situation than in 1962.

5. Conclusion

An estimation of the impact of the customs union on the economic development of the Central African countries is difficult because it is not clear if these countries had any other better alternatives. However, one can conclude from the previous analysis that, in its first decade of existence, UDEAC has not contributed much to change the economic condition of its member countries. The general economic condition has not much improved since the gains in national income have been mostly offset by the rapid growth of the population and the distribution of income has remained greatly lop-sided in favor of small segments of the population (largely expatriates). In the case of Chad and the Central African Republic, the situation is even worse in the 1970s than it was in the early 1960s.[1]

---

[1] Although Chad did not belong to the union after 1968.

TABLE 29

Extent of Imports Covered by Exports: Change During the Period 1962-1971 in UDEAC Countries

Country	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
Gabon*	151.4	152.6	164	155.2	151.8	178.2	192.8	182.3	152 (151)&	150 (150)&
C.A.R.#	56.4	83.4	96.9	96	100.1	72.3	100.7	101.8	96.7 (91)	109.4 (97)
Cameroon$	101	111	105	88.7	99.7	68.8	100.2	109.8	93.3 (96)	85 (97)
Chad$	57	78.2	76.6	87.2	73.4	67	56.6	57.7	47.7 (99)	45.2 (45)
Congo$	51.8	67.4	73.1	72.3	76.4	58	59.2	56	53.8 (54)	49 (49)

* Relatively falling trade surplus.
\# Relatively rising trade surplus (falling trade deficit).
$ Relatively rising trade deficit.
& Figures in brackets from the Survey of Economic Conditions in Africa (New York: United Nations, 1972), p. 165.

Source: Calculated from Table 19, p. 100.

The main target for the members of UDEAC at the beginning were industrialization and specialization. Due to the geographical (for instance, the large semi-desertic areas) and economic (small population, small income, inadequate transport system, etc.) limitations which I described earlier in the paper, the gains have not been that significant and it is questionable if they will be in the future. The growth of manufacturing production has been very slow and limited to consumer products like cigarettes, beer, etc. The only exceptions have been oil extracting, refining activities, and aluminium smelting. In both cases, these industrial developments have been very limited in size, location and impact. Most of the decline in agricultural activities (which remains still a very important activity) has been compensated not by the growth of extracting and industrial activities but by the over-developed services which are dominant in three countries (Cameroon, Congo and the Central African Republic).

Patterns of trade have been little modified over the decade. The effect of UDEAC on the inter-regional trade has been uneven. The most developed countries like Cameroon have benefited more from the greater inter-regional trade although inter-regional trade has remained a small proportion of the total trade of the region, particularly in the more developed coastal states. As for the great dependency of UDEAC countries on the EEC for its external trade, it has been only slightly reduced. The almost complete dependence of UDEAC countries on agricultural and extraction products for export has been reflected for most of them in the deterioration of their balance of trade.

The common effort for fiscal harmonization and monetary integration has led to the important achievements which were described earlier. Some other customs unions did not achieve so much. However, the system has been administratively cumbersome and costly (for instance, the single tax system), and remained inadequate. Moreover, the flow of capital has been favoring the coastal members much more than the land-locked ones (Chad and the Central African Republic), especially with regard to foreign investments.

Joint development and the planning of industrialization have resulted in interesting achievements such as the petroleum industry in Gabon. However, here too, the strategies adopted have not been much of a success in the last decade in accomodating the less developed members of the union. The natural tendency has been for the rich members to become richer. This generated tensions and separatist feelings which eventually led to the exit of Chad from the union in 1968.

There has been no significant change in other economic indicators such as the level of consumption, the degree of competition, the use of natural resources, the specialization of economic activities and the importance of economies of scale in production.

