ISS
OCCASIONAL PAPERS

Economic Integration: The Nigerian Experience since Independence

Folayan Ojo

INSTITUTE OF SOCIAL STUDIES
The Hague — The Netherlands

Economic Integration: The Nigerian Experience since Independence

Folayan Ojo*

* Faculty of Social Sciences,
University of Lagos

No. 54, October 1975

In realisation of the very strategic role of international trade to her economy, Nigeria has since independence in 1960 adopted various policy measures to boost her foreign trade and to expand her external market. The country has adopted certain regulatory measures to change the directional pattern of her foreign trade. Such measures which are also often aimed at other policy objectives (like balance of payments, protection and revenue) include tariff changes, exchange control and quantitative control in form of import quota or complete ban. In addition, Nigeria has made several attempts at economic cooperation with foreign countries and groupings. Many bilateral trade agreements with other countries have been signed. More importantly, Nigeria has been very active in the pursuit of economic integration as an important aspect of her international commercial policy. In this study, attention will be focused on two outstanding efforts towards such integration; the attempt to become an associated member of the European Economic Community (EEC) and the move towards the formation of a West African Economic Community.

Section I of the paper outlines the various types of economic integration; Section II discusses the theoretical framework of economic integration; Section III contains a brief review of Nigeria's efforts to become associated with the EEC; and Section IV examines the level of trade and economic cooperation in West Africa, the move towards the establishment of a West African Economic Community and the prospects and problems of such a community.

I. Types of Integration

Five types of economic integration which entail different degrees of economic cooperation have been identified in the literature.[1] Firstly, there is the free trade area where tariffs and other trade restrictions between the participating countries are abolished while each member country adopts its own external tariffs and other commercial policies against non-member countries. The European Free Trade Association formed in 1960 by seven Western European countries including the United Kingdom was a typical example of a free trade area.[2] Secondly, there is the customs union which involves the abolition of all forms of internal restrictions on trade within the union and the adoption of a common external tariff policy by all member countries. The common market where trade restrictions and impediments to factor movement are abolished is the third form of economic integration. Fourthly, there is the economic union which combines the abolition of restrictions on both commodity and factor movements with some degree of harmonisation of national economic policies. The European Economic Community has the characteristics of a customs union and an economic union. Lastly, and the highest degree of economic integration, is total economic integration which involves the unification of monetary, fiscal, social and other policies and requires the establishment of a supra-national agency whose decisions are binding on all member states. Among other factors, the great concern for national sovereignty makes the achievement of complete economic integration among nations a very difficult task to accomplish.

II. *Theoretical Framework*

The first rigorous study of the effects of a customs union was undertaken by Professor J. Viner.[3] The general conclusion by economists prior to Viner's path-breaking analysis was that a customs union would increase world welfare since it was a move towards free trade.

Viner demonstrated that the effects of economic unions could be beneficial or detrimental. He analysed the effects in terms of trade creation and trade diversion.[4] Trade is created when the locus of production for a particular commodity shifts because of tariff changes, induced by formation of the customs union, from a higher-cost domestic source to a lower-cost producer in a member country, while trade is diverted when there is a shift in supply from a lower-cost non-member country to a higher-cost partner. His conclusion was that trade creation would have a positive welfare effect because it would increase world trade while trade diversion would have a negative welfare effect since it would merely reallocate a non-expanded volume of world trade in favour of union members in an inefficient way. Thus, Viner concentrated on the analysis of static efficiency conditions. The analysis rested in part on the classic argument for the abolition or reduction of trade barriers which would lead to advantageous reallocation of production between participating countries. His evaluation of production effect (trade creation and trade diversion) and the consumption effect of economic union was in terms of constant overall world output and constant world consumption.

Other economists have followed Viner by clarifying and elaborating on his exposition. Some of their analyses, especially on the dynamic effects of economic integration, which are relevant to our discussion will be evaluated later. Important among the dynamic effects are 'the potential effects of larger markets on the rate of growth through affecting the rate of technological change and investment, through increasing the effectiveness of competition and through the possible existence of internal and external economies.' [5]

III. Nigeria and the European Economic Community

When the first Yaounde Convention which linked 18 Afro-Malagasy states with the EEC was signed in 1963, the Community issued the *Declaration of Intentions* in which three types of association between the Community and developing countries were offered. These are the Yaounde-type association which allows for an unrestricted flow of exports of individual countries to the EEC and the privilege of financial aid and loan; some looser type of association; or special trade relations that are individually negotiated. Consequently, in 1963, Nigeria started to negotiate for associate status with the EEC and by 1966 an agreement had been reached. Before the terms of the agreement are evaluated, it is desirable to trace the reasons why Nigeria finally decided to seek a free trade arrangement with the EEC in 1963 even though a year earlier at the Commonwealth Prime Ministers' Conference the Nigerian Government emphatically rejected any form of associate status.[6]

