Economic and Monetary Integration in the West African Sub-Region: Costs and Benefits

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The benefits of international trade are numerous. It has been shown conclusively that more trade is better than limited trade, while some trade is better than no trade or autarky. To facilitate trade, there is the need for a means of payment. In this direction, it is necessary to have in place some form of monetary arrangement. Such arrangements are usually predicated on established patterns of trade. Thus, trading arrangements or blocs precede monetary cooperation. To sustain and improve on trade within a geographical or economic bloc, customs procedures could be streamlined through the adoption of common rules and the institution of a common external tariff. Thus, trade within a zone adopting common policies would become relatively easier, less costly and generate increased economies of scale overtime. This explains the reasons for the proliferation of economic or regional blocs all over the world at the same time that the multilateral trading arrangement is being canvassed as the panacea for global prosperity. There is, however, no conflict between the concepts of regionalism and multilateralism.

Regionalism is predicated on the need to forge closer economic ties between contiguous countries in order to improve their welfare. Multilateralism on the other hand attempts to apply universal rules for all countries involved in global trade in the desire to enhance global welfare. Thus, regionalism complements the global efforts at fair trading practices, especially when discriminatory practices are not encouraged in a regional trade arrangement. To give impetus to existing trade relations, monetary arrangements are undertaken. Some of the arrangements have been successful, while others have not been so successful. The most prominent monetary arrangement so far, is the European Monetary Union (EMU) which was climaxed with the introduction of the euro on January 1, 1999.

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Although, there are various schools of thought on the subject of economic and monetary integration, the consensus is that, one precedes the other, and that the existence of the two, one facilitating the other, enhances growth prospects. Economic integration efforts in the West African sub-region started in 1975 with the creation of the Economic Community of West African States (ECOWAS). Since then, the member countries have tried to improve trading relations among themselves through the elimination of tariffs and non-tariff barriers to trade. The integration programme of ECOWAS has been complemented with the development of a monetary framework that would eventually usher in a single currency for the sub-region. There are certainly costs in a monetary arrangement. Usually, such costs are overwhelmed by the benefits when a monetary programme is well implemented. This paper is an attempt to re-focus on the problems of economic and monetary integration as well as the benefits and modalities for countering the challenges. The rest of the paper is divided into four parts. Theoretical and conceptual issues are discussed in Part II, costs and benefits of economic and monetary integration are examined in Part III. Prospects and challenges of economic and monetary integration in West Africa are discussed in Part IV while the paper ends with summary and conclusion in Part V.

THEORETICAL AND CONCEPTUAL ISSUES

These are discussed in the context of theories of economic integration and optimum currency areas.

Economic Integration

Five major categories of economic integration have been identified (El-Agraa, 1982). These are: free trade area which involves the removal of all trade barriers between the member states but self-determination with regard to their policies vis-a-vis the outside world; custom union in which member nations must conduct and pursue common external commercial relations in addition to the conditions of free trade areas; common markets which are customs union that permit free factor mobility across the frontiers of member states; complete economic union which are common markets that involve complete unification of monetary and fiscal, industrial, agricultural and even socio-economic policies; and complete political integration, where the participants become literally one nation.

On the broad front, the point of departure for the discussion of the theory of economic integration and monetary co-operation is a paretian-type social welfare function. Countries aiming at optimum resource allocation will obtain economic benefits from the removal of barriers and obstacles to free

flow of trade and other transactions in the international market. Although this objective is partially achieved through the easing up of trade between members of the market so created, it poses some problems for world trade and world welfare. These derive from the fact that while trade is liberalised among members of the new grouping, a new barrier to trade is created between the group and the rest of the world through the establishment of a common external tariff as in Customs Union. This may not be a problem in a free Trade Area, where internal tariffs are removed but members are free to apply independent external trade policies with third parties. These complications and paradoxes are some of the issues addressed in the theory of customs union, the starting point for the analysis of international economic integration and monetary co-operation. Efforts at integrating many regional and national economies have been made in different parts of the world over the years. For example, the unification of the markets of the Italian States in the 17th century, that of England, Scotland and Wales in the 18th century, the German states and also the North American States both in the 19th century. However, the pioneering work for the study of economic integration in modern times dates back to the 1950s when Viner (1950) published his work on the customs union.

