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Why Is Monetary Integration not Achievable in the ECOWAS? A Survey of the Challenges and the Way Forward

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Abstract

The ECOWAS Monetary Cooperation Progamme (EMCP) was designed to facilitate regional trade through improvement in the ECOWAS multilateral payments system, the harmonization of economic policies and evolvement of common institutional arrangements. However, the EMCP, adopted in Abuja in 1987, has not recorded the desired progress. This paper is a theoretical survey of the factors that have inhibited the progress of monetary integration in the ECOWAS. Although monetary integration in the ECOWAS is envisaged to increase intra-trade among member countries, facilitate the establishment of a single capital market, improve macroeconomic policy coordination, strengthens common monetary authority, encourage freedom of movement of persons and also lead to market enlargement, it is not without challenges. The paper notes that the major challenges hindering the monetary integration process in the ECOWAS include; low intra-trade among member countries, fear of domination by the larger, wealthier and *stronger countries, loss of revenue, uneven distribution of the benefits of integration, political instability, ethnic and religious crises and lack of political will and commitment on the part of member countries among other factors. The paper therefore, submits that the encouragement of intra-trade within the ECOWAS sub-region, massive investment in transport and communication infrastructures within the region, and improved government political will and commitment to implementing the monetary integration agreements would foster effective monetary integration in the ECOWAS for maximum benefits of all members.*

Key words: Benefits, Costs, Challenges, Monetary Integration.

Introduction

The establishment of the Economic Community of West African States (ECOWAS) was a watershed in the drive to facilitate the economic and monetary integration of member countries. The ECOWAS made up of 16 sovereign nations was established in 1975 to advance the economic growth and development of members by eliminating impediments to intra-regional trade and investment. The ultimate globalization of trade and investment was expected to fully integrate the various peoples and institutions across the countries that are signatories to the ECOWAS Treaty. The decision of ECOWAS monetary integration was taken eight years after 1975 during the Conakry meeting of Heads of States and Governments in May, 1983. Consequent to that decision, the Committee of Governors of Central Banks of ECOWAS at its meeting in Dakar in September, 1983, set up a study group under the auspices of the ECOWAS Secretariat. The study group in its report, proposed a monetary zone of the West African Monetary Union (WAMU) for ECOWAS, and a transitional period of five years (1980- 1992) before the single ECOWAS monetary zone could be created.

Economists generally recognize monetary integration as an indispensable component of economic integration. It was not surprising therefore, that way back in 1987, the Heads of State and government of the ECOWAS agreed the establishment of a single monetary zone. The latest target date, year 2000, again past without the realization of the lofty objectives. Rather, a new initiative has been launched by six ECOWAS member countries in a bid to rev up monetary integration amongst themselves as a prelude to the desirable but elusive ECOWAS single monetary zone. In spite of the little progress made on the ECOWAS single monetary zone project, interest in the regional scheme is growing by the day. More and more questions are being asked about the desirability, form, scope and the necessary conditions for the viability of a monetary union within the ECOWAS. Since the decision for monetary integration was taken in May, 1983, this decision has remained rather a dream and wishful thinking than reality.

This paper therefore, is a theoretical survey of why monetary integration has failed to commence in the ECOWAS since the decision was taken some thirty years ago given the lofty objectives of monetary integration in the region. To achieve this purpose, the paper is structured into six sections with the introduction as section one. Section two provides the rationale for monetary integration among developing countries. While section three deals with the theoretical and empirical issues of monetary integration, section four discusses the possible benefits and costs of monetary integration in the ECOWAS. Section five discusses the challenges of monetary integration in the ECOWAS that have being major hindrances to the take-off of the programme in the sub-region. Section six provides the way forward and the concluding remark of the paper.

Rationale for monetary union among developing countries

Monetary integration is the heart of economic integration. While intra-regional trade usually forms the primary focus of economic integration, the imperatives of monetary and fiscal policies, as well as integration of the money and capital markets of the integrating partners, is never overlooked. The reasons for such harmonization is under scored by the fact that regional stability founded on sound economic framework and payment system, which monetary integration entails, tend to withstand disruptive external shocks and the consequent grave implications of one or two members abandoning the integration arrangement.

Itsede (2002) posited that one of the primary attractions of monetary integration is its trade-creating potential within and beyond the constituent states by removing some of the payment obstacles to trade. These include the union’s regime of a stable exchange rate of the common currency. The common currency thus constitutes a reliable anchor for businessmen in their trade contracts.