A number of distinct factors seem to have generated Nigeria's strong desire to become an associated member of the EEC. First and probably the most crucial factor was Nigeria's growing trade with EEC member countries. Tables 1 and 2 show the destinations and sources of Nigeria's exports and imports between 1960 and 1972. A salient characteristic during the period was that in relative terms there was a gradual decline in Nigeria's trade with the UK and a gradual rise in her trade with the EEC. In 1960, Nigeria exported 47.6 per cent (worth ₦161.4 million) of her exports to the UK and 30.2 per cent (worth ₦102.8 million) to the EEC. By 1972 the UK share in Nigerian export value had declined by 26 percentage points to 21 per cent while the share of the EEC was 37.6 per cent, having reached a peak of 40.8 in 1967. Comparative figures for imports (Table 2) show that the UK's relative share of Nigerian import value declined from 42.9 per cent in 1960 to 29.5 per cent in 1972 while the EEC's share rose from 19.5 per cent in 1960 to a peak of 30.2 per cent in 1972. It was in 1967 that the UK lost first place to the EEC as the chief customer of Nigeria, and by 1972 the UK had also ceased to be the chief source of Nigerian imports as the EEC took over as the chief supplier. In respect of both exports and imports, it was in 1970 that the EEC emerged as Nigeria's largest trading partner.

The replacement of the UK by the EEC as Nigeria's main trading partner can be explained in different ways.

First was the loosening of traditional economic ties between the UK and Nigeria after the latter's independence. These economic ties had been built up over the colonial days through the 'colony-mother country' relationship and through the Commonwealth preferential treatment which included the privilege of non-reciprocal preferential treatment of Nigerian exports in the UK market. Although by the late 1960s the Commonwealth preferential arrangement was still in existence, some of its provisions had been eroded by the Kennedy Round of talks which reduced or eliminated some of the preferential rates that were operative under the Commonwealth preferential trade agreement. Secondly, the steady decline in the UK's share of world trade could have contributed to the decline in her share of Nigerian imports and exports. For example, while the UK accounted for 8.0 per cent of world trade in 1966, its share declined to 7.6 and 7.2 per cent in 1967 and 1970 respectively.[7] Thirdly, the quick economic recovery of EEC members (especially West Germany, France and Italy) from their war-time devastation meant an expanded market for Nigeria's exports and an enlarged source of consumer goods and capital equipment which Nigeria need ardently for industrialisation. Lastly, the growing practice of tying aid purchases in the donor countries meant more imported commodities from the EEC countries whose foreign aid to Nigeria has increased since the latter's independence.

EEC countries have always been prominent purchasers of specific Nigerian products. For example, in 1963 when Nigeria started to negotiate with the EEC, the proportions of some important Nigerian exports purchased by the Community were: cotton 61 per cent, hardwoods 58 per cent, groundnuts 55 per cent, palm kernels 47 per cent and cocoa 36 per cent.[8] Hence, in recognition of the EEC as an important market for Nigerian exports and mindful of the adverse effects of the Community's tariffs on Nigerian exports, negotiations for associate membership of the Community were started in mid-1964.

The second factor which probably influenced Nigeria's decision to seek associate membership of the EEC was its disadvantageous position relative to the 18 associated members of the EEC whose products, many of which are in competition with Nigerian products, enter the Community duty free. For example, with Senegal's groundnuts and Ivory Coast's cocoa entering the EEC free of duty while Nigerian groundnuts and cocoa are subjected to duty, there could be a diversion of trade from Nigeria towards the group embracing the EEC and the associated members. Thus, the signing in 1963 of the Yaounde Convention which replaced the association status that linked the 18 African countries with the EEC under the Treaty of Rome (which established

Table 1

Destination of Nigeria's Exports[a] by Regional Groupings 1960-1972 (f.o.b)

Year	Eastern Europe	EEC	Japan	UK	USA	West Africa	Others	Total
Value (N Million)								
1960	1.3	102.8	5.1	161.4	31.8	2.2	34.8	339.4
1961	1.2	115.9	6.6	153.1	38.2	2.9	29.5	347.4
1962	3.4	113.3	3.0	138.4	36.2	9.2	33.7	337.2
1963	2.9	138.6	4.7	147.6	34.8	11.2	38.8	378.6
1964	10.1	153.2	5.1	161.4	28.6	14.9	56.1	429.4
1965	17.5	186.4	6.3	203.0	52.4	10.6	60.2	536.4
1966	14.2	201.0	8.5	211.7	45.2	11.1	76.1	567.8
1967	14.3	197.4	12.4	144.2	37.9	7.2	70.2	483.6
1968	19.1	150.8	7.4	121.9	35.0	12.7	75.3	422.2
1969	22.7	226.0	6.0	175.6	80.2	9.3	116.6	636.4
1970	31.7	327.6	6.8	250.4	101.6	7.2	160.1	885.4
1971	44.3	499.8	18.6	278.8	223.5	26.8	201.4	1,293.2
1972[b]	25.6	539.0	55.2	300.9	299.6	29.8	183.9	1,434.0
Percentages								
1960	0.4	30.2	1.5	47.6	9.4	0.6	10.3	100.0
1961	0.3	33.4	1.9	44.1	11.0	0.8	8.8	100.0
1962	1.0	33.6	0.9	41.0	10.7	2.7	10.0	100.0
1963	0.8	36.6	1.2	39.0	9.2	3.0	10.2	100.0
1964	2.4	35.7	1.2	37.6	6.7	3.5	13.1	100.0
1965	3.3	34.8	1.2	37.8	9.8	2.0	11.2	100.0
1966	2.5	35.4	1.5	37.3	8.0	2.0	13.4	100.0
1967	3.0	40.8	2.6	29.8	7.8	1.5	14.5	100.0
1968	4.5	35.7	1.8	28.9	8.3	3.0	17.8	100.0
1969	3.6	35.5	0.9	27.6	12.6	1.5	18.3	100.0
1970	3.6	37.0	0.8	28.3	11.5	0.8	18.1	100.0
1971	3.4	38.6	1.4	21.6	17.3	2.1	15.6	100.0
1972	1.8	37.6	3.8	21.0	20.9	2.1	12.8	100.0

