

## EDITORIAL

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I am pleased that my arrival at DIAL coincides with the tenth anniversary of the group, founded in 1990. A considerable amount of work has been done in those ten years: the initial small team has grown significantly, and there is unanimous recognition for its work both in qualitative and quantitative terms.

The list of research work speaks for itself: no less than six books have been published in the past year, on a wide range of different subjects, dealing with questions of debt, development aid, competitiveness and the macro-economic prospects in African countries, the workings of the labour and credit markets, and the issue of democratic transition; around ten articles were published in scientific reviews, and eleven working documents distributed (see page 4).

The first "Development Economics Conference" was organised in Paris in October, in partnership with the University of Laval, Quebec, on the theme: "Income distribution, poverty and well-being". Four doctoral students from DIAL finished their research and attended their vivas this year. They all passed with distinction, were highly commended by the jury, and recommended for prizes for their theses and grants for publication.

DIAL is currently going through a period of change, which should help it face the challenges of the new decade in all serenity: a new legal status will be adopted in 2001, designed to offer a more appropriate framework in which to develop its activities in the coming years; creating a research unit grouping researchers from IRD within DIAL is a way of improving the coherency of the research work and of strengthening partnerships in France and abroad.

Whilst continuing to provide its analyses on the internal aspects of economic and social dynamics, the area in which DIAL currently excels, new emphasis will be put on two areas of work: on the one hand, studies concerning "trade and development", with the planned launch in the first half of the year of an important project to evaluate the impact of the free trade agreement signed between the European Union and Morocco; on the other, DIAL plans to strengthen its expertise in the provision of statistics, as an increasing number of countries are calling on us to set up surveys to monitor poverty and the informal sector (1-2-3 surveys).

As we are anxious to keep you better informed about our research work and to live up to your expectations concerning this publication, you will find a questionnaire enclosed with this issue. I would be most grateful if you would return it to us with your comments.

Jean-Pierre CLING

**« TRADE BLOCS »**  
**A new approach to trade blocs**

A presentation of the latest World Bank Report on regionalism ("Trade Blocs") was organised at the DIAL premises in December, in partnership with the Bank's European office in Paris. The report was presented by one of its co-authors, Mr. Schiff, senior economist for the Bank's Trade Group, followed by two discussants, F. Benaroya, head of the Bureau of Trade and Investments at the Foreign Economic Relations Department at the French Ministry of Economy, Finance and Industry and J.C. Berthélemy, professor at Paris I University. The main conclusions of the report and the reactions to it are summarised below.

The report presents a somewhat qualified diagnosis of the benefits to be gained from regional trade agreements. Whilst it considers that the multiplication of such agreements can be explained for mainly political reasons, the study judges that from both a theoretical and an empirical standpoint, the gains to be made from regional integration vary depending on the size and level of development of the countries concerned, and according to the means of integration chosen. The report also addresses the question of the links between multilateralism and regionalism.

**1. The recent development of regionalism: mainly political reasons**

There has been a rapid development of regional trade agreements in the past few years. Half of the 200 agreements notified to GATT and then to the WTO since 1948, have been concluded since 1990.

In the last decade, there has been the NAFTA agreement (United States-Canada-Mexico), the Mercosur agreement in South America and several other agreements between developing countries; as for the European Union, it initially signed agreements with neighbouring countries (Mediterranean non-Community countries and transition countries preparing for membership), then, more recently, with countries further afield (South Africa, Mexico), whilst still continuing the enlargement of the Union. The Cotonou Convention was signed last June, replacing the Lomé Convention, and opened the way to the signature of free trade agreements between the

EU and 71 ACP (Africa-Caribbean-Pacific) countries. Other regional agreements are currently being drawn up (particularly in Asia), hence giving the impression of a "bowl of spaghetti" as Jagdish Bhagwati put it. In the last year, no less than three regional trade agreements were concluded in Africa: a customs union between 7 Western African countries (WAMEU); a free trade area between 11 countries in southern Africa (SADC); and finally, another customs union between about twenty countries in eastern and southern Africa (COMESA).