III. CONCLUSION

The main focus of the theory of customs union has been on the effects of the removal of trade barriers between industrial countries. This would bring about changes in the patterns of production, consumption and trade. In a nut shell, the argument of the theory is that a customs union will be beneficial if on balance it is "trade creating" and harmful if it is "trade diverting". The union should be the more beneficial the less important the external trade with non-union countries, and when its members are actually competitive and potentially complementary and a high proportion of external trade takes place between the members of the union. Furthermore, the union can be advantageous through economies of scale, the enlargement of the market, stimulus to investment and competition, and the creation of a growth mentality. Locational factors are another important aspect of the theory since the formation of a customs union may aggravate the clustering tendencies of industries to few attractive areas which result in a polarization of development.

After a decade, the member countries of the Central African Customs and Economic Union seem to have changed very little. The low level of industrialization is still the problem. The few industries established are clustered in the coastal regions and have been limited to few consumer products. Moreover, their progress is still hampered by a poor infrastructure especially underdeveloped in transportation. An excess growth of the service activities has accompanied declines in agricultural

activities. Although the regional trade among members increased, it still remains relatively small in comparison to their external trade. Their exports consist of few primary products and their trade relations depend to a very large extent on the developed countries, especially the European Economic Community. However, the union had relatively more success in the field of fiscal harmonization and monetary integration.

From the preceding remaks, it appears that the traditional theory of customs union which was originally designed for the industrial countries is of limited applicability for the developing countries. In these conditions, one can ask whether, instead of economic integration, developing countries would not do better by limiting their collaboration to co-operation in the marketing of primary products or in the development of services such as transport and communications, research, etc. However, in doing so, they would forgo some important advantages associated with economic integration such as the joint planning of industrial development and specialization which I emphasized earlier in the paper. Moreover, it would not provide the moral commitment and incentives which characterize a growth mentality in an economic integration.

Thus, the theory of economic integration needs to be adapted to the particular characteristics and needs of developing countries. In this respect, Mikesell's suggestion that the theory of customs union should be directed toward its impact on future investments and future production rather than immediate results appears quite appropriate. As he wrote,

> "The fact that analytical work on common markets has been largely directed to problems of welfare under somewhat static assumptions which permit the employment of analytical tools at our disposal, does not mean that the conclusions reached have no relevance for economic growth or for developing countries generally. I believe, however, that the theoretical analysis of customs unions or of regional preference arrangements generally should be directed more towards the problem of their impact on the direction of investment in the developing countries for future output rather than limited to an analysis of the welfare implications of shifting existing trade patterns. There are two general reasons for this conclusion, the first of which also has applicability for regional markets among industrially advanced countries. One is that plans for the creation of a customs union or free trade area usually involve relatively long time periods for fruition so that the initial impact, and perhaps the most important one, is on expectations regarding future market opportunities rather than on existing trade patterns arising directly out of changes in intra-regional trade restrictions. Thus what is most relevant are the effects on investments which will determine trade and production patterns a decade in the future, as compared with what they might have been in the absence of the creation of the regional trading arrangements. The second factor, which is related to the first, is that developing countries are undergoing rapid and far-reaching changes in the structure of their production and trade. Very often there is relatively little trade among the members of regional trading blocs to begin with and virtually no exports of manufactures, either between members or to the rest of the world."[1]

I also believe that the implications of the location theory are important for economic integration, especially in the context of the dynamic aspects of integration for developing countries. In fact, theories of economic integration are partly based on concepts from the location theory. By removing trade barriers and other trade constraints, economic integration encourages the expansion of industries and creates a greater flexibility of location which both provide for greater advantages

---

[1] R. F. Mikesell, "The Theory of Common Markets as Applied to Regional Arrangements Among Developing Countries", in R. Harrod and D. Hague (eds.), op. cit., p. 206.

of economies of scale by allowing for the concentration of industries at the most favorable sites. More work is thus needed to examine economic integration (especially its important dynamic aspects) in the context of location theory. This would certainly shed some light on the dynamic aspects of economic integration which are far from being completely understood.

