



CEPII

**CENTRE
D'ÉTUDES PROSPECTIVES
ET D'INFORMATIONS
INTERNATIONALES**

Accompanying policies

Discussion by

Agnès Bénassy-Quéré

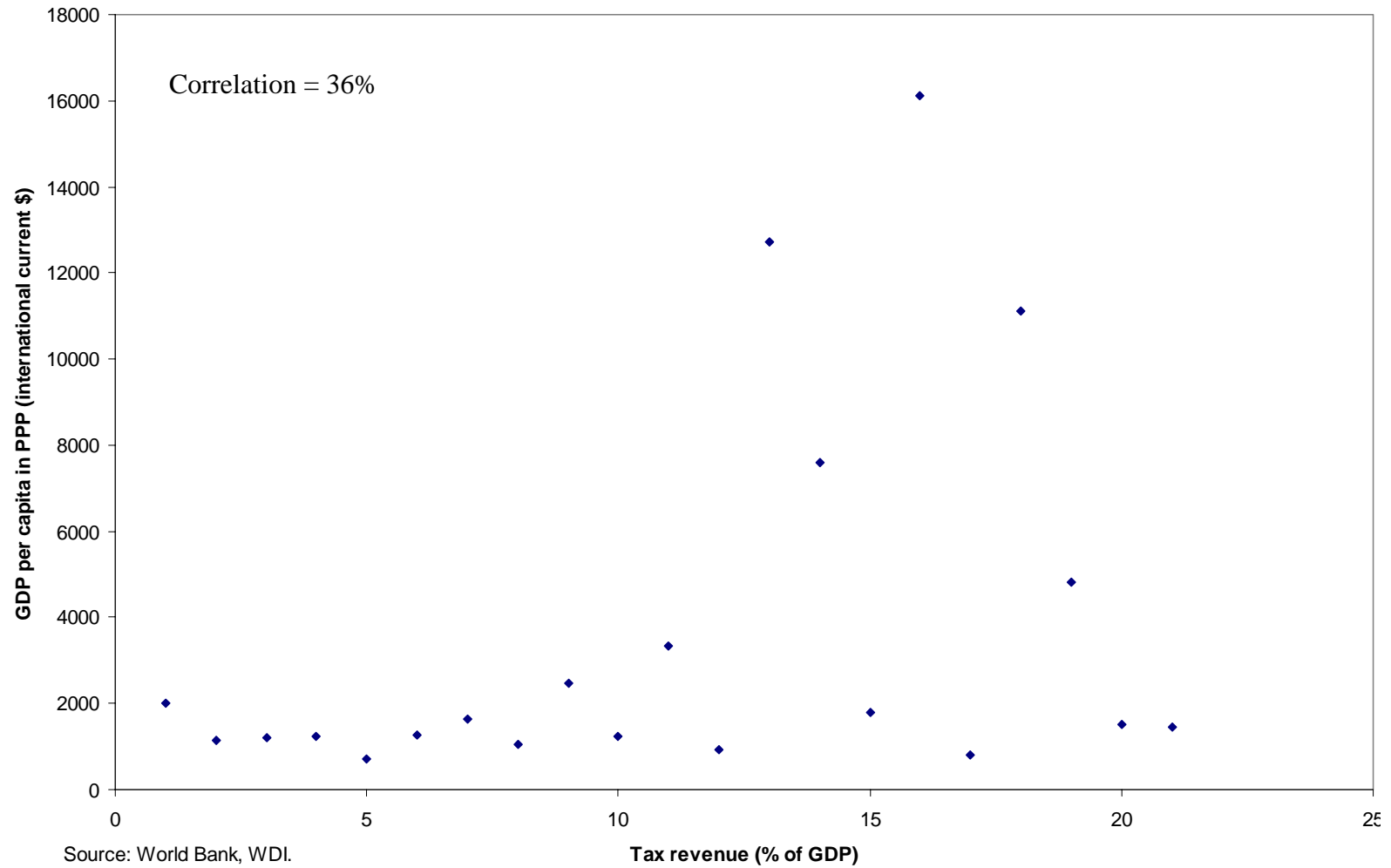
September 19th 2007

From money to trade

- Paul Masson's argument:
 - monetary union raises trade integration
 - regional trade integration reduces the incentive of the central bank to depreciate the currency;
 - but loose fiscal policy raises the pressure to monetize the deficit;
 - the trade-off is generally not favorable to monetary unions in Africa.
- Discussion:
 - beggar-thy-neighbor argument for monetary union: strong for EMU;
 - do taxes reduce GDP (as in Equation 1)?
 - UEMOA convergence criteria include tax pressure of at least 17%;
 - external deficit financing reduces the incentive to inflate (fear of floating);
 - reference point: CFA?
 - political economy: is a supra-national central bank more credible?

