

Chapter 4

THE HISTORY AND STRUCTURE OF CEMAC

4. THE HISTORY AND STRUCTURE OF CEMAC

The creation of the CEMAC customs union was a very important step towards achieving a regionally integrated central African region. Therefore in order to provide a clear understanding of the CEMAC integration process, it is vital that we understand the region and the events which led up to the formation of CEMAC. This Chapter therefore examines the origin and development of the CEMAC region and the profile of its member states. In essence, it gives a brief discussion on the Central Africa sub-region by highlighting the internal political and socio-economic profiles of the sub-regional countries. The Chapter then goes on to give a descriptive overview of the rationale behind the formation of a Central African economic integration programme. It further analyses the history and structure of CEMAC and its economic integration programme, as well as its underlying objectives. Finally, it looks at the operation of the CEMAC integration initiative in terms of trade liberalization, liberalization of migration barriers, agricultural and industrial policies, macro-economic policies and monetary policies. The conclusion of this Chapter then paves a way for the case study used in this study.

4.1 A HISTORICAL BACKGROUND OF THE CEMAC SUB-REGION

4.1.1 The CEMAC Sub-Region

In order to understand the CEMAC institution, it is important to understand the history of the region. The CEMAC region comprises of six different countries: Cameroon, Central African Republic (CAR), Chad, the Republic of Congo, Equatorial Guinea and Gabon²¹¹. This region is also very significant because it shares its borders with all other

²¹¹ Under the Communauté Économique des Etats de l'Afrique Centrale (CEEAC) [Economic Community of Central African States – ECCAS], four other countries add up to this list in order to make up Central Africa: Angola, Burundi, the Democratic Republic of Congo, and São Tomé et Príncipe. Signed in 1983 in Libreville,

regions on the continent: in the West by ECOWAS and CEN-SAD; in the East by EAC, COMESA, IGAD and CEN-SAD, in the South by SADC; and in the North by the Arab countries. In addition, the countries within this region all share a common history, language²¹²

Figure 4.1: Map of Central Africa highlighting CEMAC member states



Source: Adapted from the CEMAC Official Website (www.cemac.int)

Gabon and ratified 1984, the CEEAC was established to promote the free movement of factors of production, harmonise all aspects development and increase the living standards of all inhabitants within the region. For more on the objectives, mission and structure of the CEEAC organisation, see the CEEAC – ECCAS official website, (accessed on November 1, 2011) [available at: www.ceeac-eccas.org]

²¹² This language is the French language, with the exception of Equatorial Guinea which has Spanish as the main national language.

Added to the fact that these countries share a similar geographical region and history²¹³, their economies are significantly distinctive: firstly, with a combined number of about 32 million, the population of the region is relatively small compared to other regional bodies in Africa²¹⁴; secondly, historically this region has undergone a very low increase in per capita incomes and made little or no effort to reduce poverty levels; lastly, countries in this region rely heavily on oil and several other natural resources. The CEMAC region is made up of approximately 32 million people with varying population densities²¹⁵. Chad and the Central African Republic make up the two landlocked countries in the region²¹⁶. In comparison to other sub-regions in the rest of Africa however, the CEMAC region has the smallest population size²¹⁷.

Furthermore, while the other five countries are considered tropical regions, Chad is the only Sahelian country within the region, running across the Sahara desert, as well as the Sahel and Sudan areas. In addition, the CEMAC region is made up of a wide range of untapped minerals and agricultural products. The Republic of Congo on the other hand is home to the world's second forest and great water reserves. However, the region remains the least developed on the continent in terms of infrastructures, transport, energy and technology, all of which serve as challenges to production and socio-economic development in the region.

²¹³ A majority of these countries were subjected to the French colonial rule.

²¹⁴ The geographic area of the region is said to be roughly 3 million square kilometres which is significantly smaller than the Western and Southern regions of Africa.

²¹⁵ 39.7 inhabitants per sq km in Cameroon as opposed to 7.1 in the Central African Republic and 5.5 in Gabon. In addition, while the total population of Cameroon is said to be about 19.3 million, Equatorial Guinea accounts for 0.7 million inhabitants, making it the smallest in the region. For more on these figures, see CEMAC official website: <http://www.cemac.int/EtatsMembres.htm>, and Zafar, A. and K. Kubota (2003).

²¹⁶ This means that these two countries are completely surrounded by land or closed seas.

²¹⁷ The SADC region consists of approximately 195 million inhabitants while the ECOWAS region consists of about 230 million inhabitants, with Nigeria accounting for 130 million of those inhabitants. see, Zafar and Kubota (2003).

In terms of ethnicity, although French is the common language spoken in the region²¹⁸, the inhabitants of the CEMAC region consist of a wide diversity and the integrated ethnicity which is often seen across West Africa does not occur in Central Africa, which often serves as a challenge in its integration process. However, there exist certain ethnic groups which are found to be present in several countries in the region such as the Fang, the Bantu and semi-Bantu, and the Tuareg tribes²¹⁹. This ethnic diversity not only poses a challenge in integration but has often led to instability in the region and in order to maintain peace and stability, some Central African states²²⁰ came together in Yaoundé, Cameroon in 1994 to adopt a pact of non-aggression and went forth to form an institution in 1999 in Yaoundé which regulated this pact known as the Council for Peace and Security in Central Africa (COPAX)²²¹.

Central Africa is richly blessed with natural resources such as petroleum, gold, tin, bauxite, uranium, timber, and iron ore. Furthermore, Chad, the Republic of Congo, Equatorial Guinea and Gabon are known to be among Africa's top ten oil producers; however its approximately 41 million people remain one of the poorest in the world. Despite the vast possession of natural resources and similar colonial grouping, movement across this region is quite challenging due to their lack of natural trade routes, making them relatively isolated

²¹⁸ There are exceptions to this: the first is in Equatorial Guinea where Spanish is spoken and the use of English language in some parts of Cameroon due to the British colonial rule.

²¹⁹ The Fang tribe is found in the southern edge of Cameroon, Gabon, the Republic of Congo and Equatorial Guinea; the Bantu and semi-Bantu tribes are found in Cameroon, the Republic of Congo, Gabon, and Equatorial Guinea; and the Tuareg tribe which exists in the northern parts of Cameroon and extends across Chad (also found in Niger and Nigeria).

²²⁰ These states included: Cameroon, Central African Republic, Republic of Congo, Equatorial Guinea, Gabon, and São Tomé et Príncipe.

²²¹ The decision to create COPAX occurred during a summit of the United Nations Standing Advisory Committee on Security Questions in Central Africa which took place in 1999 in Yaoundé, with aims of promoting, maintaining and strengthening peace and security in the Central African region.

from one another. Additionally, the recurrent water-borne diseases and desertification in the region (mostly in Chad) acts as a challenge to food production.

Table 4.1: CEMAC: General Characteristics of Member States, 2011

Countries	Capital City	Major Language / Languages	Land Area (in km ²)	Natural Resources	Estimated Population (in Millions)	Income Per Capita (in \$)	Annual GDP (in billion \$)
Cameroon	Yaoundé	English, French	475,440	Petroleum, Bauxite, Iron Ore, Oil, Cocoa, Coffee, Timber, Hydropower	19.60	1,180	22.39
Central African Republic	Bangui	French, Sango	622,984	Diamonds, Uranium, Timber, Gold, Oil, Coffee	4.40	470	2.01
Chad	N'Djamena	French, Arabic	1,284,000	Hydropower, Coffee, Tobacco Petroleum, Salt, Uranium, Fish, Natron, Kaolin, Gold, Sand, Gravel	11.23	620	7.59
Congo, the Republic of	Brazzaville	French, Kongo/Kituba, Lingala	342,000	Petroleum, Zinc, Timber, Lead, Uranium, Copper, Potash, Natural Gas, Phosphate, Gold, Diamond, Magnesium, Sugar, Plywood, Cocoa, Coffee	3.69	2,150	11.90
Equatorial Guinea	Malabo	Spanish, French, Portuguese, Fang, Bube	28,050	Petroleum, Natural Gas, Timber, Gold, Bauxite, Diamonds, Tantalum, Oil Sand and Gravel, Clay	0.70	14,540	14.01
Gabon	Libreville	French, Fang, Myene	267,670	Petroleum, Natural Gas, Diamond, Oil, Niobium, Iron Ore, Manganese, Uranium, Gold, Timber, Hydropower	1.51	7,407	13.01

Sources: 2010 estimates adapted from the CEMAC Official Website (www.cemac.int), the World Bank, *World Development Indicators 2010*, and the Central Intelligence Agency World Fact Book (www.cia.gov)

Table 4.2: The Population Size of CEMAC in 2010

Countries	In Millions	% CEMAC	% Africa
Cameroon	19.60	47.65	1.92
Central African Republic	4.40	10.70	0.43
Chad	11.23	27.30	1.10
Congo, the Republic of	3.69	8.97	0.36
Equatorial Guinea	0.70	1.70	0.07
Gabon	1.51	3.67	0.15
CEMAC	41.13	100	4.02
Africa	1022.23		

Source: The World Bank 2010 Indicators (www.worldbank.org)

As seen in Table 4.1 above, Cameroon and Equatorial Guinea are economically dominant in the region. Cameroon is the largest economy of all six member states and accounts for 31.58 per cent of CEMAC total GDP²²². However in terms of income per capita, Equatorial Guinea and Gabon top the list of high-income households in the region with US\$ 14,540 and US\$ 7,407 respectively. Although the income per capita in Cameroon is US\$ 1,180 (an increase from its 2001 figure of US\$ 550), it is still a low-income economy.