APPENDIX I

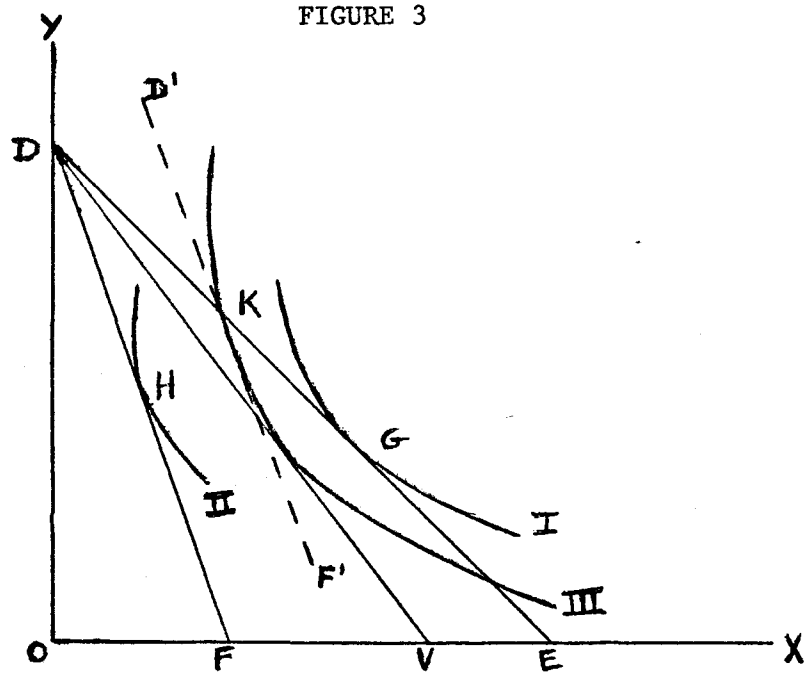
Lipsey considered the case of complete specialization by one country in one good so that the price lines have a common origin. The home country is also small by assumption so that it cannot alter its terms of trade with the outside world.

In his simple model, the world is divided into three countries, A, B and C. A, the home country, specializes in production of good Y and obtains good X by international trade (see Figure 3). Country C's price of good X is lower than country B's price. So the free trade solution lies at point G where the price line between Y and X is tangent to an indifference curve. With a tariff, the equilibrium must be at a lower level (if the tariff revenue was destroyed by the government under the independent government assumption). The equilibrium will be at H where the new price line is tangent to an indifference curve with the level of welfare lower than free trade. If the tariff revenue is returned to the consumers by way of subsidies or the like, welfare will not diminish as much and will still be located on DE where an indifference curve has a slope equal to that of DF at the point where it cuts DE and the new equilibrium will be K.

Now if A forms a customs union with B, B's price would be lower than A's price and higher than C's. B's price would be lower than C + tariff (C + T). With the trade diverting customs union between A and B, a new price ratio will be established such as DV, between DE and DF, where indifference curve III is tangent. The welfare in this case is

unchanged even though the union is trade diverting. For a welfare increasing trade diverting customs union to occur, the terms of trade which the country faces must be better than DV, that is, at any point between V and E to the left of V. Welfare will diminish when a lower indifference curve is reached.[1]

FIGURE 3



[1]Lipsey, "The Theory of Customs Union, Trade Diversion and Welfare", op. cit., pp. 41-43.

APPENDIX II

The Council of the Chiefs of State became the supreme organ of the UDE. The fulfillment of the union responsibilities fell within the sphere of the following organisms: the Council of the Chiefs of State; the Management Committee of UDE; the General Secretariat. The Council can be advised by ministers or experts. It is the supreme decision maker of the union and sees that the union's objectives are carried out. It is thus the coordinator of the economic and customs policies of the various member states. The Council supervises also the Management Committee, establishes the international rules of the organization, establishes the seat of the union, nominates the general secretary of the union, and establishes the union budget and allocates the share of its member states on the basis of the advice of the Management Committee. The Council settles also tariff negociations with third countries as well as the over-all general tariff. It rules, in the last analysis, those issues which have not received the unanimous approval of the Management Committee and arbitrates any dispute between members which may arise from the treaty. With regard to economic customs and tariff levels, its rulings are translated into general forms by the legislative institutions of the member nations.