Drawing from the static models, Viner maintained that the formation of a customs union could lead to the abolition of tariffs and other restrictions resulting in changes in prices of commodities within the union, thus, impacting significantly on the levels of both national and world welfare. However, he argued that the type of effects would depend on two basic concepts, whether it is 'trade creating' or 'trade diverting'. Trade creation occurs when trading activities among partner countries increase owing to the abolition of tariffs and restrictions which induce economies of scale. This is a situation in which a country which formerly produced certain commodities at a high cost, now buys the same from a partner country which produces at a lower cost. This is a gain to both countries and to the world market as a whole. Trade diversion, on the other hand, occurs when a country which formerly bought a particular commodity from outside the union from a low-cost producer, now buys from a high cost producer within the union.

However, Meade (1956) explained that in the absence of a perfectly inelastic demand, the reduction of the prices of commodities brought about by the elimination of tariffs would have an effect on world consumption, because it may lead to the creation of new international trade and this development represents a shift of resources into a more efficient pattern of production. He further argued that a reduction in import duty levied on the exports of a partner-country may totally divert existing trade from a cheaper source outside the common tariff area, leading to expansion in total imports, and

denial of benefits from specialisation and comparative advantage. Following the same analysis, Lipsey (1957) demonstrated that when consumption effects are allowed for, the simple conclusions that trade creation is good and trade diversion is bad, would not be valid. Thus, the formulation of a trade diverting customs union could also provide increased welfare.

The traditional customs union theory essentially attempts to determine the static effects of a customs union, especially as it affects efficiency and income redistribution. The static approach assumes a situation of full employment, whereas there is a considerable degree of unemployment and under-employment as well as low levels of productivity in most developing countries. Therefore, the applicability of such an approach to the problems of under-development and poverty in a sub-region such as West Africa is very much limited. In fact, the analysis of economic integration from the static approach has only limited bearing on the evaluation of gains from integration in the developing countries.

Two major theories, both developed within the dynamic analysis context, have extensively examined the issue of economic integration in developing countries from both the theoretical and empirical points of view (see Lontai, 1991; Hirsch, 1971; and Balassa, 1979). The first, which is commonly identified as the training ground theory, posits that free trade among members and high external tariffs on goods from Third World countries, temporarily protects infant industries, while also providing a sufficiently large market for future development. By the time the union opens to the world market, it would be sufficiently matured to face competition. The second is the dependency theory which argues that economic integration is a useful mechanism by which developing countries can free themselves from their structural and economic dependency on the developed nations. Hirsch (1974) also argued that differences in natural resource endowments provide a basis for integration in developing countries since differences in natural resource endowments in these countries are greater than differences in capital availability, trade is feasible among them. Harrylyshn and Wolf (1981) have found empirical support for this view. Intra-industry trade in similar but slightly differentiated products has been observed among developing countries. Balassa (1979) noted, in particular, that economic integration in Latin America has resulted in such a trade pattern. Hughes (1980) and, Harrylyshn and Wolf (1981) separately observed that, in spite of the non-complementarity of production structures existing in developing countries, there is still scope for trade relations among them.

Demas (1960) in a work that factored in the constraints of the developing world on the West Indies customs union, suggested that

if trade diversion results from a customs union it may not necessarily be a bad thing from a development point of view. He maintained that, where the alternative for the Caribbean worker who gets new or higher productivity employment through trade diversion is unemployment, and where foreign capital is attracted into the Caribbean because of the prospects of profitable production arising from trade diversion, there will be some clear net addition to the social product. In most developing countries, while the financial costs of increased production following trade diversion may be quite high, its real opportunity cost may be low. What is important in the case of countries with unemployment and underemployment, like the West African countries, is an economic calculus which would off set the loss in economic efficiency arising from trade diversion and ensure increase in the net social product from the creation of a new and/or a more productive level of employment. Thus, in assessing the relevance of the theory of economic integration of the West African states, it is necessary to look beyond the existing patterns of production and trade to those which are likely to emerge in the absence of the formation of a customs union or a free trade area. Furthermore, for the underdeveloped countries, like the West African states, integration policy should derive more from development policy and less from trade policy. For these countries, economic integration should emphasise the dynamic, rather than the static approach.