[a]Include Re-exports

[b]Provisional

Sources: Central Bank of Nigeria, *Economic and Financial Review* (December 1972); Federal Office of Statistics, *Review of External Trade* (1972).

Table 2

Sources of Nigeria's Imports by Regional Groupings 1960-1972 (c.i.f.)

Year	Eastern Europe	EEC	Japan	UK	USA	West Africa	Others	Total
Value (₦ Million)								
1960	8.6	84.3	55.6	182.8	23.2	1.3	76.0	431.8
1961	10.9	88.7	61.6	170.6	23.8	1.5	87.9	445.0
1962	12.1	78.5	49.7	147.7	29.9	0.8	87.3	406.0
1963	14.0	90.0	53.8	141.6	35.8	1.2	78.8	415.2
1964	15.1	117.6	61.6	157.4	57.8	2.2	95.7	507.4
1965	14.6	136.5	51.2	170.1	66.2	1.6	110.4	550.6
1966	14.2	135.6	28.6	152.5	83.0	2.4	96.3	512.6
1967	16.7	115.0	37.5	129.2	55.7	2.5	90.6	447.2
1968	19.1	106.6	14.3	119.7	44.6	3.8	77.1	385.2
1969	19.1	125.4	18.9	172.7	58.5	2.8	100.0	497.4
1970	34.2	202.8	47.4	232.0	109.6	3.3	127.1	756.4
1971	43.6	271.6	89.7	344.1	151.4	3.1	175.5	1,079.0
1972[a]	25.4	299.0	98.2	291.9	103.1	3.1	169.8	990.6
Percentages								
1960	2.0	19.5	12.9	42.9	5.4	0.3	17.6	100.0
1961	2.4	19.9	13.8	38.3	5.3	0.3	19.8	100.0
1962	3.0	19.3	12.2	36.4	7.4	0.2	21.5	100.0
1963	3.4	21.7	13.0	34.1	8.5	0.3	19.0	100.0
1964	3.0	23.1	12.0	31.0	11.3	0.4	18.9	100.0
1965	2.7	24.7	9.3	30.9	12.0	0.3	20.1	100.0
1966	2.8	26.4	5.6	29.7	16.2	0.5	18.8	100.0
1967	3.7	25.6	8.3	28.7	12.5	0.6	20.3	100.0
1968	4.8	27.6	3.7	31.0	11.5	1.0	20.0	100.0
1969	3.8	25.2	3.8	34.7	11.8	0.6	20.1	100.0
1970	4.0	26.7	6.3	30.7	14.5	0.4	16.9	100.0
1971	4.3	25.2	8.4	31.9	14.0	0.3	16.2	100.0
1972	2.6	30.2	9.9	29.5	10.4	0.3	17.2	100.0

[a]Provisional

Sources: Central Bank of Nigeria, *Economic and Financial Review* (December 1972); Federal Office of Statistics, *Review of External Trade* (1972).

the Community), must have influenced government thinking in Nigeria.

Thirdly, the decision of the UK in the early 1960s to join the EEC must have contributed in some way towards the change of policy by the Nigerian Government. If the UK had been admitted into the Community say by 1963 when President Charles DeGaulle vetoed her application, about four-fifths of Nigeria's exports would have been sold to the enlarged market while almost two-thirds of her imports would have originated from the area (Tables 1 and 2). Nigeria would have been confronted with the common external tariffs of the EEC while the 18 associated members would have unrestricted flow of exports into the UK market in addition to that of 'the Six'. Nigerian exports which for decades had enjoyed the Commonwealth preferential treatment would lose the long outstanding preferential position.

Nigeria's negotiations for associate status with the EEC was concluded in July 1966 when a tentative agreement was reached. It was expected to last until 1969. Under the terms of the agreement,[9] most Nigerian exports were to enter the EEC duty free, the exceptions being cocoa, groundnuts, palm oil and plywood. These four products were to be subjected to a three per cent yearly expanding duty free quota while exports in excess of the quotas were to be subjected to normal duties ranging between 5 and 15 per cent. In exchange for these concessions, Nigeria was to grant tariff preferences of between 2 and 5 per cent to 26 manufactured products from the EEC representing 4 per cent of her aggregate imports and 8.2 per cent of her imports from the Community in 1965. Also, Nigeria was to be allowed to retain or introduce quantitative restrictions on her imports from the EEC in order to meet her industrialisation and development needs or in the event of difficulties in her balance of payments. However, Nigeria was not expected to receive financial aid from the EEC as did the 18 associated African States.