The World Bank Report considers that this increase in regionalism mainly stems from political reasons such as a search for security, which, it should be noted, was also the main purpose of founding the European Union; an attempt to increase negotiating powers in multi-lateral organisations; a search for co-operation between institutions and on infrastructure projects; an increase in the "credibility" of economic reforms; a brake on migratory flows; a means of handling collective preferences (cf. the principle of mutual recognition in the EU), etc. In the case of the European Union, the policy of signing regional agreements is a substitute for a still embryonic foreign policy.

**2. Uncertain economic impact**

Economic theory suggests that the impact of trade liberalisation in a regional framework is two-fold: first, there are size-related effects, linked to the increase in the size of markets, sources of economies of scale in the event of rises in output; second, there are price-related effects, the change in relative prices resulting, according to Viner's traditional distinction, in trade creation and diversion. In a dynamic situation, by increasing the size of markets, regional agreements also help attract direct foreign investments. By changing production specialisations, regional integration leads to a relocation of activities between the countries concerned. Whereas the experience of the European Union shows that regional integration has helped the European countries converge in

an upward movement, this is not the case in most of the agreements between developing countries. Amongst the three examples of agreements studied, Brazil-Argentina, Kenya-EU and Ivory Coast-Burkina Faso, the latter is considered to present the most risks and the least potential advantages; generally speaking, gains from the liberalisation of tariffs between African countries are limited by the importance of other exchange barriers, such as the often prohibitive cost of international transport. In addition, the poorest country of the two (Burkina Faso in this case) is liable to suffer the effects of polarisation on its neighbour, which already has an embryonic industry and infrastructures.

The report implicitly suggests that this type of impact will probably also come into play throughout WAEMU, in which Ivory Coast plays the role of regional power. Consistent with the conclusions of the report, a study carried out by DIAL in partnership with the Laval University, Quebec, using a multi-country general equilibrium model, highlights a diversion effect between Ivory Coast and the other participating countries following the implementation of this agreement<sup>1</sup>.

According to the World Bank, the soundest option for developing countries is to sign agreements with developed countries, as they present the most complementarity and offer the greatest potential for convergence in the long term. Nonetheless, excessive income gaps between the participating countries limit the potential for trade development. In this respect, it can be noted that the emerging countries in Asia, which have registered remarkable growth performance in the last few decades, did not choose the strategy consisting in regional trade agreements.

### 3. Multilateralism versus regionalism

The final chapter of the report concerns the links between multilateralism and regionalism.

The first question it asks is whether regional integration encourages free trade on a world level or, on the contrary, whether it impedes it, increasing the risk of trade wars between

competing blocs. Without coming to a conclusion on this controversy, the report remarks that the level of protection in developing countries belonging to regional agreements is no higher than in other countries in this category (it particularly mentions the example of Latin America). This observation goes against the idea that regionalism encourages protectionism.

Whatever the case may be, it is clear that the phenomenon of multiplying regional agreements is to a certain extent self-maintained. In this way, countries seek to benefit from the gains to be had from belonging to existing agreements and sometimes joining several agreements or, on the contrary, try to avoid suffering the negative effects of not belonging. We can also note, although this was not mentioned in the World Bank report, that this phenomenon is also encouraged by the increase in multilateral liberalisation: the signature of free trade agreements between the developing countries and leading developed countries is a means of fighting against the erosion of preferences stemming from this liberalisation.

This leads to a second underlying question. In a framework of perfect competition, trade liberalisation is always optimal, as regionalism is a second rate optimum. This is not the case in the more realistic framework of imperfect competition, where the choice between the two styles of trade policy is far more open. So, which is the best choice?

The dilemma posed by multilateralism and regionalism is particularly strong for Africa: should the continent try to play a more active role within the WTO so as to better defend its interests, although half of the forty African member countries are not represented in Geneva? Or rather, should it both strengthen regional integration (given that all the trade agreements have failed there in the past) and above all focus on preferential relations with its main partners, such as the European Union and / or the United States? Unfortunately, as was remarked during discussions on the report, the World Bank does not give an opinion on this nonetheless central question. The only way of answering would be to bring up the issue of the current economic and trade forces at world level, which are not in favour of Africa.