4.1.2 The CFA Franc Zone

The CEMAC region of Africa is also known to be one of the two CFA zones in Africa²²³. Prior to independence, economic unions were created by the French in the Central and Western parts of Africa which were under their rule. The Afrique Occidentale Française (AOF) is the first of such unions established in 1898 by bringing together Senegal, Guinea, Côte d'Ivoire, the Sudan (now Mali), Dahomey (now Benin), Upper Volta (now Burkina Faso), Mauritania, and Niger²²⁴. Later in 1910, the Afrique Equatoriale Française (AEF) was created bringing together Chad, Oubangi-Chari (now Central African Republic), Congo and Gabon. Cameroon however was quite distinct in the sense that it was ruled by both Britain

²²² Also refer to Table 4.3. Equatorial Guinea makes up for 19.76 per cent of the region's total GDP while Gabon comes in third place accounting for 18.35 per cent of CEMAC total GDP.

²²³ Now used to refer to the currency Communauté Financière Africaine – CFA franc, the CFA came into existence many years before the creation of a common Euro currency and was used to identify the French colonies and communities in Africa (Colonies / Communauté françaises d'Afrique) prior to their independence. The CFA franc was created by former French colonies with a fixed exchange rate against the French franc as a means of escaping the devaluation of the French franc after the Second World War. Consisting of two kinds: the West African CFA franc and the Central African CFA franc, this currency is currently being used in fourteen African countries, two of which were colonised by other European countries Guinea-Bissau (colonised by Portugal) and Equatorial Guinea (Spanish colony) and twelve of which were former French colonies: Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, Togo, Cameroon, Central African Republic, Chad, Republic of Congo, and Gabon.

²²⁴ see Zafar, A. and K. Kubota (2003). "Regional Integration in Central Africa: Key Issues," *World Bank*, Washington D.C., African Region Working Paper No. 52: 1-41

and France, and aforementioned colonies later gained their independence around 1962 thereby ending all previous arrangements with France and becoming a country in their own rights²²⁵.

The CFA was earlier used to refer to the Colonies Française Africaine prior to independence and a franc arrangement was done which saw the implementation of a single currency for certain French colonies in Africa. This currency was employed the mid 1940s as a way of preventing the need for currency stability, and preserving the exchange rates between the AEF and AOF zones and the dollar during a time when the French franc was devalued at the final stage of the Second World War²²⁶.

After the Second World War; two issuance houses were established and tasked with supervising this currency²²⁷. However after independence, the institutions remained operational and were led by France. Nonetheless, the initial meaning of the CFA was changed by the Central African countries to refer to the Coopération Financière Africaine and renamed in West Africa to as the Communauté Financière Africaine. Despite the fact that these French colonies ceased all political institutional ties with France after independence, one economic institution persisted in the form of the CFA franc. Today, the main members of

²²⁵ Zafar and Kubota, 2003: 2

²²⁶ *Ibid.* p. 2: According to Zafar and Kubota (2003), the CEMAC sub-region experienced extreme domestic policy shocks in the mid-1980s which led to the devaluation of the CFA in order to mitigate this shock. Furthermore, this devaluation of the currency also led to the franc zone experiencing a protracted depression which resulted in a decrease in the per capita by over 17%, and the macroeconomic imbalances which arose from this decrease in per capita caused member states to adopt internal adjustment strategies. However, these adjustment strategies failed and in 1994, the member states were forced to devalue the CFA franc allowing the economies within the sub-region to recover.

²²⁷ These institutions were renamed *Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO)* and *Banque Centrale des Etats de l'Afrique Centrale et du Cameroun (BCEAC)*. For more details see, Gulde, A., and C. Tsangarides. *The CFA Franc zone: common currency, uncommon challenges*, Washington: International Monetary Fund

the CFA franc zone are France and the two economic and monetary unions in Africa which were established from BCEAO and BCEAC²²⁸.

The currency gave them an advantage over other regions on the continent in the sense that through the economic crisis in the mid-1980s, the economies using the CFA franc experienced a higher growth in real GDP and a lower inflation rate, while developing greater macroeconomic imbalances as opposed to other economies in the sub-Saharan region. Additionally, contrary to other African countries, the two CFA zones hold a high level of similarity and the CFA monetary unions and institutions governing these zones remain significantly tied to their French colonial power. The Central African CFA Franc (XAF) remained highly pegged firstly to the French franc²²⁹ and now to the euro at XAF 655.96 per euro which emphasises on the benefits of a fixed exchange rate highlighted by Mundell²³⁰.

²²⁸ These economic and monetary unions are: the Communauté Économique et Monétaire de l'Afrique Centrale (CEMAC) and the West African Economic and Monetary Union (WAEMU) with the Banques des Etats de l'Afrique Centrale (BEAC) and BCEAO as their main central banks which are also very independent from each other. See Zafar and Kubota (2003). According to UNECA (2008: 219), *BEAC was created in 1972 and charged with the responsibility of issuing currencies and pooling the external reserves of member States. It functions through an operations account with the French Treasury, which is used to manage the fixed parity between the CFA franc and the French franc and is governed by monetary accords between France and BEAC. Additionally, some of the accords require BEAC to abide by a set of rules of monetary and fiscal discipline designed to reduce the risk of accumulating large balance of payments deficits that would have to corrected by extensive financing from the operations account. Monetary policy is formulated by a committee (MPC) that also manages the pooled foreign exchange reserves, and BEAC is also entrusted with formulating and conducting monetary and exchange rate policies, pooling and managing foreign exchange reserves (supported by a requirement that all export receipts be surrendered to the central bank), and responsible for overseeing macroeconomic and financial stability in the zone.*

²²⁹ The CFA Franc was initially pegged to the French Franc (FF) at a rate of 1FF to about 50 CFA Francs, and this went on for about 46 years, highly favouring its economic performance in comparison to other African countries. However in the mid-1980s, a rise in oil prices together with the appreciation of the French Franc in relation to the US dollar led to a period of severe economic decline in the Franc zone, and on January 12, 1994, the CFA Franc was devalued. After this devaluation, CEMAC member countries began implementing policies at eliminating barriers to regional trade so as to strengthen their fiscal position. For more on this, see Bakoup and Tarr (2000).

²³⁰ Mundell's OCA model argues that the advantages of having a single monetary and exchange rate policy are minimal in comparison to the benefits of securing a domestic currency with the currency of a more powerful economic power. see Mundell (1961). Each of the CFA franc used in the two franc zones are nominally convertible into the Euro, however, they cannot be exchanged directly with each other as France ensures the

However, although these two CFA zones have a common history and significant ties to their French colonial power, they have since evolved and each zone not only has a separate treaty with France, but they both have their own currency (as earlier stated) and regional institutions which are regulated by the central bank in each region. The two zones hold biannual meetings with each other and together with France in order to discuss their economic performances and policies or institutions which need to be implemented in order to maximize the economic outcome²³¹.

Furthermore, with the view of enhancing economic integration within the sub-region and between the two CFA Franc zones²³², leaders of these sub-regions came together in Port Louis, Mauritius in October 1993 to set up a common customs policy called the Organisation for the Harmonization of Business Law in Africa (OHADA)²³³. This policy consists of business laws and institutions which are aimed at enhancing economic growth in the two regions, encouraging the dissemination of good governance, and promoting domestic and international trade through foreign direct investments. This policy reflected the need and vision of these sub-regions to form an economically integrated sub-region which will encourage the harmonization of policies and could be emulated by other sub-regional

pegging of the currency to the Euro. Also see, Gulde, A., and C. Tsangarides. *The CFA Franc zone: common currency, uncommon challenges*, Washington: International Monetary Fund

²³¹ Exact policies or institutional designs are individually decided by each union. However, the common characteristics which are implemented in the two CFA Franc zones are the fixed pegged of their currency to the euro, an exchangeability guarantee by the French Treasury, and a set of legal, policy and institutional prerequisites for the sustainability of the zone. For more on this, see the European Central Bank (2010). *Study on the Establishment of a Monetary Union among the Partner States of the East African Community*. p. 154; Masson, P., and C. Pattillo (2004) *The Monetary Geography of Africa*, Washington: Brookings Institution.; and Michailof, S. (2007). "Il faut rompre avec la parité fixe du Franc CFA," *Jeune Afrique*, 9411: 94–98.