Economic integration among developing countries is needed to accelerate their economic development by encouraging the establishment and growth of manufacturing industries, expanding intra – regional and extra- regional trade, increasing the gains from trade; and, providing benefits of the extension of competitive markets. Ojo (2001) posited that the formation of monetary unions in developing countries could engender or hasten the process of macroeconomic stability. In other words, such efforts could strengthen national programmes of macroeconomic management. Many of the countries in Sub-Saharan Africa have, for instance, embarked on economic reform programmes since the early 1980's, but have not really succeeded in achieving sustained macroeconomic stability (Ojo, 2001). A collaborative strategy could strengthen such efforts which would enhance monetary stability, strict budgetary discipline, exchange stability, stable prices and better growth performance. Furthermore, developing economies must read correctly the dynamics of the world economy by which the developed countries have become relatively stronger than, say, three decades ago. One of the strategies they have adopted is to integrate their economies, the results of which are improved economic performance, rapid technological progress and stronger bargaining power at the global level. The longer the delay in forgoing economic cooperation among developing countries, the wider will be the gap between their economic performance and that of the developed countries (Ojo, 2001). If developing countries can improve their economic performance through collaborative efforts, they are likely to have greater impact in the resolution of international issues; external debt overhang, reform of the international financial system, the flows of resources and secular decline in primary commodity prices.

Again, monetary and economic unions among developing nations will encourage the mobilization and improved management of human and financial resources. Presently, domestic human resources are not efficiently utilized especially in the African region because of limited opportunities and consequently such human resources migrate to the developed nations to the detriment of poor African countries. In addition, the lopsided international trade structure is against the interests of the developing countries in Africa, a development that has contributed to their low level of industrial development.

Theoretical and conceptual issues

It is noteworthy that African countries are aware of the importance of economic integration generally and the particular need to harmonize their macroeconomic policies, which principally involve synchronization of monetary and fiscal policies as well as promote efficient money and capital markets. Thus, monetary integration or monetary union has been an integral part of the Treaties of most of the Regional Economic Communities (RECs) in Africa. To facilitate trade and investment, it is usually necessary to have in place some form of monetary cooperation. Such cooperation would ensure unhindered flow of goods and capital. There are various schools of thoughts on the role of monetary cooperation in economic and financial integration. The narrow view is that monetary cooperation can be seen as an alternative route to integration, while the wider and all-embracing opinion is that monetary cooperation is an integral part of the whole process of economic integration (Obaseki, 2001). Monetary integration involves the explicit harmonization of monetary policies and the common pool of foreign exchange reserves under the authority of a single Central Bank. Thus, complete monetary integration refers to the permanent and irrevocable fixing of members' exchange rates, the complete convertibility of capital, and the establishment of a single Central Bank to be vested with the powers of controlling a pool of members' foreign exchange reserves and of co-coordinating the economic and monetary policies of the whole community. That is, it is the total and irreversible convertibility of currencies, complete freedom of capital movements in fully integrated financial markets; and irrevocable fixed exchange rates, with no fluctuation margins between members' currencies. It is an all-embracing concept which may consist of monetary union or a common currency area. Masson and Pattillo (1994) distinguished between the two concepts. In a monetary union, there is a unified monetary policy in an environment free of capital controls and segmentation of financial markets. In such a union, it is not necessary to have a single circulating currency. The currencies of the member countries can all be in use in the union, provided the exchange rates among them are rigidly fixed. In a currency area, on the other hand, there is a single currency and hence there is no need for an exchange rate mechanism within the area except as a means of converting the common currency into a the currencies of non members.

Full monetary integration implies two conditions, namely; exchange rate union, which requires that exchange rate in the area, bears a permanently fixed relationship with each other, and convertibility, in the sense of a permanent absence of exchange control in respect of both current and capital transactions within the area (Hogan, 2001). The traditional element of convertibility involved in monetary integration is capital market integration. This entails the establishment of a unified capital market free from geographical restrictions of any kind, on capital movement. Capital market integration is a requirement of a common market. Monetary integration in the sense defined, requires the unification and joint management of both monetary policy and external exchange rate policy of the union. This in turn entails further consequences. First, in the monetary field, the rate of increase of the money supply must be decided jointly. Secondly, the balance of payments of the entire union with the rest of the world must be regulated at the union's level.