On the dynamic effects of integration, Jaber (1970) identified various possible ways in which the rate of growth of the Gross National Product (GNP) of participating countries could be affected. These include: the economies of scale resulting from the enlargement of the size of the market; the external economies; the polarisation effect or backwash; the effect on the volume and location of investment; the effect on the efficiency and smoothness of trade transactions due to changes caused by uncertainty and unilaterality of trade policies of individual countries.

The rationale for economic integration could therefore be found in the broad benefits which include: enhanced efficiency in production made possible by increased specialisation; increased production due to better exploitation of economies of scale arising from the increased size of market; improved economic efficiency due to enhanced competition; changes in the amount and quality of the factors of production as a result of technological advances; factor mobility across the borders of member states; macroeconomic stability through the co-ordination of monetary and fiscal policies; and the attainment of near full employment; higher rates of economic growth and better income distribution.

Membership of an economic grouping may not necessarily guarantee a member of the group or the group itself satisfactory

economic performance. It is equally argued that a large integrated market does not by itself guarantee successful economic performance. This is because the static and dynamic benefits from integration may be outweighed by the influence of domestic or international factors that have nothing to do with integration. However, as noted by Robson (1980), although integration may neither be a panacea for all economic ills nor indispensable for success, convincing reasons abound in the economic literature to show that significant economic benefits may be derived from properly conceived arrangements for economic integration.

Monetary and Financial Integration

Monetary integration entails fixed exchange rate and convertibility of the currencies involved. Also, there are seigniorage gains from a common currency, especially if trade improves with economic integration.

The theories of optimum currency areas are usually applied to determine the feasibility of a monetary union. Thus, it is important to examine them in their totality before a decision can be taken on the desirability of a monetary union. For instance, while Mundell (1961) canvassed that the more mobile factors of production are within a region, the easier it is to form a monetary union, Mckinnon (1961) on the other hand, based his thesis on the degree of openness, that the more open an economy is in terms of trade flows, the more beneficial it is to join a monetary union. Other scholars like Towe and Willet (1976) formulated the notion of degree of convergence of opinion, views and attitude on policy integration in the areas of inflation, employment and growth. Yet for others, the degree of product diversification, nature of demand shocks and policy complementarity are important in determining the feasibility of a monetary union.

Monetary and financial integration is a process whereby a group of countries form a monetary union characterised by the following elements: the establishment of one central monetary authority which takes over the formulation of the Union's monetary and financial policies; the issuance of a single currency for use in the member countries, the flow of which is unrestricted among the member countries; and the pooling of the foreign exchange reserves of the member countries.

Monetary and financial integration can also include other elements. For instance, when the EEC countries adopted their economic and monetary union in 1971, they had the following objectives: freedom of movement for people, goods and capital; fixed and unalterable exchange rates; common medium-term and short-term economic policies and also common structural policies, especially in regional and social matters; harmonisation of direct and indirect taxes; and common institutions, backed by a

common system of national central banks. Until recently, most countries in West Africa have had stronger financial links with their former colonial powers than with each other. Transactions involving the use of foreign exchange were concluded by transfers through London or Paris. This phenomenon partly reflects the rudimentary and strictly controlled money markets of the countries and the inconvertibility of their currencies. However, with the progressive dismantling of colonial trade preferences and the achievement of greater independence in monetary matters, this situation becomes unrealistic.

Another important aspect of monetary and financial integration that needs to be emphasised is the convertibility of currencies. Currency convertibility is the ability of residents and non-residents to exchange domestic currency for foreign currency. Governments generally impose limitations on the use of foreign currency, which can take the form of prohibitions, taxes, special deposits, nominal ceilings (such as travel allowances), or procedures for allocating foreign exchange.