²³² The two Franc zones refer to CEMAC and UEMOA.

²³³ Countries which adopted this policy include: Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, the Republic of Congo, the Democratic Republic of Congo, Côte d'Ivoire, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Mali, Niger, Senegal, and Togo. For more details on this, refer to the OHADA website, (accessed on December 3, 2011), [available at: http://www.ohadalegis.com/anglais/about_ohada.htm]

economic blocks, thereby leading to a continental policy for the economic integration of Africa.

4.2 COMMUNAUTÉ ÉCONOMIQUE ET MONÉTAIRE DE L'AFRIQUE CENTRALE (CEMAC)

4.2.1 The Rationale Behind A Central African Economic Integration

The creation of CEMAC was a very significant milestone in the regional integration process in Central Africa and was based on the ideas of promoting regional integration and effectiveness of policies throughout the region²³⁴. Upon its creation, CEMAC set out to promote trade, establish a Central African common market and unite the inhabitants of the CEMAC region in three main phases which stretches over a period of 15 years from 1999-2014. The member states considered regional integration as a means to greater regional development and a way through which the regional economy will be integrated into the global economic system thereby giving it more economic power in the international arena²³⁵.

It is without doubt that CEMAC member states were influenced by economic theories of integration and the assumption that regional economic integration increases the level of private-sector investment, as well as the standards of living of the average population and transforms the region. Also, the assumptions that integration has a positive impact on the gross national product of all its member states through an increase in the size of the markets, the efficiency of institutions within member states, and an increase in economies of scale has

²³⁴ This was also done in alignment with the regulation of the Franc CFA common exchange rates in comparison to the French franc.

²³⁵ Communauté Européenne (2001) "Region de l'Afrique Centrale: Document de stratégie de coopération régionale et Programme indicative regional," *Strategie de Cooperation Regionale Avec L'Afrique Centrale - 9ème FED*, (accessed on November 1, 2011), [available at: http://ec.europa.eu/development/icenter/repository/print_r8_rsp_fr.pdf]

continuously influenced these Central African states to strive for regional integration²³⁶. Additionally, Viner's customs union theory suggests that the elimination of tariffs through integration will not only increase the market size but it will also lead to trade creation and increase the degree of trade which occurs within the region.

Historically, integration in the Central Africa goes way back to the colonial times and as such, any current integration is seen as continuity to their shared historical and colonial past. Furthermore, economic integration in the region is seen as a platform to promote the political and socio-economic stability and development of both the member states and their citizens through an increase in regional trade, cooperation, and levels of self-reliance.

4.2.2 The Formation Of CEMAC

CEMAC is considered to be one the oldest regional agreements in Africa and is consisted of six countries within the Central African region: Cameroon, Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon. Earlier efforts to create an economic co-operation and integration within the region goes as far back as the French colonial times and in recent times, the members jointly established an economic and monetary union in 1994 which was later ratified in 1999 with aims of strengthening the existing customs and monetary union existing which were put in place during colonisation.

Prior to gaining independence from French colonial rule, the Union Douanière Équatoriale (UDE)²³⁷ was formed in 1959 by the Central African Republic, the Republic of Congo, Gabon and Chad. Later in 1960, the countries which made up the AEF²³⁸ came together to

²³⁶ For more on the advantages of economic integration, refer to Jaber, T. (1979). "The relevance of traditional integration theories to LDC's," *Journal of Common Market Studies*, 9/3: 254

²³⁷ Known in English as the Equatorial Customs Union

²³⁸ This consisted of the Central African Republic, the Republic of Congo, Chad and Gabon.

form the Union de Républiques de l’Afrique Centrale²³⁹ which was later dissolved when these countries gained independence.

However, despite gaining independence from France, the UDE remained as a functioning institution with Cameroon joining in 1961 and on December 8, 1964, the five countries of the UDE met in Brazzaville (in the Republic of Congo) to establish the Union Douanière et Économique de l’Afrique Centrale (UDEAC)²⁴⁰. Formed under the Brazzaville Treaty, the UDEAC was created with aims of forming a customs union which would promote economic integration among its members and facilitate free trade between member states while implementing a common external tariff on imported factors of production from non-member countries.

In terms of external trade, three different levies of import were adopted by all member states under the UDEAC treaty: an import duty, an entry duty and a duty on import turnover. Additionally, a fourth kind of levy known as the complementary tax was determined and implemented individually by each member state. However, the UDEAC treaty never enforced a common external tariff as it did on regional trade in the form of a single tax regime which was established in 1965. This tax regime was aimed at liberalizing trade within the region and countries such as Cameroon regularized their trade based on the provisions of this regime²⁴¹.

Following the economic crisis which occurred in the late 1980s and 1990, the member states of UDEAC became highly concerned with a vision to establish a customs union and the

²³⁹ This is translated in English as the Union of the Republics of Central Africa.

²⁴⁰ Known in English as the Customs and Economic Union of Central Africa

²⁴¹ According to Bakoup and Tarr (2000: 171), *under the scheme, goods that had the potential of entering intra-regional trade were classified into two broad categories: the first category consisted of primary products (produits du cru) whose movement within the union was free of any duty, and the second category consisted of all manufactured goods produced in one member country for regional export.* For more details on this, see Bakoup, F., and Tarr, D. (2000) “The Economic Effects of Integration in the Central African Economic and Monetary Community: Some General Equilibrium Estimates for Cameroon,” *African Development Bank*, 161-190

need to create a more efficient integration initiative. Having the establishment of a customs union as a set goal, the UDEAC formed several infrastructures and projects towards the creation of a harmonised fiscal and customs arrangement²⁴². Equatorial Guinea later joined this institution in 1983, officially becoming the sixth member of UDEAC. Because of the disagreements within the group, Chad and the Central African Republic threatened to leave the UDEAC but failed to follow through with their threats after much pressure from France. Consequently in a bid to address these misunderstandings, the UDEAC Treaty was officially revised in 1975.²⁴³

This joint action was strengthened by two monetary cooperation agreements between UDEAC member states and France which were signed in November 1972. These agreements paved the way for the creation of a common central bank (Banque des Etats de l'Afrique Centrale – BEAC)²⁴⁴ and single currency known as the Franc de la Coopération Financière en Afrique – Franc CFA)²⁴⁵. Nonetheless, the lack of free movement of factors of production and lack of finances, cooperation, communication and commitment from member states which posed major challenges to the organisation and in order to rectify this, there was a debate regarding the establishment of a new institution which would reinforce economic, monetary and financial integration.

UDEAC member states therefore went on to sign a treaty to create an economic union which was aimed at promoting the regional integration process through the

²⁴² Mytelka, L. (1984). "Competition, Conflict and Decline in l'Union Douanière et Économique de l'Afrique Centrale (UDEAC)," in Mazzeo, D. *African Regional Organizations*. (ed.) Cambridge: Cambridge University Press, p.132

²⁴³ This Treaty failed to delegate more power to the Secretariat due to the fact that member states were still very much unwilling to give up any percentage of their sovereignty.

²⁴⁴ This is known in English as the Bank of Central African States.

²⁴⁵ www.cemac.int

establishment of a monetary union with the use of the Central Africa CFA franc as the single currency. As a result of this, in March 1994 the UDEAC was replaced by CEMAC in N'Djamena, Chad in line with the revival of economic and social integration ventures which were sweeping across the continent²⁴⁶. The 1994 reforms which occurred under UDEAC introduced the “a common external tariff, the gradual removal of tariffs on intra-regional trade²⁴⁷, the harmonization of indirect taxation²⁴⁸, and the replacement of quantitative import barriers by temporary import surcharges”²⁴⁹. In 1999, CEMAC officially came into existence following its ratification and adoption of an action plan under the Malabo Declaration.

4.2.2.1 THE OBJECTIVES OF CEMAC

CEMAC was established as a means to create a more defined and dominant integration initiative which will not only promote the harmonious socio-economic and cultural development of all its member states, but will do so with the goal of creating a true common Central African market²⁵⁰. With a vision to promote the harmonization of development of all member states, CEMAC is aimed at implementing a multilateral system of member states' economic policies, harmonise policies in various sectors²⁵¹, and creating a

²⁴⁶ CEMAC treaty, (accessed on November 6, 2011) [available at: <http://www.worldtradelaw.net/fta/agreements/cemacfta.pdf>]

²⁴⁷ This removal process was completed in 1998.

²⁴⁸ Under this reform, the VAT was introduced in 1999.