Itsede (2002) posited that monetary integration is the monetary unification of participating member countries in economic union and involves the adoption of a common currency, coordinated exchange rate policies, and harmonization of fiscal and monetary policies. It is a process that can only be envisaged during the final stages of the five-stage process of economic integration. Corden (1972) emphasizes that the concept of monetary integration essentially involves an exchange rate union. That is, an area within which exchange rates bear a permanently fixed relationship to each other even though the rates may, in unison, vary relative to non-union currencies; and the permanent absence of all exchange controls (convertibility), whether for current or capital transactions within the area. Itsede (2002) further defined monetary integration as the existence of a single monetary zone with a high degree of monetary stability in furtherance of economic integration. Monetary integration may be viewed as a continuum of arrangements ranging from what economists have dubbed 'optimum currency area' to a full blown monetary union.

Monetary integration offers the prospects of important benefits for participating countries, one advantage relate to the impact on resource improvement which is a central purpose of economic integration. This has two dimensions; in the first instance, monetary integration guarantees that currency restriction will never hinder trade between member countries. Moreover, the availability of convertible currency is clearly a basic requirement for effective market integration and for securing initial advantage of free trade among the group. Monetary integration also encourages the changes in investment allocation in the combined market that are required to secure full static gains from integration.

The permanence of a monetary union requires a strong bond of solidarity among member countries. Thus, Cohen (1998) argued that in the absence of a dominant power with interest in making the arrangement function effectively on terms acceptable to all, there must be a genuine sense of community among the partners. He points to cases where the absence of a hegemonic power or solidarity among members led some monetary unions to fail.

Benefits and costs of monetary integration in the ecowas

A. Benefits

All ventures have gains and losses, and this includes monetary integration exercise. Several benefits of a monetary union have been documented in literature (Aigbokhan, 1992; Obaseki and Onwioduokit, 1999; Corden, 1994; Masson, 1994). Some of the benefits of monetary integration in the ECOWAS are identified and discussed to include the following:

Trade Effects: According to Itsede (2001), one of the primary attractions of monetary integration is the advent of convertibility. The multiplicity of currencies has often been touted as a crucial impediment to trade expansion within the ECOWAS. A region-wide currency would eliminate this obstacle, the argument posits. While it is indubitable that transaction cost would be minimized with the use of a common currency in ECOWAS, it would be stretching argument too far to say that a common currency would be the magic wand for boosting intra-ECOWAS trade. The impediment created by the existence of other tariff and non-tariff barriers to trade must not be assumed away.

Capital Markets Gains**:** An extension to the gains from financial and commodity convertibility is capital market integration. Aigbokhan (1992) argued that the existence of an effective monetary union could facilitate the establishment of a single capital market or the consolidation of existing national ones into a unified market devoid of restrictions. A unified capital market calls for the establishment of a common regulatory framework, thus facilitating cross-border investments within the integrating zone.

Macro Policy Coordination**:** The search for a monetary union within ECOWAS has thrown up the imperative of macroeconomic policy coordination among West African countries. Thus, a set of bench marks and performance indicators which are expected to guide national economic policies during the transition period has been adopted to facilitate inter-country comparison of economic performance.

Common Monetary Authority: As it were, a monetary union strengthens the hand of the common monetary authority in the quest for price stability in the integrating zone. This gives room for a single monetary authority in the area.

Freedom of Movement of Persons**:** There are other benefits associated with monetary integration in the ECOWAS zone. Visas and entry permits have been abolished. To facilitate movements of vehicles, a community insurance scheme (ECOWAS Brown Card) has been instituted. Also, a special programme for the elimination of non-tariff barriers to trade (road check points, non-acceptance of local currencies for airport tax and hotel payments, etc) has been adopted. The implementation of the programme has not been wholly successful; it is inconceivable what the situation would have been without its adoption.

Market Enlargement**:** Monetary union leads to an enlargement of the size of the market, bringing forth economies of scale of production. Market expansion and efficiency driven by competition, lead to an increase in the average size of firms in the integrating area.

Seignorage Gains**:** There are huge seignorage gains (and losses) from the issuance of a common currency, especially if monetary integration results in significant expansion in intra-union trade. The large amount involved in the printing of a union currency would entail a relatively lower unit cost of printing compared to printing national currencies. All things considered, opportunities for seignorage, profit from the issue of interest-free currency, abound more in a monetary union than in a national economy.

Opportunities for Economies of Scale: monetary integration could affect an upward shift in the national production possibility frontiers as production structures changes in the scale and techniques of output and its geographical distribution. Markets unification and dynamics could enable some industries to re-locate to "action areas" to reap the perceived benefits of the enlarged union market of over 200 million people and many federal, regional and local governments. Faced with a significantly enlarged market, producers in the various sectors would be encouraged to plan to take advantage of the opportunities for economies of scale. Integration could engender proliferation of a great number of large scale cross-border industries by both nationals and foreign investors. Industries could become much more competitive in their pricing policies.