The treaty embodies also the legal provisions of the safeguard clauses. Thus the Management Committee may take certain measures to rectify certain situations or authorize the specific member to do so if

necessary. The Committee has also been empowered to harmonize direct and indirect taxations in the interests of the union.

Later, the union extended its jurisdictional powers into the field of the customs union, the harmonization of internal fiscal arrangements and investment codes. The customs union covers the entire range of commodity trade and entails the adoption of a uniform customs tariff vis-a-vis third parties. Another distinguishing feature of this sub-regional common market is the desire of the member states to dovetail their industrial and other development plans and to further the process of diversification of the sub-region's economy as well as to stimulate inter-subregional trade. To insure a greater harmonization, all plans and development projects are submitted to the union's general secretariat. This documentation is placed on the agenda of the Management Committee which studies it and then submit its recommendations to the Council.

In the field of industrial cooperation which encompasses private, public and mixed enterprises, the following distinctions are made:

(a) sub-regional industries which are basically export oriented (i.e. external to the union);

(b) industries which fall within the markets of a single member state and from which no special economic, customs and fiscal advantages have been solicited from other states of the union;

(c) industrial projects which are of interest to a single state, but where there is already production in another state, actual or planned;

(d) industrial projects whose scale of operations is adequate for two states where policies of harmonization must be sought by these two states;

(e) industrial projects whose scale of operations and whose market requirements are sub-regional.

Industries falling within the frame of reference of (a) and (b) can be set up in each of the member states without recourse to the union, whereas the markets of industries in category (c) must remain limited to the state in which they have been located and cannot be extended to other member states. In the cases where a member state has not harmonized its industrial projects and therefore prejudices the market of one or several states, the later reserve the right to retaliate by either erecting a total ban on the commodity in question or a corresponding compensatory tax whose rate corresponds to the changes borne for similar commodities imported from a third country (the exception being, however, the duties incorporated in the common external tariff).

The free movement of persons among member states falls within the convention signed on September 8, 1961 by the various states of the UDE. Capital movements within the union cannot be subjected to any restrictions other than those of the present system of exchange controls which is presently in force.

The duties and obligations resulting from agreements previously signed between one or several member states are effected by the provisions of the present treaty.

UDEAC countries have a common Central Bank, the Central Bank of Equatorial African States and Cameroon (member of the franc zone and associate member of the European Economic Community).[1]

[1]Economic Commission for Africa, Report of the ECA Mission on Economic Cooperation in Central Africa (New York: United Nations, 1966), pp. 2 and 3.

APPENDIX III

The number of government representatives on the Board of Directors was reduced. Cameroon continues to have four members, but the other countries have each one representative. There is no longer a permanent chairman appointed by the French Government, but the chairmanship is to be assumed by nationals of member countries in turn. The National Monetary Committees do no longer include representatives of the French Government and are composed exclusively of persons of the country concerned. In addition to the national members of the Board, each National Monetary Committee includes three nominated members by the government. These committees are responsible for implementing the economic policy set by the Board.

While changes in the ways and means of credit distributing have been made, the distribution of power between the Board and the Committees remains similar to the arrangement. For instance, decisions made by the Committees are not enforceable if they have been suspended by the Board.

Measure affecting medium-term credits have been extended. The rule that such credit may be granted for a maximum period of five years with extension to seven has been eliminated. The new Central Bank may grant medium-term credit for a maximum of seven years with the possibility of extension. Moreover, the Bank can now aid specialized institutions in financing long-term operations for a maximum of seven years.

Whereas the old bank was not allowed to make direct advances to national treasuries except in cases of temporary deficits, the new bank can help national treasuries. Direct advances can be made for twelve months. It can now facilitate medium-term operations undertaken by member states and public investment operations. The total amount of direct advances and assistance to public investment operations may be as much as twenty percent of the ordinary budgetary receipts of each country.