The Nigerian civil war led to a deterioration of political relations between Nigeria and some EEC members (especially France) and the agreement was never ratified.[10] Consequently, in September 1968, Nigeria decided to abandon her efforts to become an associated member of the EEC.

Since Nigeria's unsuccessful attempt to get associated with the EEC, the East African Economic Community consisting of Tanzania, Uganda and Kenya has entered into a trade agreement with the EEC as a result of the signing of the Arusha Convention in July 1968. The Arusha-type association provides for most exports of the East African countries to be admitted to the EEC free of customs duties. Other countries like Tunisia, Morocco and Algeria have signed separate special association agreements with the Community.

Post-civil war Nigerian government policy still favours the special trade agreement type of association. This was indicated by the Federal Commissioner for Finance at the Meeting of the Commonwealth Finance Ministers in September 1972 when he declared:

...Nigeria would opt for a special trade agreement. For a number of reasons this choice seems to be the most appropriate. The reverse preferences attached to the Yaounde Convention and the quota limitations attached to the Arusha-type association make them unsuitable for Nigeria. The rigidity of rules for establishing new industries, and the insistance on reciprocity on tariff concessions under the Yaounde Convention will perpetuate unequal partnerships, while the probable costly losses in revenue that will arise from tariff concessions that may not be compensated for by increased export earnings from the Community because of quota restrictions will tend to retard rather than promote trade in the Arusha-type association. [11]

The strength of the EEC as an economic force has been heightened by the admission of the UK, Eire and Denmark to the Community in January 1973. Hence in 1973 the 'big Nine' controlled as high as 43.0 per cent of total world trade.[12]

Just recently, 46 developing countries from the African, the Caribbean and the Pacific (ACP) regional groupings have concluded a trade agreement with the enlarged EEC. The agreement which was signed in Lome, Togo, in February 1975 and which is yet to be ratified by the individual countries, will replace the Yaounde and Arusha Agreements. Among other things, the new agreement provides for an export price stabilisation scheme for products of ACP countries and the export of most of these countries' primary products into the EEC duty free without any reciprocity.

IV. Trade and Economic Cooperation in West Africa

(a) Level of Intra-West African Trade. Nigeria's trade with other West African countries has always been disappointingly insignificant. Tables 1 and 2 indicate that during the period 1960-1972, Nigerian exports to the West African sub-region were never up to 4 per cent of total export value, i.e. 3.5 per cent in 1964 when they were at their peak. And apart from 1968, the value of Nigerian imports from other West African countries did not reach the one per cent level. Between 1968 and 1972, the relative share of West African countries in Nigerian imports was on the decline from one per cent to 0.3 per cent while between

1970 and 1972 the value declined from ₦3.3 million to ₦3.1 million. During the review period Nigeria sold much more to other West African countries than it purchased from them, resulting in a persistent favourable trade balance which widened at the close of the period. The country's exports to other West African countries consist of a variety of goods such as petroleum, especially to Ghana, primary products (e.g. palm produce and groundnuts) and light manufactures.

Generally, intra-West African trade is very low despite the fact that external trade is very crucial to the economies of the countries in the sub-region. About 97 per cent of the sub-region's trade is with outside countries.

Table 3
Intra-Subregional Trade as a Portion of Total External Trade

1966	1967	1968	1969	1970
3.3%	3.5%	3.1%	2.5%	2.2%

Source: Central Bank of Nigeria, *Economic and Financial Review* (June 1972), p.7.

As table 3 shows, between 1966 and 1970 intra-West African trade averaged just about 3 per cent of the region's total foreign trade. Disappointingly, there was a persistent decline in the relative share of intra-subregional trade between 1967 and 1970.

It may be necessary to point out that these figures are for recorded trade. A significant proportion of trade between the countries in the region is usually unrecorded. In a study by Henry Henuser it was estimated that 'unrecorded intra-regional trade in West Africa, far exceeds the officially published figures by nearly three-fold'.[13] In another study by the International Monetary Fund, the unrecorded trade between Ghana and the Entente countries was estimated as varying between half and ten-fold of the volume of recorded trade.[14] The main factors responsible for the substantial volume of unrecorded trade are the common practice of not recording goods that are not subject to, or exempted from, duties; the under-valuation of commodities due to the official estimation methods; and the very high rate of smuggling which is marked in respect of certain primary export products (e.g. cocoa), manufactured consumer goods (e.g. textiles) and alcoholic beverages.[15] The very high rate of smuggling in West Africa may be ascribed to various factors 'including price disparities in neighbouring countries as a result of different tariff systems in operation, the imposition of strict exchange controls, which have induced many unscrupulous people to smuggle export produce to neighbouring countries to obtain foreign exchange, and perhaps utilise it to buy and smuggle goods which are under ban, or whose importation had been restricted.' [16]

Whatever may be the rate of smuggling in West Africa, it remains an indisputable fact that the level of intra-West African trade is deplorably low. Assuming that only about half of intra-regional trade is usually recorded, the level of trade would still be very low vis-à-vis the level of intra-regional trade in other regional groupings. Table 4 shows an appropriate comparison.