B. Costs

Even though monetary integration is said to have a lot of benefits to the integrating nations, it is not devoid of costs. Some of the possible costs of monetary integration to the ECOWAS include;

Loss of autonomy in the determination of independent monetary policy and stabilization measures: Perhaps the single most important cost of monetary union derives from the fact that when a country relinquishes its national currency, it also relinquishes an important instrument of economic policy, that is, it loses the ability to conduct a national monetary policy. In other words, in a full monetary union, the national Central Bank either ceases to exist or will have no real power. It loses national sovereignty in the use of monetary instruments, such as the exchange rate and the interest rate. This implies that a nation joining a monetary union will not be able any more to change the price of its currency (by devaluation and revaluation), or to determine the quantity of the national money in circulation. Although the country can formulate and implement its fiscal policy, there is always a link between monetary and fiscal policy. In the case of fiscal expansion, to generate employment for instance, the government will have to rely on fiscal tool like reducing taxes alone, whereas this could have been complemented with the use of interest rate and other monetary tools.

Possible importation of inflation through high inflation union countries: The possibility of importing high inflation from integrating members is very high in monetary union. Within the ECOWAS region, countries experience different inflation rates. Some are suffering from galloping inflation while some are experiencing low and moderate inflation rates. Those that are experiencing moderate inflation rate may likely be affected by high inflation rates through the union.

Loss of location of industries to more economically viable regions: By the mere fact that integration enhances free movement of goods and services and other factors of production, this will invariably influence the location of industries in the region. Industries will tend to be located at economically viable regions leading to uneven development in the ECOWAS sub-region. This may mean concentration of industries in particular regions hence unbalance growth and development in the ECOWAS region.

Spatial changes in population distribution as labour migrates to points of possible employments: Since the movement of people, goods and services is not restricted, there will be migration from areas of less economic activities to more busy areas of economic activities for employment. Labour will move to where it will be actively and profitably engaged. This will also enhance economic welfare in some parts of the ECOWAS than others.

Different costs of asymmetric shocks: Another potential cost of MU in the ECOWAS is related to the likelihood of the economies in the monetary union facing different shocks. This is the problem of asymmetric shocks, that is, shocks which tend to hurts some members but not the others, and here the use of exchange rate is useful. Since economies linked by a monetary union must necessarily adopt the same monetary policy, such a monetary policy may invariably prove inappropriate in the face of very different shocks (Mordi, 2002). The larger and more asymmetric the shocks, the greater the cost of a fixed exchange rate since the economies experiencing the most shocks do not have the luxury of adjusting the exchange rate to address the problem

Problems of uneven development could occur if capital flows mainly to the more developed countries, unless the fiscal compensation system is well developed to reduce the stress. This is why a development finance institution must exist to use the surplus in the economy-wide reserve for development assistance for less developed members.

The challenges of monetary integration in the ECOWAS

Monetary integration in some other parts of the word has been achieved successfully and those regions of the world have been able to benefit from their integration immensely. However, monetary integration in developing countries have been so difficult to achieve particularly in the ECOWAS. Some of the factors responsible for non-commencement of the monetary integration decision in the ECOWAS since 1983 are discussed below.

1. Low intra-trade among members of the ECOWAS: An indication of the restraints to West Africa monetary integration may be gauged in part from an examination of the direction of the sub-regions trade. There is minimal amount of intra- West African trade that takes place. Thus, available evidence portrays ECOWAS members as not conducting a reasonable proportion of their external trade among themselves. To worsen the situation, West African economies are

deeply penetrated by those of France, Britain and other, ex-colonial powers, and increasingly by the USA and Japan whose transactional corporations are moving in to exploit and extract.

2. Fear of domination: In any regional integration, there are always small and large; and rich and poor countries. The smaller, weaker, and less developed countries fear that their freedom and sovereignty might be in danger if they form a union with their bigger and more powerful neighbours. Such fears might be compounded by socio-cultural, historical and language difference in the case of ECOWAS countries where there exist strong potential for one group to fight to dominate the other. That is, Anglophone vis-à-vis the Francophone countries. This fear of domination can also be seen in Africa where national rivalries and boundary disputes exists. These possess a great challenge to the take-off of the monetary integration decision in the ECOWAS region.

3. Loss of revenue: The fear of loss of revenue with the formation of a regional union is also an obstacle in the take – off of monetary integration in the ECOWAS. This is because with monetary integration, intra-regional tariffs will be eliminated. By this, the weak members will not be in position to raise tariffs by themselves in order to meet their revenue requirements because they solely depends on tariffs because most of the countries are rather a market to foreign manufactured goods and only export primary products.