The ability to take decisions regarding credit distribution remains with the Board. The Board has set broad ceilings with regard to short-term and medium-term assistance from the Central Bank to each state. This is a departure from the previous practice whereby loans were made on the basis of an assessment of the needs expressed. If those needs were deemed to be legitimate, the loan was granted. However, the new arrangement gives greater autonomy to countries where credit expansion is concerned and provides for terms which are favorable to development. It also makes any pressure on the currency automatically felt since the first consequence of such pressure--reduced foreign assets--will immediately result in reduced assistance from the Central Bank.

BIBLIOGRAPHY

Allen, R. L. "Integration in Less Developed Areas", Kyklos, 14 (1961).

Balassa, Bela. The Theory of Economic Integration. Homewood, Ill: R. D. Irwin (1961).

Borel, Paul. "Economic Co-operation and Integration in Central Africa", in Economic Co-operation and Integration in Africa: Three Case Studies. New York: United Nations, Department of Economic and Social Affairs (1969) pp. 80-143.

Byé, Maurice. "Localisation de l'investissement et Communauté Economique Européenne", Mars, (1958).

Clement, M. O., R. L. Pfister and K. J. Rothwell. Theoretical Issues in International Economics. New York: Houghton Mifflin Co., (1967).

Cohen, Edwin S. "Foreign Experience with a Value Added Tax", National Tax Journal, 24, 3 (September 1971), 399-402.

Conference on Trade and Development, Vol. 1, Final Act and Report, 1964.

Dell, Sidney. A Latin American Common Market? New York: Oxford University Press, (1966).

Denti, Ettore. "Africa's Labor Force", International Labour Review, 104, 3 (September, 1971).

Dispositions organiques. Paris: Banque Centrale (1962).

Duncan, G. A. "The Small State and International Equilibrium", Economica Internationale, (November 1950).

Economic Commission for Africa, National Publications. New York: United Nations, U.N. Population Division.

Economic Commission for Africa, Report of the ECA Mission on Economic Co-opeartion in Central Africa. New York: United Nations (1966).

Economic Commission for Africa, Survey of Economic Conditions in Africa. New York: United Nations, annual publication, 1970, 1971, 1972 and 1973.

GATT, Basic Instruments and Selected Documents, Vol. 1, Part III, Article XXIV. Geneva (1952).

Gehrels, F. "Customs Unions: A Single Country Viewpoint", Review of Economic Studies, 1 (1956-57).

Hawtrey, R. G. Economic Density. London: Longmans, Green and Co., (1944).

Hilhorst, Jos G. M. Regional Planning. Rotterdam: Rotterdam University Press, (1971)

Hirshman, Albert O. The Strategy of Economic Development. New Haven, Conn.: Yale University Press, (1958).

Hoover, Edgar M. An Introduction to Regional Economics. New York: Alfred Knopf, (1971).

Hoover, E. M. The Location of Economic Activity. New York: McGraw-Hill, (1963).

I.M.F. International Financial Statistics, 26, 3.

Isard, Walter. "Distance Inputs and Space Economy. Part I. The Conceptual Framework", Quarterly Journal of Economics, LXV (May, 1951).

_____. "Industrial Complex Analysis, Agglomeration Economies and Regional Development", Journal of Regional Science, (Spring, 1959).

_____. Location and Space-Economy. Cambridge, Mass.: The MIT Press, (1972).

_____, et als. Methods of Regional Analysis: An Introduction to Regional Science. Cambridge, Mass.: The MIT Press, (1960).

Johnson, H. G. "An Economic Theory of Protectionism, Tariff Bargaining and Customs Union", Journal of Political Economy, (1965).

_____. "Money, Trade and Economic Growth. London: George Allen and Urwin, (1962).

Kalck, Pierre. La République Centrafricaine. Paris: Berger-Levrault, (1971).

Kindlerberger, Charles P. International Economics. New York: Irwin, (1972).

Kom, David. Le Cameroun. Paris: Editions Sociales, (1971).

Krauss, M. "Recent Development in Customs Union Theory: An Interpretive Survey", Journal of Economic Literature, 10, 2, (June, 1972) pp. 413-436.