Table 4
Intra-Trade in Selected Regions of the World 1965/1966

Region	*Share of intra-trade in Total Trade of Region (%)*
Africa	7.7
West Africa	2.7
Latin America	9.8
Asia and Far East	24.5
Eastern Europe	63.2
Western Europe	64.0

Source: UNCTAD *Handbook of International Trade and Development Statistics*, 1965 (Adopted from C.O. Ilori, 'Trade Constraints; A Barrier to Economic Cooperation in West Africa', *The Journal of Economic and Social Studies*, 15, 3, (November 1973), 405-422.

The less than three per cent (or about six per cent if we take unrecorded trade into consideration) intra-West African subregional trade compares quite poorly with the other sub-groups. Each of the regional groupings of Eastern and Western Europe did more trading internally than with the outside world.

(b) Trade Constraints. Various historical, political, economic and social factors that hinder intra-African trade in general and intra-West African trade in particular, have been identified. In the first place, West African countries' commercial policies and marketing channels are geared

towards enhancing trade with former colonial powers in particular and with the industrial countries in general. These policies have great bias against intra-regional trade. Almost all forms of restrictive commercial policies are in operation in the West African sub-region. Such policy measures include tariff barriers, licensing controls, restrictions through quota and import prohibition. The Francophone countries accord preferential treatment to EEC countries and other countries in the Franc zone while the products from their fellow West African countries not in the zone are subjected to various restrictions.[17] For example, in the mid-1960s, Dahomey, a former French colony and a member of the Francophone community, let in French cigarettes duty-free while charging duty of nearly 100 per cent on Nigerian cigarettes manufactured less than a hundred miles away.[18] Thus, the directional flow of the foreign trade of West African countries reflects their colonial past.

Secondly, there are poor and inadequate transportation networks and communication facilities within West African countries relative to those linking them with the industrialised countries, especially with their respective metropolitan countries. Roads and railways were developed by colonial powers to suit political administration and to convey export crops and raw materials from area of production to ports of shipment to Europe. Due to the competitive policies (both economic and political) of the colonial powers, railway lines do not cross monetary zones and only in few cases do they cross national frontiers. The remark made by the former Ethiopian Emperor Haile Selassie at the inaugural meeting of the OAU in 1963, even though directed to depict the African situation in general, is still valid for the current situation in West Africa.

> Today, travel between African States and telegraphic and telephonic communications among us are circuitous in the extreme. Road communications between two neighbouring states are often difficult or even impossible. It is little wonder that trade among us has remained at a discouragingly low level...[19]

Another important explanatory factor for the low level of intra-West African trade is the set-up of financial institutions and payment arrangement in West Africa. Exchange controls, which are sometimes very stringent, and payment difficulties between West African countries often lead to delays in the receipt of export earnings from other countries in the area. Such problems are inimical to the expansion of intra-regional trade. Furthermore, various payment facilities that involve bank transfers, external currencies and the direction of payments through the international exchange markets in London and Paris, do not speed the flow of intra-West African trade.[20] The existence of many monetary systems in the sub-region also has a trade-hindering impact. After their political independence, West African countries retained the currencies of their respective metropolitan countries. Consequently, in the area today, there are a sterling zone, a franc zone, a dollar zone, a peso zone and a peseta area. Hence, besides the quasi-magnetic attraction between the mother country and its former colony, such currency grouping facilitates trade between the two because exchange and payment problems are usually non-existent. Moreover, whenever there are emergency exchange restrictions and general currency inconvertibility, the financial links between the mother country and the ex-colony become much more reinforced.[21]

Fourthly, the economic structure of West African countries with its pattern of production and demand which is oriented towards trade with overseas countries tends to hinder internal trade in West Africa.[22] For example, most of the imports of West African countries are manufactures that are produced outside Africa. Predominantly, the locally produced semi-manufactures and manufactures serve as import substitutes, hence the insignificant level of exportation. The few locally produced manufactures that are exchanged within the West African sub-region face stiff competition from foreign products that are usually cheaper and of superior quality. Export-wise, it has been estimated that most of the 10 main primary products of West Africa that account for at least 85 per cent of export earnings of the sub-region, are demanded in commercial quantities outside the area. The 10 products are: cocoa, coffee, cotton, groundnuts, livestock, fish, palm products, diamonds, iron-ore and crude petroleum. Only livestock and fish are in great local demand.

Lastly, intra-West African trade in farm products has often been impeded by the sale of commodities by developed countries to West African countries on concessional basis. The most conspicuous of such a policy is the surplus disposal by the United States under 'Public Law 480'. Very often the concessional sale by the US, which is a clever way of circumventing the prohibition of dumping by GATT, makes it cheaper for African countries to buy some primary products from the US than to buy from neighbouring West African countries. Thus, the sale of food surpluses to West African countries tends to direct food-purchase patterns to the detriment of tropical exporting countries and could hinder meaningful intra-West African food policy or trade.[23]

(c) Sub-regional Trade Pattern. Another characteristic of intra-West African trade is the concentration of trade within each major monetary zone thus making inter-zonal trade quite low. In 1970, the intra-trade of the seven French-speaking countries that form the West African Monetary Union amounted to about 69 per cent and 81 per cent of their total West African exports and imports respectively.[24] However, the degree of trade concentration within the sterling area (Gambia, Ghana, Nigeria and Sierra Leone) is less than that of the zonal concentration within the franc group.