²⁴⁹ For more details on this, see Gulde-Wolf, A-M., C. Tsangarides, and J. Martijn (2006). “Trade Reform in the CEMAC: Developments and Opportunities,” *IMF*, Selected Issues, (accessed on December 1, 2011), [available at: <http://www.imf.org/external/pubs/ft/scr/2006/cr06309.pdf>]

²⁵⁰ The objectives of CEMAC are in line with those of the greater CEEAC body. For more details on this, refer to the CEMAC treaty, (accessed on November 6, 2011) [available at: <http://www.worldtradelaw.net/fta/agreements/cemacfta.pdf>]

²⁵¹ These sectors include: agriculture, livestock farming, fishing, commerce, transport and communication, energy, research, environment and professional training.

common Central African market which would enable the free movement of factors of production²⁵². The CEMAC organisation is also aimed at promoting regional stability and cooperation, raising the living standards of the inhabitants of the region, and creating a regional environment which is conducive for investments both intra and international, all of which will contribute to the general development of the African continent.

Therefore in order to achieve these aims, CEMAC proposes the following objectives under the banner of the UMAC and UEAC: to harmonise trade regulations and economic policies of all member states in order to help reduce intra-regional trade barriers; to implement a common external tariff and increase economic and financial competition; to establish a common market based on the free movement of factors of production within the region; and to create a sovereign and independent financing mechanism for the CEEAC organisation²⁵³.

4.2.2.2 THE ORGANISATIONAL FRAMEWORK OF CEMAC

CEMAC is considered to be one of the most structured of all African RECs and is built on several policies and measures which have been put in place to promote regional economic and financial integration among all member states. Although CEMAC adopted some of the institutional structures from its predecessor UDEAC, the current architecture of CEMAC is argued to be more complicated. While the CEMAC Treaty identifies the UEAC, UMAC, the Parliament and Court of Justice as the main institutions to promote the harmonisation of member states, other principal organs were created to help achieve

²⁵² Factors of production here refer to labour, goods, services and capital.

²⁵³ Ibid.

CEMAC's objectives²⁵⁴. These include: the CEMAC Commission, the Councils of Ministers, the Conference of Heads of State, the Ministerial Committee, the Executive Secretariat, the Inter-State Committee, BEAC, COBAC and the Institution de Financement du Developpement.

The Conference of Heads of States is the greatest body of the Community and consists of political leaders of CEMAC member states who are known to be the highest decision making power of the institution. They act by means of supplementary acts and often come together yearly to discuss regional and institutional issues, as well as the granting of access to new members²⁵⁵. The Conference of Heads of State also determines the policies which govern the Community, as well as the actions of the UEAC and UMAC structures. With a consensus guiding every decision taken at the conferences, the heads of other organs within the institution are elected at these conferences, however, the Banque de Développement des Etats de l'Afrique Centrale (BDEAC) remains the only exception²⁵⁶.

The UEAC and UMAC are considered to be the organisation's two main pillars and they have clearly outlined missions²⁵⁷. On the one hand, the l'Union Economique de L'Afrique Centrale (UEAC) is headed by the Council of Ministers and confined to at most three representatives from each member state. The Council of Ministers meets twice every

²⁵⁴ There is a clear distinction between the UEAC (responsible for issues pertaining to economic integration) and UMAC (responsible for issues related to monetary and financial integration). All of these structures are governed by a legal framework established under the N'Djamena Treaty. see www.cemac.int

²⁵⁵ See the CEMAC Treaty, Article 20. (accessed on December 30, 2011), [available at: www.cemac.int]

²⁵⁶ Also known in English as the Development Bank of Central African States, BDEAC's Director is elected by the Bank's general assembly consisting of CEMAC representatives, the BEAC, the African Development Banks, and external donors (France and Kuwait). BDEAC is situated in Brazzaville in the Republic of Congo, and is the main financing institution of this integration process. However, the Central African Banking Commission (COBAC) oversees the harmonization and control of all banking transactions between CEMAC member states.

²⁵⁷ The UEAC is responsible for all matters pertaining to economic integration while the UMAC is in charge of the monetary and financial integration.

year under the direction of the Council's president and acts by means of regulations, directives, decisions, and recommendations or opinions²⁵⁸. However in cases where the issues to be discussed include matters other than political economy and finances, the Council invites the relevant ministers to discuss these issues provided that all representatives from a member state are limited to three.

The l'Union Monetaire de l'Afrique Centrale (UMAC) on the other hand is run by the Ministerial Committee which is made up of two ministers from each member state and delegated by the Minister of Finance. This Committee is headed by a president who is appointed annually²⁵⁹ and the Committee remains heavily reliant on the structures of the UDEAC such as the Banque des Etats de l'Afrique Centrale (BEAC)²⁶⁰ which issues the common Central African Franc CFA currency and implements the monetary policy of the organisation²⁶¹.

The community's Court of Justice is made up of a judicial chamber (chambre judiciaire) and an auditing chamber (chambre des comptes). This Court of Justice is not only responsible for issues related to compliance, but also regulates CEMAC accounts and its audit, legalizes Treaties, and settles disputes which are under its jurisdiction and that of the

²⁵⁸ Its president is supposed to be from the same state as the President of CEMAC at the time. See the CEMAC Treaty, Article 8, 9 and 20, (accessed on December 30, 2011), [available at: www.cemac.int]

²⁵⁹ This is based on an annual rotation among member states in an alphabetical order. See the CEMAC Treaty, Article 13. (accessed on December 30, 2011), [available at: www.cemac.int]

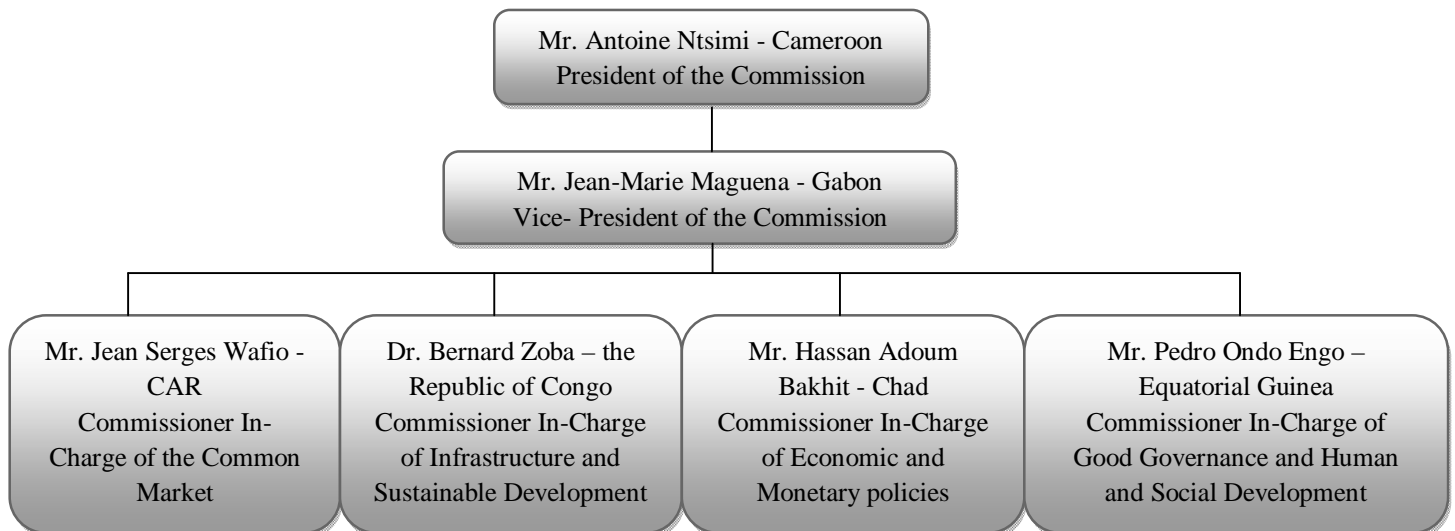
²⁶⁰ Bank of Central African States, situated in Yaoundé, Cameroon.

²⁶¹ Set and regulated under the convention of the UMAC, BEAC was established by a monetary cooperation which was put in place by all six UMAC member states together with France as a platform through which monetary policies, exchange operations and reserves will be defined, managed and monitored so as to guarantee the stability of the region. It consists of 13 directors, four of which are from Cameroon, 3 from France, 2 from Gabon, and 1 from each of the other Central African member states: the Central African Republic, Chad, the Republic of Congo, and Equatorial Guinea.

Parliament²⁶². The Parliament on the other hand was elected in 2004 following an Inter-parliamentary Commission which was formed in Malabo, Equatorial Guinea in June 2000 and is in charge of regulating the regional institutions, with aims of promoting regional integration at a political level.

Following its transformation in 2007 from the Executive Secretariat, the CEMAC Commission was created by the Heads of State on the framework of EU Commission as a body which will strengthen the CEMAC organisation. With its headquarters in Bangui, Central Africa Republic, this Commission is made up of an equal number of representatives known as Commissioners from each CEMAC member state and is led by a President of the Commission and his vice²⁶³ (see Figure 4.2). This Commission is also known to be the multilateral surveillance mechanism set in place to supervise the macroeconomic policies of the organisation and this is accomplished by the Presidency of the Commission.