In countries where monetary and financial integration is operating, all currencies are freely convertible in the market against each other and also against non-member currencies. Free convertibility is an essential factor in the expansion of foreign trade and transactions. But even in cases where currencies are fully convertible, the practical scope depends not only on the extent of government limitations on foreign exchange and payments, but also on restrictions applied to the underlying transactions, such as imports, services or investments abroad. To free one without the other is to effectively limit the use of a given currency in a practical sense by reducing the extent to which it can be used to carry out transactions and make purchases. Thus, convertibility - a financial concept - should be accompanied by liberalisation of trade and other international transactions, implying that the benefits of full convertibility are derived from both financial and commodity convertibility (Gilman, 1990).

It has been observed that if countries integrate their product market but do not adopt a monetary union which is usually necessary, it may be difficult to coordinate their financial policies, especially if payment difficulties and exchange rate fluctuations are to be properly managed in order not to impair the working of the customs union. The additional element of convertibility in monetary and financial integration is capital market integration. This means the establishment of a unified capital market that is free of restrictions of any kind. These issues, taken together, would appear to limit the horizon for monetary integration in ECOWAS. Significantly, the low level of economic integration in West Africa, the low degree of openness of the economies, all point to the need to forge political consensus

on the need for monetary integration. This is because the acquisition of the desired political will would ultimately make it possible to attain monetary integration.

COSTS AND BENEFITS OF ECONOMIC AND MONETARY INTEGRATION

The benefits of economic and monetary integration are many. Agu (1992) identified them to include among others; expanded aggregate investment; improved resource allocation, increased domestic savings; enhanced financial intermediation and greater international trade. This is not to suggest that there would be no costs to participating countries. However, the question is whether countries with highly protected economies will find the inevitable costs of economic, monetary and financial integration acceptable. These costs would stem basically from the constraints such integration may impose on the pursuit of their own national financial, monetary and exchange rate policies. As noted by Ojo, (1986), while the potential benefits from such integration generally take considerable time to be realised, the costs are immediate. Similarly, in the short-term, these benefits will not accrue to all participants in equal measure within the same time frame, although in the long-run, the benefits will be spread more evenly, Dadzie, (1990). These in part explain why members of various trade groupings in the developing countries and indeed in the industrialised world, have been unwilling to move toward monetary and financial integration.

The benefits accruing to a single currency come with some costs. Probably the most significant cost is the ceding away of each country's right to set monetary policy to respond to domestic economic problems. Furthermore, exchange rates between countries can no longer adjust in response to regional problems. As a matter of fact, the costs associated with giving up the possibility of independent monetary policy may be large for most of the West African countries. Despite the deregulation and liberalisation policies pursued by almost all the countries in the West African sub-region, there still exists several barriers to international capital flows, which have created a very uncompetitive multi-country financial market. Consequently, there exists substantial differences in the cost of borrowing (the interest rate) in the different countries, even if the exchange rates between the countries are kept fairly stable. The Zone interest rate would be centrally determined by the monetary policy of the common central bank, implying that small countries in the Zone will not have the ability to lower interest rates during recessions unless they are willing to see their currencies devalued. By the requirement of the convergence criteria, the countries of the Zone also undertook to limit the use of fiscal policies. Consequently, when one or several countries within the Union, but not all, face recession or an overheated

economy, adjustment must occur largely through changes in wages and prices or through the movement of workers from one country to another. The biggest change in moving to a single currency is that each country will relinquish control over monetary policy to the common monetary authority that will issue the single currency for all the countries in the Union. But what happens if a recession hits just one country? Currently, its central bank may respond to the recession by increasing the money supply, thereby pushing interest rates downward and stimulating investment and economic recovery. The common central bank will be unlikely to use expansionary monetary policy to help one country, since doing so would cause inflation in those countries in the Union that are not in recession.

Benefits of Economic and Monetary Integration

The most important benefit of economic integration is economy of scale in production and trade, which results from specialisation and which ultimately leads to increased trade among the member countries. To facilitate the process of trade integration, the development of an effective and efficient payments system becomes imperative. A suitable monetary arrangement then becomes necessary.