Responsible for the low level of inter-zonal trade and economic cooperation are such factors as colonial heritage, the relatively low level of trade restrictions within each group, the easy transfer of payments due to the use of a common currency or the use of a trading currency common to members and perhaps the existence of a common language.[25] On the other hand, the greater concentration of trade and the stronger and much more effective economic cooperation among West African French-speaking countries may be attributed to the contiguity of the territories, thus enhancing freer mobility of people and the fact that all these countries (except Guinea) have been associated members of the EEC since its inception.

(d) Towards a West African Economic Community. Recognising the very low level of intra-West African trade and with a view to improving the situation, West African countries have been making attempts to form a West African Common Market or Customs Union. Nigeria has played a leading role in the various attempts.

Also, the desirability of economic cooperation among developing countries has been expressed by United Nations sponsored conferences and commissions. Thus, in its *Final Act and Report* in 1964 the First UN Conference on Trade and Development (UNCTAD I) recommended that:

> Regional economic groupings, integration or other forms of economic cooperation should be promoted among developing countries as a means of expanding their intra-regional and extra-regional trade and encouraging their economic growth and their industrial and agricultural diversification with due regard to the special features of development of the various countries concerned, as well as their economic and social systems.[26]

The same opinion was expressed by the Pearson Commission which, apart from its recommendation for tariff elimination or reduction among developing countries, also recommended that the IMF and UNCTAD should look into the feasibility of a clearing arrangement among these countries.[27] Also, the Economic Commission for Africa (ECA) and the OAU have since the mid-1960s been trying to promote intra-African trade and economic cooperation on a regional basis. As such, Africa has been divided into four regional groupings: East Africa, West Africa, North Africa and Central Africa.

In 1967, the West African Regional Group consisting of 12 West African countries under the auspices of the ECA, came to an agreement to form a West African Economic Community. Their ultimate aim was to achieve 'a common agricultural policy, non-discrimination in inter-state trade, coordination in education, training and research, common industrial projects and methods of common financing of them, and coordination of development programmes.'[28]

Between 1967 and 1972, very little was achieved in the effort to establish a customs union. The lack of progress in this direction led to the setting up of micro-economic unions which could eventually lead to the ultimate goal of an all-embracing regional economic union. In May 1972, Togo joined with Nigeria to create what was seen in many circles as an 'embryonic West African Economic Community'. Both countries extended an invitation to other West African countries to join the union. Also, in 1972, an economic community was formed by seven French-speaking West African countries: Ivory Coast, Upper Volta, Mali, Mauritania, Niger, Senegal and Dahomey. And in December 1973, the continuous effort towards the formation of a macro-economic union was given an impetus when 15 West African countries agreed in principle to form an Economic Community of West African States.

In May 1975, the treaty establishing the Economic Community of West African States (ECOWAS) was signed in Lagos by 15 West African countries with an estimated population of 124 million and a land area of approximately 6.5 million square kilometres. The treaty calls for the eventual establishment of a customs union among member states over a period of 15 years. It is expected that during the period members would progressively eliminate the tariffs and non-tariff restrictions among them. The treaty also provides for the elimination of obstacles to the free mobility of labour, services and capital. There would be a gradual harmonisation of the agricultural, monetary and industrial policies of member states while concerted efforts would be made to improve transportation and communication within the region. Finally, a fund for cooperation, compensation and development will be established to compensate countries which suffer losses as a result of community policies and to finance development projects in member states.

(e) Theoretical Framework and West African Economic Integration. The possible effects of the formation of a customs union by West African countries in particular and any group of developing countries in general have been appraised. What seems to have influenced the thinking of many analysts was the analysis of Professor Viner. Two general conclusions emerged from Professor R.G. Lipsey's discussion of the theory of customs union. The first is that, 'given a country's volume of international trade, a customs union is more likely to raise welfare the higher is the proportion of trade with the country's union partner and the lower the proportion with the outside world'.[29] Emanating from the second conclusion is his contention that 'the sort of countries who ought to form customs unions are those doing a high proportion of their foreign trade with their union partner, and making a high proportion of their total expenditure on domestic trade'.[30] Judging from the low level of intra-West African trade, these conclusions would seem to indicate that the welfare of the people of the sub-region may not be raised as a result of the formation of a customs union. Hence a group of economists have concluded thus:

> The underdeveloped countries included in the various proposals for customs unions generally do not trade much with each other. Although foreign trade is large relative to national income, a high proportion of the trade is with advanced countries. This situation suggests the strong likelihood of detrimental production and consumption effects.[31]