Figure 4.2: 2011 Organisational Structure of the CEMAC Commission



Source: Adapted from the CEMAC Official Website - 2011

²⁶² Compliance in this case refers to the member state's compliance with agreements and treaties signed by CEMAC and all its organs.

²⁶³ These Commissioners are appointed after every four years (renewable once) by the Conference of Heads of State and deal with different issues ranging from the common market, to human rights, sustainable development, good governance, and economic and monetary systems.

4.2.3 The Economic Climate of CEMAC

The CEMAC region has experienced an unsatisfactory economic growth, making up only 4.1 per cent of Africa's total GDP (see Table 4.3) and with a total population of 39.67 billion in 2010, the GDP of all six CEMAC member states was recorded as US\$ 70.91 billion (refer to Table 4.3). These member states have all experienced a different degree of development and Cameroon distinguishes itself as the most populated (19.10 million inhabitants) and largest economy in the region accounting for 31.58 per cent of the region's total GDP. Furthermore, with the smallest population size of 0.67 million inhabitants, Equatorial Guinea is known to be the highest oil exporting country in the region and third in sub-Saharan Africa after Nigeria and Angola, making up the second largest economy in the region with a GDP of US\$ 14.01 billion (19.76 per cent).

Table 4.3: CEMAC: Economic Characteristics of Member States, 2010

	Population		GDP		HDI ²⁶⁴		Business Climate ²⁶⁵		
	In Millions	Population below the poverty line ²⁶⁶	Annual GDP (in billion \$)	As % of CEMAC total	Income Per Capita (in \$)	Rank ²⁶⁷	Value ²⁶⁸	2006	2011
Cameroon	19.60	39.9	22.39	31.58	1,180	150	0.48	154	168

²⁶⁴ The Human Development Index is a composite index which is used to measure the average achievement of a country or region on three main levels of human development: *a long and healthy life, knowledge and a decent standard of living*. The UNDP, *Human Development Report 2011*, (accessed on November 2, 2011), [available at: http://hdr.undp.org/en/media/HDR_2011_EN_Table1.pdf], p. 130

²⁶⁵ This is a 2011 ranking done out of a total of 183 countries. Although the Business Climate ranking of individual member states is seen to have declined, the ranking of the CEMAC region in general improved from 173 in 2006 to 156 in 2011. This improvement can be attributed to the continuous integration efforts and the reinforcement of the OHADA policy. However according to the World Bank Report 2012, this rank has since improved to 161, and the Equatorial Guinea currently ranks 155

²⁶⁶ This is considered to be the population living on less than 1.25 dollar a day as per the World Bank indicator.

²⁶⁷ This is the 2011 Human Development Index and this ranking is made up of 187 countries (accessed on November 2, 2011), [available at: http://hdr.undp.org/en/media/HDR_2011_EN_Table1.pdf], pp. 128-130

²⁶⁸ The HDI value is calculated using *the geometric mean of the three dimension indices*: $(I_{Life}^{1/3} \cdot I_{Education}^{1/3} \cdot I_{Income}^{1/3})$. The dimension index is first calculated as: Dimension index = (actual value – minimum value) / (maximum value – minimum value)

	Population		GDP			HDI ²⁶⁹		Business Climate ²⁷⁰	
	In Millions	Population below the poverty line ²⁷¹	Annual GDP (in billion \$)	As % of CEMAC total	Income Per Capita (in \$)	Rank ²⁷²	Value ²⁷³	2006	2011
CAR	4.40	62.8	2.01	2.83	470	179	0.34	177	182
Chad	11.23	n/a	7.59	10.70	620	183	0.33	175	183
Congo, the Republic of	3.69	n/a	11.90	16.78	2,150	137	0.53	144	177
Equatorial Guinea	0.70	n/a	14.01	19.76	14,540	136	0.54	165	164
Gabon	1.51	n/a	13.01	18.35	7,407	106	0.67	173	156
CEMAC	41.13		70.91	100	33,860				
Africa			1,730.10						

Sources: The International Monetary Fund (www.imf.org), the World Bank 2010 Indicators (www.worldbank.org), the Central Intelligence Agency World Factbook – data 2010 (www.cia.gov), UNDP, *Human Development Report 2011*

Although Cameroon is seen to be the largest economy in the region, the GDP per capita is higher in Equatorial Guinea with a value of US\$ 14,540. The lowest in this group is the Central African Republic with a GDP per capita of US\$ 470 and the country's annual GDP accounts for only 2.8 per cent of the total GDP in the region (US\$ 2.01 billion), scoring a rank as one of the least developed countries in the world based on the HDI. However despite these figures, and overlooking the differences from one member state to another, the economic outlook across the region is very promising. In addition, the percentage of foreign

²⁶⁹ The Human Development Index is a composite index which is used to measure the average achievement of a country or region on three main levels of human development: *a long and healthy life, knowledge and a decent standard of living*. The UNDP, *Human Development Report 2011*, (accessed on November 2, 2011), [available at: http://hdr.undp.org/en/media/HDR_2011_EN_Table1.pdf], p. 130

²⁷⁰ This is a 2011 ranking done out of a total of 183 countries. Although the Business Climate ranking of individual member states is seen to have declined, the ranking of the CEMAC region in general improved from 173 in 2006 to 156 in 2011. This improvement can be attributed to the continuous integration efforts and the reinforcement of the OHADA policy.

²⁷¹ This is considered to be the population living on less than 1.25 dollar a day as per the World Bank indicator.

²⁷² This is the 2011 Human Development Index and this ranking is made up of 187 countries (accessed on November 2, 2011), [available at: http://hdr.undp.org/en/media/HDR_2011_EN_Table1.pdf], pp. 128-130

²⁷³ The HDI value is calculated using *the geometric mean of the three dimension indices*: $(I_{\text{Life}}^{1/3} \cdot I_{\text{Education}}^{1/3} \cdot I_{\text{Income}}^{1/3})$. The dimension index is first calculated as: Dimension index = (actual value – minimum value) / (maximum value – minimum value)

direct investment in the region has significantly improved in comparison to the late 80s and 90s, with countries such as Chad obtaining a total of about US\$ 900.7 million in 2002²⁷⁴.

Nonetheless, the financial system of the CEMAC region remains highly underdeveloped and predominately overshadowed by the banking sphere. With a total of about 38 active banks in the region (Cameroon -12, the Central African Republic – 3, Chad – 7, the Republic of Congo – 5, Equatorial Guinea – 4, and Gabon – 7), the distribution (in terms of number and financial capacity) is uneven and greatly influenced by foreign banks which hold a significant percentage (65 per cent) of the region’s banking assets.²⁷⁵

Furthermore, although this region has seen increased trade with other African regions, the US and Asia, the EU remains the largest trading partner of CEMAC member states, making up approximately 40 per cent of all exports and 60 per cent of imports²⁷⁶. In spite of these statistics, the trade restrictions in the region, costly border procedures, structural reforms, and the lack of uniformity in the CEMAC rules restrict the external and internal trade within the region. Added to the fact that the exported products of the region are limited²⁷⁷, intra-community trade within the region remains significantly low compared to other regional organisations in the continent (see Tables 4.4 and 4.5).

²⁷⁴ Based on the UNCTAD macroeconomic data, Chad’s investment value shrunk to about 2.3 million in 1992 and the increase experienced in 2002 was mainly attributed to oil. Other countries such as Cameroon registered as much as US\$ 83.1 million in investments in 2002 after showing a decline in investment of about US\$ 16 million between 1985 and 1991. For more on these, refer to UNCTAD

²⁷⁵ Kaberuka, 2008: 82

²⁷⁶ UNECA, 2004

²⁷⁷ Global exports are dominated by a very limited number of products.

Table 4.4: Percentage of CEMAC trade with the world, 2000-2005

	INTRA	REST OF AFRICA	ASIA (incl. China)	CHINA	EU	JAPAN	USA	REST OF THE WORLD	WORLD
Export	0.9	2.7	23.1	11.6	36.1	0.8	28.9	7.4	100
Import	5.2	8.9	6.9	2.8	52.4	1.9	13.1	11.6	100

Source: Compiled from the International Monetary Fund Database, 2006

Table 4.5: Percentage of Intra-African trade, 2009

	ECCAS	CEMAC	AMU	COMESA	ECOWAS	WAEMU	SADC	Africa
ECCAS	1.2	0.9	0.5	2.3	1.7	0.8	5.0	9.4
CEMAC		0.8	0.4	0.2	1.4	0.6	0.4	3.2
AMU			9.4	6.0	1.5	1.1	0.6	15.4
COMESA				14.9	0.6	0.3	14.1	30.7
ECOWAS					19.0	10.3	5.1	27.9
WAEMU						4.9	0.7	12.9
SADC							28.1	30.1
Africa								100

Source: The International Monetary Fund Database, 2009

Although Mundell's OCA theory suggests that the implementation of a single currency increases trade and commercial exchanges between member states, currently the intra-regional trade in the CEMAC zone accounts for only 0.8 per cent of its total trade meanwhile its trade with the ECOWAS and rest of Africa is significantly higher (1.4 per cent and 3.2 per cent respectively)²⁷⁸. CEMAC's trade within itself is low in comparison to other regional bodies on the continent and Hinkle *et al.* (1997) argue that this could be as a result of the high general tariffs and non-tariff barriers which were attached to all regional trade products in the past²⁷⁹.