Tower and Willet (1976) observed that much of the discussion about the merits of monetary integration to participating countries has largely centred on short-term adjustment in internal and external disturbances, and has focused on developed countries. However, as noted by Robson (1983), developing countries like those in the West African sub-region need to consider the long-term implications of their participation in a monetary union. Short-run adjustments are usually less costly because the multiplier effects of the disturbance on output and price level are smaller. With increase in international trade arising from integration, the economies of participating countries become more open in terms of the share of their exports in GNP. The more open the economy, the larger the export and import elasticities and the smaller the induced changes in domestic spending because of the leaks to the external sector when an exchange rate is fixed. Devan and de Melo (1987) argued, however, that when adjusting to a disturbance in the short-run, the superiority of a monetary union over a fixed or crawling exchange rate regime should be attributed to the probability of using the exchange rate to adjust. Whichever exchange rate arrangement is chosen, countries in a monetary arrangement can usually expect to benefit from a reduction in the impact of internal and external shocks, as the effects of any shock will tend to spread across participating countries.

Ojo (1983) highlighted two important issues regarding the rationale for monetary and financial cooperation in developing

countries. The first is the mobilisation of human and financial resources. African countries will have great difficulty in achieving self-reliance unless more substantial and sustained efforts are made to mobilise their collective strength through regional and sub-regional cooperation. The second concerns the strengthening of the negotiating capacity of developing countries vis-a-vis industrial countries. The capacity for collective negotiation cannot be gained without cooperation in monetary matters. A regional market has to establish stable prices for raw materials and manufactured goods; this cannot be achieved without monetary and exchange rate stability. Countries participating in a monetary union also benefit from currency convertibility. A fixed exchange rate guarantees exchange rate certainty to individual businessmen and reduces risk. This would also reduce capital flight. Consequently, foreign investors will be attracted to member countries where the exchange rate is stable since investors will perceive less risk of loss through devaluation.

Monetary integration also contributes in reducing the mis-allocation of resources that may otherwise occur if speculative influences, through their impact on exchange rates, distort the price of raising capital in the union. A potential source of benefit of a monetary union can be found in the use of foreign exchange reserves. With a common currency and a common pool of foreign exchange reserves, the quantity of reserves required may be reduced. Members' external positions are not likely to be in deficit at the same time, so that the pooling of reserves will economise reserve usage as long as the formation of the monetary union does not itself increase fluctuation. As posited by Ojo (1986), foreign exchange will no longer be needed to finance increased intra-union trade.

Following from above, the benefits of monetary integration can be summarised as follows: elimination of conversion costs which facilitates trade, stemming of speculative capital flows; improvement in domestic and international resource allocation thus enthroning allocative efficiency; free movement of factors of production; absence of competitive exchange rate adjustment leading to increased trade and investment flow within the union, interest savings on government debt arising from lower nominal interest rate and exchange rate stability; and resource savings from pooling of foreign exchange reserves, centralisation of monetary policy and synergetic effect of closer economic and monetary interaction.

The West African sub-region stands to gain from economic and monetary integration. As indicated above, the short-run cost that would arise as a result of the adjustment to achieve convergence cannot be compared to the long run gains that would accrue to member countries in the sub-region.

The frequently touted argument of non-complementarity of goods and services produced in the sub-region can no longer be defended as the large volume of informal and unrecorded trade among the countries within the sub-region bears eloquent testimony to the fact that the argument is shallow.

In presenting a common front through economic and monetary integration, the sub-region will compete favourably with other regions of the world in a global market place for her products. In all, the sub-region stands to lose if the present state where individual member countries are pursuing their economic and monetary policies independently is allowed to prevail for a longer period. The greater integration of the Americas through NAFTA, Europe through the EU and the integration of world trade and services through the WTO as well as the globalisation of world economies are enough evidence for West Africa and indeed Africa to forge closer economic and monetary integration to avoid marginalisation in the unfolding global economic dynamics.