Taxes and GDP

Tax revenue and GDP per capita



Cluster analysis

Bénassy-Quéré and Coupet (2005)

TABLE 3
Country Groupings with the Ward Method, Baseline Analysis

<i>No.</i>	<i>CEMAC</i>	<i>UEMOA</i>	<i>Other ECOWAS</i>	<i>Main Features</i>
2		Benin Burkina Faso Mali Togo		Low reliance on EU markets, low debt service
5		Côte d'Ivoire Senegal	The Gambia	Low share of primary sectors, low share of first item in exports
4	Cameroon Centr. Afr. R. Chad			High reliance on EU markets
1		Guinea Biss. Niger	Ghana Sierra Leone	High reliance on primary products, high debt service
3	Congo Gabon		Nigeria	High openness, high correl. with EU, high reliance on one product (oil)

Source: Table 2.

From trade to growth

- Gilles Dufrénot and co-authors' argument
 - Better access to foreign markets raises trade openness only for relatively closed economies; more symmetric arrangements good for countries with very low or very high openness; tariff peaks detrimental to very open countries.
 - Openness favorable to GDP per capita for already wealthy countries;
 - Openness does not promote growth per se; raise capacities, governance (checkpoints!), credit access, etc, to promote both growth and openness.

Methodology

- Quantile regressions + treatment of endogeneity (openness)
 - Regional dummies?
 - Geography: size, landlockness?
 - Oil-exporting countries.

Money and aid

- Etienne Yehoue's argument
 - little risk-sharing within CFA zones
 - large risk sharing through French aid
 - develop regional capital markets
- Looking forward
 - opening up → increased specialization → more needs for consumption smoothing → regional financial markets, contra-cyclical ODA and remittances

Methodology

- Adapted from Sorensen and Yosha (1998)

$$GDP^i = \frac{GDP^i}{GNP^i} \times \frac{GNP^i}{NI^i} \times \frac{NI^i}{DNI^i} \times \frac{DNI^i}{C^i + G^i} (C^i + G^i)$$

- $GNP = GDP + \text{net factor income from abroad}$
- $NI = GNP - \text{capital depreciation}$
- $DNI = NI - \text{net saving}$

- Here

$$GDP^i = \frac{GDP^i}{GNP^i} \times \frac{GNP^i}{NI^i} \times \frac{NI^i}{DNI^i} \times \frac{DNI^i}{C^i + G^i} (C^i + G^i)$$

- $GNP = GDP + \text{net factor income from abroad}$
- $NI = GNP + \text{“transfers” (net remittances)}$
- $DNI = NI - \text{net saving}$

Methodology

Here

$$GDP^i = \frac{GDP^i}{NI^i} \times \frac{NI^i}{NIG^i} \times \frac{NIG^i}{NIGB^i} \times \frac{NIGB^i}{NIGBR^i} \times \frac{NIGB^i}{(C^i + G^i)} (C^i + G^i)$$

- NI = GDP + net ODA by France
 - NIG = NI + Grants from France
 - NIGB = NIG + contribution by central bank
 - NIGBR = NIGN + Reserve pooling benefit
-
- Two alternative decompositions?

Discussion

- Javier Santiso (Telos, september 2007)
 - 522 listed firms in SSA (against only 66 in 2000)
 - banks
- Counter-cyclical French aid
 - 1980's bank crises, 1994 devaluation
- Monetary arrangement
 - Reserve pooling/ French guarantee
 - a floating CFA franc?

Policy implications

- How to promote trade?
 - market access, tariff peaks generally not sufficient;
 - infrastructures, governance, money;
 - little rationale to extend present arrangements.
- How to promote growth?
 - trade not sufficient;
 - infrastructures, governance;
- How to promote stability (or risk sharing)?
 - regional capital markets;
 - counter-cyclical aid and remittances.