Lindholm, R. W. "The Value Added Tax: A Short Review of the Literature", Journal of Economic Literature, 8, 4 (December, 1970) pp. 1178-1189.

Lipsey, R. G. "Mr. Gehrels on Customs Unions", Review of Economic Studies, 3 (1956-57) pp. 211-214.

_____. "The Theory of Customs Unions: A General Survey", Economic Journal, (September, 1960).

_____, and K. Lancaster. "The General Theory of the Second Best", Review of Economic Studies, 1 (1956-57) pp. 11-32.

Losch, August. The Economics of Location. New York: John Wiley (1967).

Makover, H. and G. Morton, "A Contribution Towards a Theory of Customs Unions", Economic Journal, (March, 1953).

McKee, David L., R. D. Dean and W. H. Leahy. Regional Economics. New York: Free Press, (1970).

Meade, J. E. "The Removal of Trade Barriers: The Regional Versus the Universal Approach", Economica, (May, 1951).

_____. The Theory of Customs Unions. Amsterdam: North Holland Publishing Co., (1955).

Meyer, F. V. "Complementarity and the Lowering of Tariff", American Economic Review, (June, 1956).

Mikesell, R. F. "The Theory of Common Markets as Applied to Regional Arrangements Among Developing Countries", in Roy Harrod and D. Hague (eds.), International Trade Theory in a Developing World, London: Macmillan and Co., (1963), pp. 205-229.

Myrdal, G. Economic Theory and Under-Developed Regions. London: Duckworth, (1957).

Perroux, Francois. L'Europe sans rivage. Paris: Presses Universitaires de France, (1957).

_____. "Note sur la notion de pôle de croissance". Economie Appliquée, VIII, 1-2 (janvier-juin, 1955).

_____. La coexistence pacifique. Vol. II, Pôles de développement ou nation? Paris: Les Presses Universitaires de France, (1958).

Robinson, E. A. G. The Structure of Competitive Industry. Chicago: The University of Chicago Press, (1958).

Shoup, Carl S. (ed.). Fiscal Harmonization in Common Markets. New York: Columbia University Press, (1967), Vol. I.

Scitovsky, Tibor. "Economies of Scale, Competition, and European Integration", American Economic Review, 46, 1 (March, 1956) pp. 71-91.

Smith, Adam. An Inquiry into the Nature and Causes of the Wealth of Nations. New York: Random House, (1937).

Tinbergen, Jan. "On the Theory of Economic Integration", in Selected Papers. Amsterdam: North Holland Publishing Co., (1959).

Thompson, V. and R. Adoff. The Emerging States of French Equatorial Africa. London: Oxford University Press, (1960).

Traité instituant une Union Douanière et Economique de l'Afrique Centrale Brazaville, (December, 1964).

UNCTAD Secretariat, Trade Expansion and Economic Integration Among Developing Countries. New York, (1967).

UDE, Recueil des conventions relatives aux organismes communs aux quatre états de l'Afrique Equatoriale. Brazzaville: Secrétariat général, Conférence des Chefs d'Etat. Fascicule.

UDE, Le commerce exterieur de l'UDE en 1965.

United Nations, Foreign Trade Statistics for Africa. New York: U.N., Direction of Trade, Series A, Nos. 7 to 22, (1968-1974).

Vanek, J. International Trade Theory and Economic Policy. Homewood, Ill., R. D. Irwin, (1962).

Van Chi-Bennardel, Régine. The Atlas of Africa. Paris: Editions Jeune Afrique, (1973)

Verdoorn, P. J. "The Intra-Bloc Trade of Benelux", in E. A. G. Robinson (ed.), Economic Consequences of the Size of Nations. London: Macmillan, (1960) pp. 291-318.

Viner, J. The Customs Union Issue. New York: The Carnegie Foundation, (1950).

Webber, M. Impact of Uncertainty on Location. Cambridge, Mass.: The MIT Press, (1971).

Weber, Alfred. Theory of Location of Industries. Chicago: The University of Chicago Press, (1929).