Costs of Economic and Monetary Integration

Economic and monetary integration involve some costs. Members should therefore adopt strategies which maximise benefits and reduce costs. The obvious cost of economic integration in a Customs Union is the application of a common tariff system on third parties and the removal of internal tariffs. This may result in revenue loss for countries that depend heavily on customs duties. The application of a common external tariff may lead to trade diversion and reliance in high cost producers within the economic grouping.

However, the costs of monetary integration are more serious and as such require more care to handle. The need to achieve a high degree of policy coordination in a monetary union inhibits individual member countries' freedom to pursue independent stabilisation policies. It has, for example, been noted that belonging to a monetary union constrains countries in setting national targets for the inflation - unemployment mix. Qagaya (1990) noted that although a monetary union's monetary and fiscal policies must be conducted in the interest of the union as a whole, there is, however, the possibility that economic policies of the union will not always work in the interests of all. Since exchange rates are fixed, it will not be possible for member countries to follow financial policies that diverge considerably from each other, as such divergence will be reflected in pressures in the external position of the countries concerned. Thus, for a participating country with an external imbalance, the burden of adjustment would fall more heavily on internal demand and supply management policies, since the opportunity to apply exchange rate instrument has been constrained.

A monetary union arrangement also results in the loss of absolute discretion in the implementation of fiscal policy. There is also loss of discretion in overall macroeconomic management. Furthermore, the lower inflation rate imposed through convergence criteria results in the loss of seigniorage and inflation tax revenue. The initial deflation required to achieve the convergence criteria on inflation could be disruptive to the productive sectors of an economy.

A very critical issue is that monetary and financial integration involves movement from a system of independent national currencies with different degrees of convertibility, as well as different monetary and fiscal policies, to a system where all the member countries share a common currency and unified monetary policy. Any country deciding to join a monetary union has to resolve major issues about national sovereignty which has become one of the greatest obstacles to monetary union. Edozien and Osagie (1982) noted that the question of national sovereignty is more complex than the mere surrender of certain powers to a supranational organisation. It is compounded by apprehension among members that one or two developed nations would dominate the union. Furthermore, the fear of marginalisation by smaller countries in a monetary arrangement often delays the actualisation of a monetary union.

Another notable problem hindering monetary and financial integration in Africa either at regional or sub-regional level, is the differences in the economic and social structures of the participating countries which affect either their actual motivation for integration or the effectiveness of the instruments they apply. A country whose economic and social structures are more developed than those of other members, will resist any policy harmonisation which might slow its pace of economic growth. It may be very difficult, for example, for a country with chronic inflation to harmonise its foreign exchange policy based on a fixed rate of exchange. In such cases, where integration seems to be the only alternative to changing the policy, although gradually, integration itself will have to adapt its instruments to such situations or it will be obliged to limit its objectives by the need to compromise on the difficulties created by these structural differences (Penaharrena, 1980).

One basic factor that has worked against monetary union in Africa is the fear of the uneven distribution of the benefits which will accrue to member nations. For example, there might be a tendency for capital to flow to certain member countries which are at higher stages of development and where there are more advanced financial, social and economic infrastructure, as well as industries that would provide external economies for new industries. Industrial development is one of the basic motivations for integration among developing countries. A political assessment of how membership will assist in

promoting industrialisation is a strong motivating force either for or against integration. Dissatisfaction with this assessment is the principal reason behind the stagnation of integration programmes of most sub-regional groups in Africa. Unless measures are adopted to protect the less developed member countries, dissatisfaction is likely to continue to hinder any effort towards achieving a monetary union. Indeed, the wide difference in the West African countries' economic and financial circumstances contributes immensely to the fear of unequal sharing of the benefits and costs.

PROSPECTS AND CHALLENGES OF ECONOMIC AND MONETARY INTEGRATION IN WEST AFRICA

It is important to state from the onset that the costs of economic and monetary integration can be ameliorated by the benefits which are overwhelming. However, the costs pose a number of challenges. Some of the prospects and challenges are discussed below.