²⁷⁸ See Table 3.4.

²⁷⁹ The CEMAC tariffs fall between a 5 per cent to 30 per cent range, with an average of about 19 per cent. These tariffs include: 5 per cent for basic necessities, 10 per cent for raw materials and capital goods, 20 per cent for intermediate and other goods, and 30 per cent for general consumer goods. The implementation of lower tariffs therefore will not only achieve the goal of liberalizing trade within the region, but it will also create a more consistent price incentive across products. For more details, refer to Gulde-Wolf, A-M., C. Tsangarides, and J. Martijn (2006); and Hinkle, Larry *et al.* (1997). "What Lies Ahead for the Two CFA Zones," World Bank, Mimeo.

4.2.3.1 THE FISCAL POLICIES IN THE CEMAC ZONE

The Central African Banking Commission (COBAC) was created in the early 1990s to improve the management and efficiency of the monetary and financial sectors²⁸⁰. Although the main aim of the exchange rates and monetary policies in the CEMAC zone have been to maintain a fixed nominal exchange rate and prevent any kind of volatility, the BEAC's monetary reforms have shifted from direct to more market-based controls. In addition, BEAC's central bank credit to its member states is subjected to a cumulative limit of 20 per cent of their previous year's budgetary revenue²⁸¹.

However, the promotion and maintenance of the XAF exchange rate remains a priority in the convergence of national fiscal policies and in order to achieve these goals, CEMAC member states have been encouraged to support several policy objectives. According to Mpatswe *et al.* (2011), "these policy objectives are translated into convergence criteria, which include achieving a nonnegative basic fiscal balance, maintaining total debt below 70 per cent, non-accumulation of domestic and external arrears, and annual inflation of no more than 3 per cent".²⁸² There also exists a multilateral surveillance mechanism which has been put in place by the organisation to supervise macroeconomic and financial reforms, and harmonize legal systems in order to strengthen CEMAC's monetary and financial process.

²⁸⁰ The COBAC board is chaired by the Director of BEAC and constitutes 12 members all of which are representatives of CEMAC member states, the auditors of BEAC, and the French banking commission.

²⁸¹ See *Hinkle, Larry et al.* (1997).

²⁸² Mpatswe, G., S. Tapsoba, and R. York (2011) "The Cyclicalities of Fiscal Policies in the CEMAC Region," *IMF Working Paper*, African Department, 11/205: 1-22, p. 3

Fiscal policies in the CEMAC region are also individually conducted by each member state²⁸³. Although this strategy could very well pose a problem in the future, these countries however acknowledged that the effectiveness of such national fiscal policies need macroeconomic surveillance and in March 1993, a multilateral surveillance mechanism was established to advance macroeconomic convergence²⁸⁴ and supervise these fiscal policies. This mechanism was broadly created on the framework of the EU's Maastricht criteria²⁸⁵ and acted as a platform for a greater multilateral surveillance model. In August 2001, the CEMAC Council of Ministers went on to promote macroeconomic convergence four macroeconomic indicators were established as a guide to this supervision which included: “(i) *the primary budget balance / GDP ratio must be zero and above; (ii) the national debt / GDP ratio should not exceed 70 per cent; (iii) new arrears, internal and external, must not be accumulated; and (iv) the average annual inflation rate should not exceed 3 per cent*”²⁸⁶.

²⁸³ Except for cases where the CEMAC organisation calls for a collective reform such as the 1994 comprehensive tax reform. This strategy could lead to financial meltdown of the region and the world at large as seen in the case of the EU where the adoption of a common currency without the harmonization of fiscal policies has resulted in a euro zone crisis and the falling of the stock exchange financial markets.

²⁸⁴ Macroeconomic convergence is used to refer to the “set of macroeconomic fundamentals among a given set of countries, which can be seen as either a prerequisite for, or as the outcome of, a successful monetary integration agreement”. In the UMAC, this is used to refer to the convergence of national fiscal policies. For more on these details, refer to Bagnai, A. (2010) “Macroeconomic Convergence in Central Africa: A Survey of the Theory and Empirical Evidence,” A paper presented at UNECA, Ouagadougou, Burkina Faso: *Enhancing the capacity of member States to achieve macroeconomic policy convergence in Central and Western Africa*.

²⁸⁵ This was set up by EU member states as the original conditions for any country ready to adopt the euro. These criteria pertain to issues of:

- (i) Price stability – the inflation rate should not be 1.5 points higher than that of the three best performing EU states,;
- (ii) Budget deficit – must be below 3 per cent of the annual GDP;
- (iii) Debt – national debt must be lower than 60 per cent, if not, the debt level of the country should be falling at a steady rate;
- (iv) Interest rates – must not be 2 per cent higher than that of the three lowest inflation member states; and
- (v) Exchange rate stability – this must have been steady with pre-set margins of fluctuation in the two years prior to request to join.

²⁸⁶ Kaberuka, D. (2008) “Financial Sector Integration in Three Regions of Africa: How Regional Financial Integration Can Support Growth, Development, and Poverty Reduction,” *African Development Bank Group*. In

However, the current structure of the CEMAC monetary union is far from fulfilling the conditions required for the successful convergence of macroeconomic policies. Firstly, trade policy implementations have been predominantly stalled and there is very limited movement of factors of production with the region and intra-regional trade is significantly low (see Tables 4.4 and 4.5). Also, the degree of openness and transparency in the CEMAC zone markets is low, and because of the heavy reliance on oil as a source of revenue in the region, product diversification is low. Additionally, fiscal policy integration in the region is quite limited and its inflation convergence is significantly low.

4.2.4 The Political Climate of CEMAC

In broad terms, the literature on OCA often suggests that the political stature of a country is completely independent to its economic performance. However, this is not often the case and Bagnai (2010) argues that in many instances, political decisions are never independent from a country's economic interest. Although poor governance still remains a major challenge in the region and within regional institutions, membership in the CEMAC organisation seems to have boosted governance indicators in most member states, with *control of corruption*, *rule of law*, and *political stability* experiencing a boost in Cameroon from 1996-2010 (see Table 4.6).

Table 4.6: Governance Indicators in CEMAC

	Control of Corruption			Rule of Law			Political Stability		
	1996	2007	2010	1996	2007	2010	1996	2007	2010
Cameroon	7	16	17	4	13	15	12	31	27
Central African Republic	n/a	18	24	46	3	7	38	7	3
Chad	n/a	5	5	22	6	4	22	6	8
Congo, the Republic of	21	11	12	6	8	12	20	20	35

2002, the criteria used in this surveillance mechanism were revised in order to make them in line with CEMAC's goals.

	Control of Corruption			Rule of Law			Political Stability		
	1996	2007	2010	1996	2007	2010	1996	2007	2010
Equatorial Guinea	11	2	1	11	10	9	32	38	53
Gabon	4	21	24	19	33	36	33	52	53

Note: the table reports the ranking (in percentage) of the three governance indicators in CEMAC used in this study and lower values correspond to worse performance outcomes. For more on the details of these indicators, refer to Kaufmann *et al.* (2008). n/a implies that the data was unavailable. Sources: The World Bank 2010 Indicators (<http://info.worldbank.org/governance/wgi/index.asp>)

In terms of the free movement of people within the region, four of the CEMAC member states have effectuated a visa waiver agreement²⁸⁷. Also, although governance seems to have improved across countries in the region, the rivalry between Cameroon and Gabon poses a political threat to the stability and integration of the region²⁸⁸. Cameroon is the largest economy in the region and the presence of oil reserves in Gabon has given the country a significant level of economic and political stability.

In addition, Gabon has mediated several regional conflicts²⁸⁹ and this has increased its competition with Cameroon for the region's leadership position. Also, although the *political stability* indicator seems to have increased across many of the member states, internal conflicts within these CEMAC countries have always been a menace to regional integration because not only do these conflicts²⁹⁰ affect the country within which they are taking place, but effects of these conflicts also spill over to neighbouring countries.

²⁸⁷ These four countries are Cameroon, the Central African Republic, Chad, and the Republic of Congo.

²⁸⁸ Most recent rivalry is the disagreement by the two countries on the location of the region's stock exchange.

²⁸⁹ Some of these conflicts include: the Franco-Chad conflict and recent civil disputes in the Republic of Congo

²⁹⁰ Conflicts which sometimes occur in other regions of the African continent also have adverse effects on CEMAC member states.

4.3 APPLYING ECONOMIC INTEGRATION THEORIES TO CEMAC

Several theories have been used to analyse the complexity of economic integration however, this research employs two fundamental theories to understand the complex nature of economically integrated bodies. This section of the study therefore sheds more light on how the theories earlier identified are applicable to the formation of CEMAC institution.