4. Uneven distribution of benefits: There are disparities among developing countries which create problems in equitable distributions of trade benefits. The weak countries fear that the economically better partner countries will retard rather than assist in their economic development. They are therefore, reluctant to form a union with latter countries.

5. Geographical distances: The developing countries of the ECOWAS are lacking in geographical proximity. Nearness to each other is essential for forming an economic union to be effective and successful. Even if there is geographical proximity among them, they lack in good transport, communications, infrastructural and other facilities for intra-regional trade.

6. Political instability, ethnic and religious crises: The West African sub-region is seriously facing a lot of challenges in coping with the present situation of political, ethnic and religious crises affecting the region. After the struggle to entrench democratic government in these countries, the leaders are confronted with another dimension of the struggle within the region, which is to bring lasting peace and stability in these countries. These have rather occupied the minds of the leaders than integration moves in the region.
7. Administrative deficiencies: There are administrative requirements of a monetary union which may be beyond the capacity of poor and weak members. The latter may not have sufficient administrative staff to implement the policies of the union.
8. A final difficulty which has impede the evolution of a successful monetary integration in West Africa is lack of political will to implement such indigenously articulated programme for economic growth and development. West African leaders prefer foreign prescription to homegrown solutions to the economic malady.

The way forward and conclusion

For monetary integration programme to be actualized in the ECOWAS with minimal delay, the following recommendations are made;

i. Intra-regional trade among the ECOWAS states needs to be encouraged through public enlightenments campaigns. A regional Board could be established to encourage and promote intra-trade in this region through the provision of subsidies to producers within the region. Although these countries depend on the developed countries for capital goods, they could be encouraged to trade among themselves with the goods and services obtainable within the region.

ii. One of the major challenges that must be tackled is that of distrust and suspicion between member states. Smaller and weaker economies/countries of the ECOWAS fear domination by the larger and stronger ones. Unless all countries of the ECOWAS are seen and treated as equal, the fear of domination will continue to exist in the region. The member countries must be seen to have equal voting rights in all matters that concern the union. In respective of the natural endowment of a member country, there must be mutual respect for every member.

iii. The ECOWAS region should be encouraged to embark on the processing of the primary products from the region to export to members. The member countries should be encourage to also embark on industrialization as an option to depending on tariff as the major source of revenue.

iv. The West African countries need to invest massively in transport and communication infrastructural facilities to enhance intra-regional trade within the region. This will alleviate the transport and communication barriers within the region.

v. The governments of these countries must not leave any stone unturned to entrench political stability, ethnic and religious harmony in their respective countries. True democratic government can also help in minimizing these crises. Every government within the region must deliberately fashion policy to tackle the problem extreme poverty to reduce the excesses of these crises in the region.

vi. The countries that may be lacking in terms of administrative requirements of the union could be given some concessions. Other members can complement the efforts of these countries that could be deficient in requirements.

vii. For monetary integration to be actualized in the ECOWAS, the West African leaders must ultimately possess the political will to implement such indigenously articulated programme for economic growth and development.

Besides, the establishment of an appropriate regional compensation and stabilization arrangement to accommodate shocks that the monetary cooperation arrangements may entail can also pave way for the establishment of an effective monetary integration in the ECOWAS. These countries should also continue to pursue programmes of integration which will enhance the achievement of macroeconomic stability, ensure that the developing countries become stronger economically, in the global environment and encourage greater mobilization and management of regional human and financial resources. Given the experiences of integration efforts in Africa and other parts of the world, the remedy for successful integration may be found in achieving greater macroeconomic performance before the integration is actualized, the establishment of viable regional institutions in the integration process, the institution of strong compensation mechanism and political commitment which can ensure effective implementation of agreements. Conducive economic environment, which includes developed financial market, is a necessary condition for achieving the objectives of monetary integration. Without such market standard, the payments system would be cumbersome, the foreign exchange market under flexible regime would be highly distorted and more importantly, the use of monetary policy will be highly ineffective.

Conclusion

With the acceptance of monetary Union in 1987, the greatest challenge has been how to get member states implement the macroeconomic policy measures required for the integration. Although there have been attempts to advance the agenda of ECOWAS monetary cooperation, political problems and other economic priorities in most of the countries have to date inhibited the progress of the union. However, it is important to note that a single monetary zone in ECOWAS sub-region is for the benefits of member states and such benefits far outweigh any perceived disadvantages. Therefore, there is the need for orientation in the attitudes of member states for them to see beyond national boundaries and self interest and work towards the actualization of the monetary union as every member will definitely benefit from the programme.

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