Many economists have emphasised the inappropriateness of applying Viner's criteria based on the static analysis of fixed preference systems, constant factors of production and constant production functions, and Lipsey's general conclusions to evaluate the possible effects of customs union among developing countries. They have a common base in their discussion in that they all think that the beneficial effects of customs union in the developing countries would be through the dynamic effects, especially that of economic growth. Thus, they regard the application of Viner's analysis as taking a static view of what is essentially a dynamic situation. Firstly, Professor Gerald K. Helleiner argues that the developing countries should be concerned with the development effect of customs union because 'where the principle concern of policymakers is that of achieving the maximum rate of growth (and this is probably as characteristic an aim of those in the developed world as of those in the poorer nations), the trade creation and trade diversion aspects of a customs union may be of relatively little importance'.[32] And according to Professor H.M.A. Onitiri, the conditions in the developing countries are tremendously different from what exist in the developed world on which the theoretical framework of economic integration has been based.[33] Onitiri argues that the critical factors on which the Viner criteria and Lipsey's conclusions were based are among those that West African countries are desirous of changing through economic integration. In effect, 'the under-developed areas are involved in a huge effort to alter the structure of their economy and to integrate their foreign trade more closely with it than before'.[34] Thirdly, Professor G.M. Meier thinks that the dynamic effects that are derivable through new investment and a change in the pattern of investment is much more important to any group of developing countries that establish a customs union:

> Where the objective is accelerated development for the members of the region, the dynamic gains over the longer run may prove more important than the short-period welfare gains through a reallocation of a given amount of resources. The case for a customs union rests ultimately on a belief that these dynamic gains will be realised and will more than offset any possible welfare loss through trade diversion.[35]

(f) Prospects and Problems. Whenever the provisions of ECOWAS are translated into reality there would be a number of beneficial effects. The lowering or elimination of artificial trade barriers and improved transport and communications systems which would follow the realisation would appreciably raise the level of intra-subregional trade. The enlargement of the small national markets of West African countries would encourage large-scale production that could reduce unit costs and enhance technological innovations. Economic integration would improve the technical efficiency of many industries since internal competition within the union would force marginal firms to be innovative in order to improve their methods of production while both human and capital resources would be reallocated from less efficient to more efficient firms. And as people and capital move in response to economic incentives there would be a better utilisation of resources which would enhance productivity. Some harmonisation of regional development planning, at least in respect of some industries, can confidently be expected to be undertaken by members of the customs union. Such a step could lessen 'the wastes of "watertight" compartments of industrialisation and the uneconomic multiplication of new industries which otherwise result from independent industrialisation programming by each country'.[36] For example, in 1973, two companies to develop iron deposits in Guinea were established by five African states (Guinea,

Liberia, Algeria, Nigeria and Zaire) and three foreign companies from Japan, Yugoslavia and Spain.[37] Also, in January 1975, Nigeria and Dahomey agreed to establish two industrial projects (cement and sugar), both of which are to be sited in Dahomey. With common institutional arrangements and better contact, members of ECOWAS would be able to pursue more vigorously this type of economic planning and cooperation. Lastly, when a group of countries act as a bargaining unit at any international or inter-regional trade negotiations, their bargaining power would be much stronger than when acting as small and separate economic units.

The establishment of a customs union in West Africa would open up considerable prospects for Nigerian products. Even though it has the largest single market in the sub-region, it will need outlets, besides domestic demand, for the products of some major projects like the iron and steel complex and motor car assembly that are about to take-off. Undoubtedly, to be able to produce at full capacity in these industries, there must be a larger market than the domestic one and the West African sub-region looks like the immediate possible market. In some other import-replacing industries, Nigeria is almost self-sufficient. In 1973, for example, the proportion of aggregate supply (domestic production and imports) met by domestic production was 99.1 for soft drinks, 98.2 for beer including stout, 85.8 for footwear, 95.0 for textiles, 85.3 for paints and allied products, 94.7 for roofing sheets and 89.6 for soap and detergent.[38] Although one should give room for the effect of population increase and rise in income, both of which will increase domestic demand, any significant expansion in these industries will necessitate the availability of external markets for the increased output.

However, there are various problems involved in the economic integration of West African countries. In fact, the lack of progress for a very long time towards the formation of such a community, in spite of repeated indication of intention by different countries, underline the fundamental problems involved. The unwillingness or reluctance to surrender newly-won national sovereignty to any supranational body constitutes a major hindrance to economic integration. This is probably the only way one can explain the retrogressive trend of dismantling pre-independence forms of economic cooperation among British West African countries. The common currency and other forms of economic, commercial and research institutions which all these countries were sharing before independence, had been dismantled as each country jealously set up its own national institutions. Such institutions that had withered away as a result of disintegrative tendencies were the West African Currency Board, the West African Airways Corporation, the West African Cocoa Research Institute and the West African Institute of Social and Economic Research. Some of the factors which delayed the formation of a customs union in the West African sub-region have been summed up thus:

> ...economic policy in the sub-region is usually geared towards the raising of revenue from duty, protecting domestic industries that offer employment to indigenes and ensure import substitution, safeguarding balance of payments because of persistent foreign exchange pressures and discharging obligations that arise from semi-colonial economic ties with other countries either because of the colonial past or by virtue of belonging to particular monetary zones.[39]