The creation of the Communauté Économique et Monétaire de l'Afrique Centrale brought about the need for its member states to abolish discrimination of trade and coordinate monetary and economic policies as a means of promoting economic growth, increasing trade, foreign investments, and political and socio-economic development. Its ultimate aim is to create an economic union like that of the EU, with a free trade area, a customs union and a common market and the success of this integration is highly dependent on the convergence of macroeconomic policies between member states²⁹¹.

According to Mason and Pattillo, the reduced inflation rates within the CFA franc zone have resulted in a wide range of benefits such as more macroeconomic stability in comparison to other African countries, and long-term financial development²⁹².

Furthermore, in using Mundell's incompatibility triangle (see Figure 4.3) to assess BEAC's monetary and exchange policies and its compatibility to the degree of economic integration in CEMAC, three principles need to be respected in order for an international

²⁹¹ According to the UNECA, the *misalignments of tariffs, inflation rates, exchange rates, debt-to-GDP ratios, rate of money growth and other vital macroeconomic variables between member countries would be disruptive to economic integration. In addition, these misalignments could lead to rent-seeking activities by governments and private individuals that could stifle legitimate investment opportunities.* see UNECA (2008) *Assessing Regional Integration in Africa III: Towards Monetary and Financial Integration in Africa*, Addis Ababa: African Union, p. 2, (accessed on January 4, 2012), [available at: <http://www.uneca.org>]

²⁹² According to Mundell, fixed exchange rates lead to lower inflation and financial discipline, and Masson and Pattillo further state that the exchange rate system used in CFA franc zone together with the CEMAC institution has resulted in the sub-region's low inflation and macroeconomic stability. Refer to Mundell (1961); and Masson, P. and C. Pattillo (2004) *The monetary geography of Africa*, Washington, D.C.: Brookings Institution, for more details on this.

monetary system to be valid²⁹³. However, the CEMAC organisation does not always abide to the rules of this triangle and the constant fluctuation of its monetary policy from autonomous to non-autonomous²⁹⁴ makes it very ambiguous. Additionally although BEAC is supposedly an independent body with its monetary policies free from external influence, a study carried out by Fouda (1996) in analysing the interplay between the political economy of Cameroon and the *political and monetary cycle* concept revealed that BEAC's monetary policies are heavily influenced by the political climate of its home and biggest economy – Cameroon²⁹⁵. Fouda later demonstrates that the fixity of exchange rates in CEMAC together with the lack of a perfect mobility of capital within the region has led to an adoption of autonomous policies which have consequently resulted in *financial autarky* as opposed to a *monetary union*.²⁹⁶

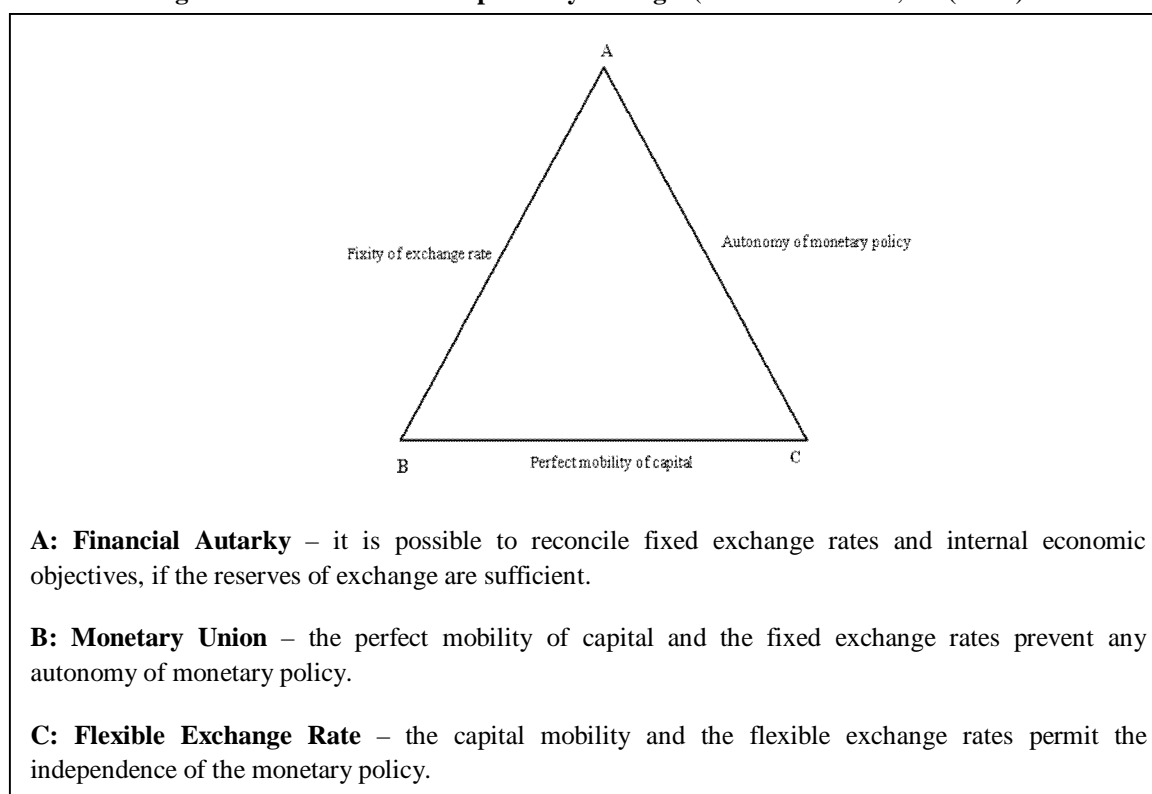
²⁹³ These principles include: certain levels of cogency in the rules of exchange, capital mobility and monetary policies autonomy. See Mundell (1961).

²⁹⁴ This comes from the quest of CEMAC member states to achieve economic development through the decrease in interest rates and monetary stability which are both considered and internal and external objectives respectively. For more on this see, Fouda, S. (1996)

²⁹⁵ For more on this see, Fouda, S. (1996) "Cycles Politomonétaires et Indépendance de la Banque Centrale dans une Union Monétaire : une verification empirique," *Revue d'Economie du Développement*, N° 4, pp. 121-143.

²⁹⁶ However, another study done by Jumbo (2011) demonstrates that contrary to popular perceptions, the degree of financial integration within the CEMAC sub-region is reasonably fair at 51% which is an increase from the 47% during the 1975-1989 period. For more on this see Jumbo, U. (2011) "Financial Integration and Monetary Policy in the 'CEMAC' Zone," *Journal of Sustainable Business and Finance*, 1/2: 67-84; and FOU DA, S. (2003), "Des arrangements institutionnels pour une véritable intégration régionale en Afrique : quelques pistes," pp. 189-203, in Hakim B., B. Ebe et T. Mama (ed.), *L'intégration régionale en Afrique: bilan et perspectives*, Karthala, Paris.

Figure 4.3: Mundell's Incompatibility Triangle (Source: Mundell, R. (1961).



4.4 MAJOR CHALLENGES AND OPPORTUNITIES FACING CEMAC

As stated earlier, regional integration programmes must satisfy certain characteristics;

*“reduce social elision and create a more comprehensive civil society; Strengthen regional trade integration; Create an efficient environment for the development of the private sector; Establishment of development programmes which will encourage growth an integration; Advance the creation of effective public sector organizations and promote good governance; Boost the region’s interaction with the rest of the world and contribute to the political and economic stability of the region”*²⁹⁷.

Although CEMAC has managed to establish a monetary and customs union, and harmonized the both the competition and business regulatory framework, there still remains significant challenges which threatens the complete integration of the Central African region.

²⁹⁷ For more on this discussion, see Van Langenhove, L., and H. van Ginkel, 2003: 1-9

Firstly, the ultimate goal of the AU to establish a common African market by 2025 and create a United States of Africa which encourages mutual understanding and cooperation between African states remains the greatest challenge to any kind of integration within the Central African region. Despite the creation of COPAX, and the fact that they share a similar history, countries in this region have been continuously unstable.

Secondly, as seen in Table 3.5, the CEMAC region shows the lowest percentage of intraregional trade of all regionally integrated bodies in Africa and the benefits of this trade is not evenly distributed among all member states. Also compared to rest of Africa, the CEMAC region has the least basic of infrastructures which will pose a major challenge to the growth of the region. Additionally despite its improvement over the past couple of years, the business climate in this region remains significantly lower than other parts of the continent; as such the private sectors and FDIs in these CEMAC member states are not thriving to their full potential (see Table 4.7).