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1. B. Decaluwé, J.C. Dumont, S. Mesplé-Somps and V. Robichaud : «Union économique et mobilité des facteurs ; le cas de l'Union Economique et Monétaire Ouest Africaine (UEMOA) », Cahier de Recherche du CREFA N°00-14, September 2000.

## Books published

« *L'économie camerounaise : un espoir évanoui* », J.J. Aerts, D. Cogneau, J. Herrera, G. de Monchy and F. Roubaud; Karthala, coll. *Les Afriques*, Paris, April.

A collective analysis by DIAL on the collapse of a Cameroon, a country that, until the end of the 1970s, was seen as a model of economic prosperity.

« *Marché du travail et compétitivité en Afrique sub-saharienne* », D. Cogneau, S. Marniesse and J.Y. Moisseron, Economica, Paris, June.

This book studies the characteristics of the workings of the labour market in sub-Saharan African countries, and seeks to assess how they help explain the low levels of competitiveness.

« *Le rationnement du crédit dans les pays en développement ; le cas du Cameroun et de Madagascar* », A. Joseph, L'Harmattan, Paris.

The analysis identifies the factors that hamper access to bank credit for companies wishing to finance their investments in Cameroon and Madagascar.

« *Dette et pauvreté ; solvabilité et allègement de la dette des pays à faible revenu* », J.Y. Moisseron et M. Raffinot, Economica, Paris.

This book presents a critical analysis of the debt relief initiative for the heavily indebted poor countries (HIPC), and proposes alternative solutions to ensure the sustainability of debt in the long term.

« *Identités et transition démocratique : l'exception malgache ?* », F. Roubaud, L'Harmattan, Paris.

This book gives the results of ten years of democratisation in Madagascar, using tools from quantitative electoral sociology; beyond the case of Madagascar, it opens up paths for Africanist sociology and politics that call for further thought.

« *Trouver des problèmes aux solutions : Vingt ans d'aide au Sahel* », D. Naudet, published by the OECD.

A lucid but constructive work on the crisis in international co-operation, increasingly challenged in terms of its effectiveness and usefulness; this publication is the final stage of a DIAL work programme for the OECD.

## Working documents distributed

« *The UNDP Round Tables and the private sector; An issue Paper* », J. Loup, DT/2000/01.

« *Analyse des disparitions de micro-entreprises à l'aide d'un modèle de durée* », S. Marniesse, DT/2000/02.

« *Réformes douanières au Bénin et libéralisation commerciale du Nigéria ; Un modèle EGC avec concurrence imparfaite appliquée au commerce trans-frontalier* », J.F.Gautier, DT/2000/03.

« *Les effets de la capacité physique sur l'acquisition des compétences : une application au cas de Madagascar* », J.C. Dumont, DT/2000/04.

« *Estimer la relation entre invalidité et emploi dans le cas de Madagascar* », J.C. Dumont, DT/2000/05.

« *Approches théoriques de la dynamique des micro-entreprises dans les pays en développement* », S. Marniesse, DT/2000/06.

« *L'informel est-il une forme de fraude fiscale ; Une analyse micro-économétrique de la fraude fiscale des micro-entreprises à Madagascar* », J.F.Gautier, DT/2000/07.

« *L'impact des infrastructures publiques sur la compétitivité et la croissance ; Une analyse en EGC appliquée au Sénégal* », J.-C. Dumont et S. Mesple-Soms, DT/2000/08.

« *Comportement familial, inégalités et croissance : une revue de la littérature* », M. Grimm, DT/2000/09.

« *Effets comparés de l'éducation publique et privée sur le processus d'insertion professionnelle, à Madagascar* », F. Arestoff, DT/2000/10.

« *Taux de rendement de l'éducation sur le marché du travail d'un pays en développement* », F. Arestoff, DT/2000/11.

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