Another major problem that might impede the full realisation of the provisions of ECOWAS is that there would be fear by some countries that might not gain as much as others. However, as genuine as such fear might be, the most essential thing is to ensure that no member-country is allowed to lose as a result of their economic union. As Professor Meier has approvingly quoted Sir Roy Harrod:

> A regional free-trade area might increase inequality inside the region; ...It should not, however, be assumed that an increase of inequality is necessarily bad, provided that the least favoured become just a little better off; an increase in inequality may be justified if it is the best way of getting progress in the region as a whole.[40]

Moreover, there are ways of redistributing the gains that accrue from an economic union to ensure some degree of equity. Some coordinated regional policies for the location of industries in the West African sub-region can be worked out in such a way that the poor countries can gain substantially. The Nigeria-Dahomey plan to establish two industrial projects in Dahomey and the establishment of two companies in Guinea by five African countries are pointers to the attainability of such an integrated regional planning. Although both Nigeria and Dahomey will gain from their joint projects, the latter stands to gain more, especially in respect of employment opportunities for semi-skilled and unskilled workers. Also, a West African Regional Development Bank can be established with the richer countries contributing much more towards its working capital than the poor countries. Besides, a larger proportion of the loans and investments to be made from the funds of the bank can be committed to projects being undertaken in the poor member countries of the West African Economic Community. In these ways all members of the Community can have the welfare of their people enhanced.

Footnotes

The comments of Dr. Olufemi Fajana on the draft of this paper are gratefully acknowledged.

1. See, for example, Bella Belassa, *The Theory of Economic Integration* (London, 1962).

2. The EFTA became defunct in January 1973 when Britain and two other members joined the EEC while the remaining four members concluded industrial free trade arrangements with the EEC.

3. J. Viner, *The Customs Union Issue* (New York, 1950).

4. Ibidem, 42-43.

5. M.O. Clement, R.L. Pfister and K.J. Rothwell, *Theoretical Issues in International Economics* (Boston: Houghton Mifflin Company Ltd, 1967), 177.

6. Nigeria's stand at the conference seemed to have been heavily motivated by political thinking which was to dispel any idea of association with Western Europe, especially when the Federal Government was forced to abrogate its politically motivated defence pact with Britain.

7. See Central Bank of Nigeria, *Annual Report and Statement of Accounts* (1967) 7, and (1971), 86.

8. Calculated from Federal Office of Statistics, *Nigeria Trade Summary* (December 1965).

9. See *Commonwealth Trade* (1965), 163.

10. France and Luxemburg never ratified the agreement; since it needed unanimous ratification, it thus lapsed.

11. Central Bank of Nigeria, *Annual Report and Statement of Accounts* (1972), 90.

12. Central Bank of Nigeria, *Annual Report and Statement of Accounts* (1973), 101.

13. Central Bank of Nigeria, *Economic and Financial Review* (June 1972), 7.

14. Ibidem, 7.

15. Ibidem, 7-8.

16. Ibidem, 8.

17. Federal Republic of Nigeria, *Second National Development Plan 1970-1974* (Lagos, Federal Ministry of Information, 1970) 80.

18. *West Africa* (January 27, 1968), 99.

19. R.H. Green and Ann Seidman, *Unity or Poverty? The Economics of Pan Africanism* (Baltimore, Penguin Book Inc. 1968) 66.

20. Central Bank of Nigeria, *Economic and Financial Review* (June 1972), 15.

21. N.A. Cox-George, 'Economic Structures of West African Countries', *The Nigerian Journal of Economic and Social Studies*, V, 1 (March 1963), 15-26.

22. Central Bank of Nigeria, *Economic and Financial Review* (June 1972), 13.

23. Green and Seidman, *Unity or Poverty*, 177.

24. *Economic and Financial Review* (June 1972), 9.

25. Ibidem, 9.

26. United Nations, *Final Act and Report, Proceedings of UNCTAD I*, Vol. 1 (New York, United Nations, 1964), 11.

27. *Partners in Development, Report of the Commission of International Development* (Pearson Commission; New York, Praeger, 1969) 94.

28. *West Africa* (January 27, 1968), 99.

29. R.G. Lipsey, 'The Theory of Customs Union, A General Survey', *Economic Journal*, LXX (September 1960), 496-513. Reprinted in R.E. Caves and H.G. Johnson, *Readings in International Economics* (Homewood, Richard D. Irwin, Inc. 1968), 261-278.

30. Ibidem.

31. See Clement et al, *Theoretical Issues*, 189.

32. Gerald K. Helleiner, 'Nigeria and the African Common Market', *The Nigerian Journal of Economic and Social Studies*, IV, 3 (November 1962), 283-298.

33. See H.M.A. Onitiri, 'Towards a West African Economic Community', *The Nigerian Journal of Economic and Social Studies*, V, 1 (March 1963), 27-50.

34. Ibidem, 33.

35. Gerald M. Meier, *The International Economics of Development* (New York, Harper and Row, 1968), 210.

36. Ibidem, 209.

37. Central Bank of Nigeria, *Annual Report and Statement of Accounts* (1973), 104.

38. Ibidem, 34.

39. *Second National Development Plan, 1970-74*, 80.

40. Meier, *International Economics*, 210-211.