Table 4.7: Foreign Direct Investments to the CEMAC sub-region (in US\$ millions)

	2001	2002	2003	2004	2005	2010
Cameroon	73.29	601.75	219.75	0.29	18.00	630.62
Central African Republic	5.18	5.64	3.27	-12.68	6.00	10
Chad	459.87	924.06	712.65	478.15	705.00	801
Congo, the Republic of	77.21	331.15	323.12	-8.52	724.02	2,800
Equatorial Guinea	945.02	323.39	1,430.66	1,664.06	1,860.00	600.76
Gabon	-89.09	38.97	157.99	319.51	300.00	180.90
CEMAC	245.25	370.83	474.57	406.80	602.17	

Source: The World Bank Indicators (<http://www.worldbank.org/>)

Furthermore, because of the lack of commitment from member states and their inability to move away from national and short-term interests, the establishment of a common currency and an institutional framework have failed to enable CEMAC member states to attain the expected level of economic and monetary integration²⁹⁸. In addition, good

²⁹⁸ Bernard L. Laurens (2008). "The Case of CEMAC," *Workshop on Regional Financial Integration in Africa*, December 1, 2008, Tunis

governance remains a challenge in this region as all of the member states have a low ranking on the World Bank's good governance indicators (see Table 4.6)²⁹⁹.

Four of the six CEMAC member states receive a significant percentage of their annual GDP from the exportation of oil (see Table 4.8) and Cameroon is known to be the only one of all six member states with a significant industrial base³⁰⁰. However, because the oil prices are highly volatile and not regulated by domestic policies, the fiscal balance of these countries is significantly dependent on the stability of the oil global markets and can sometimes run into deficits when oil prices are low³⁰¹. Additionally, despite the increase in oil prices, the CEMAC region still experiences a slow economic growth as a result of the weak intra-regional trade, volatility of the business environment, the lack of movement of factors of production, lack of adequate infrastructures, the excessive focus on short-term and national interests, and the lack of economic diversification.

Table 4.8: Influence of Oil on CEMAC Economies

	Percentage of Oil GDP on total nominal GDP					Oil receipts as percentage of fiscal revenue				
	1998	1999	2000	2001	2002	1998	1999	2000	2001	2002
Cameroon	7.20	10.30	14.90	13.20	10.90	20.00	23.70	31.50	29.70	25.20
Congo, the Republic of	36.50	53.40	65.50	56.70	53.60	53.10	71.70	76.60	68.20	69.10
Equatorial Guinea	75.30	74.20	85.30	88.00	89.90	61.20	76.90	83.80	82.20	91.70
Gabon	28.10	38.50	48.70	42.10	41.80	54.60	45.30	67.50	64.10	55.80

Source: The World Bank Indicators (<http://www.worldbank.org/>)

Furthermore because of its small land area in comparison to other regions on the continent, the oil reserves in the CEMAC region are limited and the region's continuous

²⁹⁹ Before the passing away of the former president of Gabon, Omar Bongo, it was recorded that the number of years spent in office by the presidents of the six member states of CEMAC amounted to 147 years.

³⁰⁰ These countries include: Cameroon, Chad, the Republic of Congo, Equatorial Guinea and Gabon.

³⁰¹ And vice versa

reliance on oil will consequently dry out the region, thereby crippling economic growth. In this regard therefore, these member states have been seen to implement structural mechanisms and policies which are aimed at diversifying their economies³⁰². Additionally, although the CEMAC member states adopted a framework in 2002 which called for the maintaining of inflation rates below 3 per cent in order to ensure macroeconomic stability and preserve the value of the CFA franc, over the years, the sub-region as a whole has been unable to maintain inflation below 3 per cent (see Table 4.9).

Table 4.9: Inflation Rates in CEMAC

	2001	2002	2003	2004	2005
Cameroon	4.5	2.8	0.6	0.3	1.9
Central African Republic	3.8	2.3	4.2	-2.1	2.9
Chad	12.4	5.2	-1.8	-5.3	7.9
Congo, the Republic of	0.4	3.8	-1.3	3.6	2.8
Equatorial Guinea	8.8	7.6	7.3	4.2	5.0
Gabon	2.1	0.2	2.3	0.4	-0.2
CEMAC	4.4	3.0	1.3	0.6	2.9

Source: The World Bank Indicators (<http://www.worldbank.org/>)

In addition, despite the fact that CEMAC is aimed at creating a free trade area, non-tariff barriers such as excessive taxing of goods and the lack of adequate roads, remain a major obstacle to intra-regional trade. Although there are policies which have been put in place such as the common CEMAC passport which allows the movement from one member state to another without any visa requirements, this policy has not been fully implemented, as

³⁰² Diversification and a non-oil export base are vital for the long-term growth of the region, as well as external sustainability. According to BEAC (2004), agriculture played a significant role in the economic growth of the CEMAC region accounting for 18 per cent of total production and more than 20 per cent of non-petroleum production. In addition, the fiscal and customs revenue obtained from external trade contributes a significant percentage to the budget revenues of every CEMAC member state and as such, altering the fiscal system will not only influence the public revenue of these states, but their growth and development as well. For more on this, refer to BEAC (2004). *Situation Économique, Financière et Monétaire des Etats Membres de la Communauté Économique et Monétaire de l'Afrique Centrale en 2003 et Perspectives de 2004*. Yaounde', Cameroun: Banque des Etats de l'Afrique Centrale; Fozzard, A. (2001). The basic budgeting problem: Approaches to resource allocation in the public sector and their implications for pro-poor budgeting (Center for Aid and Public Expenditure, Working Paper No. 147, London, UK: ODI; and IMF – World Bank Development Committee (1999). *Building poverty reduction strategies in developing countries*, Background paper prepared by staffs of the World Bank on building poverty reduction strategies in developing countries (DC/99-29).

such there are still non-official barriers to migration and capital mobility has also been limited³⁰³. Additionally, there is no legal enforcement mechanism in place that ensures the compliance of member states with the goals of macroeconomic convergence, and these obstacles also increase the costs of factors of production, put a restrain on the private sector and dampen competition in the region³⁰⁴. There is also the issue of landlocked countries in the region³⁰⁵ that depend on overland transportation and with challenges such as, inter alia, inadequate infrastructures, inefficient human resources and institutions, poor climates and the absence of large markets, these two economies are seen to make up the poorest in the region (see Table 4.3).

However, other parts of the CEMAC region possess a high density of river networks which can be used for hydro-electricity if managed adequately. In addition, despite the slow growth of the economy, the population of the region is increasing rapidly and in order for the region to experience an increase in the standards of living, economic growth needs to exceed population growth. Additionally, the economic growth and integration in the region can be improved through efficient communication infrastructure, an effective business climate, an increase in intra-regional trade and most importantly through good governance because despite the progress which has been made thus far, the lack of peace, stability and good governance continuously threatens the region.

³⁰³ Some of these unofficial barriers to migration include: the harassment of migrants by custom officials and the unemployment and discriminatory issues in recipient states.

³⁰⁴ In spite of the fact that the Council of Ministers in CEMAC publishes a *communiqué* which highlights the performance of each member state and specifies conditions that slow-performing or non-performing states should abide by, while the Community withdraws its support to member states who do not comply, these sanctions are yet to be enforced. Additionally at the time the article was written, it was observed that unlike other RECs such as ECOWAS, SADC, and UEMOA, CEMAC had to desire to strengthen its surveillance and enforcement mechanisms. For more in this, see UNECA (2008: 248).

³⁰⁵ Chad and the Central African Republic are the main landlocked countries in the region.

4.5 CONCLUSION

The CEMAC region comprises of six different countries: Cameroon, Central African Republic (CAR), Chad, the Republic of Congo, Equatorial Guinea and Gabon³⁰⁶. This region is also very significant because it shares its borders with all other regions on the continent: in the West by ECOWAS and CEN-SAD; in the East by EAC, COMESA, IGAD and CEN-SAD, in the South by SADC; and in the North by the Arab countries. Although different steps had been taken to set up an integrated Central African community, CEMAC only came into full existence after its ratification in 1999. With the aim of integrating the six member states, forming a common market with harmonized monetary and economic policies, and increasing the living standards of its inhabitants, CEMAC consists of several bodies which oversee these goals. Additionally, together with the lack of good governance practices, poor business environment and landlocked territories, the region also mostly consists of undiversified economies and fluctuating political and socio-economic environments which serve as a challenge to regional and international trade. These challenges also inhibit economic and political development and if these can be carefully addressed, the single currency, oil and agricultural resources will place this region on the continental map as a viable area of investment.

³⁰⁶ Under the Communauté Économique des Etats de l’Afrique Centrale (CEEAC) [Economic Community of Central African States – ECCAS], four other countries add up to this list in order to make up Central Africa: Angola, Burundi, the Democratic Republic of Congo, and São Tomé et Príncipe. Signed in 1983 in Libreville, Gabon and ratified 1984, the CEEAC was established to promote the free movement of factors of production, harmonise all aspects development and increase the living standards of all inhabitants within the region. For more on the objectives, mission and structure of the CEEAC organisation, see the CEEAC – ECCAS official website, (accessed on November 1, 2011) [available at: www.ceeac-eccas.org]