It is pertinent for the West African sub-region to note that in the evolving world economic scene, the real gainers will be those countries that are able to take advantage of technological advances and reorientate their production structures as rapidly as possible in response to changing trends in world markets (Dadzie, 1990). Presently, only a few developing countries can be counted among real gainers. It is almost an impossible task for individual countries in the sub-region to reorientate their economies to take advantage of the changing structure of the world market. For that to happen, there must be a substantial and sustained effort to mobilise their collective strength through sub-regional co-operation. In order words, to achieve collective self-reliance for the sub-region, member countries would have to mobilise their human and financial resources to accelerate their development effort; and secondly strengthen their negotiating capacity vis-a-vis the rest of the world. What this portends is that the sub-region can no longer regard monetary and financial integration at the sub-regional level as dependent on the state of political will. Rather it should constitute an important element of the agenda for economic survival.

This was demonstrated at the 22nd session of the Authority of Heads of State and Government, in Lome, Togo on December 9 1999 when the two-track approach to integration was approved. Under the scheme, the Second Monetary Zone in West Africa, involving the creation of a Common Central Bank that would design and implement a common monetary policy and issue a common currency, was conceived. The second monetary zone, now the West African Monetary Zone which would become operational in 2003, is made up of Nigeria, Ghana, Sierra Leone, The Gambia, Guinea and Liberia. The West African Monetary Zone would commence when at least two

members satisfy the four primary convergence criteria on inflation, fiscal deficit/GDP ratio, central bank financing of fiscal deficit as a percentage of previous year's tax revenue and reserves/import cover.
In order to prepare the grounds for the establishment of a Common Central Bank, the West African Central Bank, an interim institution, the West African Monetary Institute, commenced operation in Accra in January 2001. These are concrete indications of the seriousness with which the integration efforts in the sub-region is being pursued. It is expected that the West African Monetary Zone would merge with the UEMOA or CFA Zone in 2004 to establish a single monetary zone for ECOWAS.

Internal measures have to be agreed on in any proposal for monetary and financial integration in order to compensate the disadvantaged member countries for the inevitable initial loss or cost of integration. Some of these costs, as noted earlier, may arise from short-term phenomena, and can be taken care of in the integration process to make membership acceptable to all countries. For any sub-regional monetary integration to succeed, there must be a relaxation of the colonial type of monetary links with individual former metropolitan nations. It is, therefore, necessary to introduce a single currency to serve the sub-region.

The existence of a monetary arrangement involving the UEMOA countries in West Africa makes the experience a familiar one. As a result, the realisation of a single monetary zone in West Africa would not be problematic. It is possible to adopt the UEMOA convergence criteria as the basis for the construction of the criteria for the whole of ECOWAS. In the event that this is not acceptable, then a superior framework that would attract the patronage and respect of the UEMOA should be designed. The speed with which a single currency zone is attained will be determined by the strength of the economies of the member countries. As a result, the achievement of the convergence criteria would be facilitated by sound economic management and market friendly policies.

Above all, the political leaders should give the economic and monetary programmes of ECOWAS the desired push to realise the objectives of a Customs Union and a Single Monetary Zone.

SUMMARY AND CONCLUSION

With the hindsight of costs and benefits, the paper highlighted the rationale for economic and monetary integration in the West African sub-region drawing from theory and empirical findings. It was found that monetary integration involves both costs and benefits. However, the benefits outweigh the costs. Thus, policy measures should be adapted to maximise the benefits and minimise the costs. There is no easy way out of the problems that

confront economic, monetary and financial integration in the sub-region. Although, a number of factors have contributed to the inability of some countries in the sub-region in meeting the convergence criteria for monetary integration, political/military conflicts have tended to compound the problems. While the problems of monetary integration in the sub-region are multi-faceted, they are not insurmountable. There is the need for greater cooperation and commitment to make the 2004 target date for a single currency in ECOWAS a reality. Finally, it should be noted that meaningful economic integration cannot be achieved without monetary integration. The sub-region should, therefore, intensify efforts in these two areas so as to re-position herself to be a net gainer of the current globalisation trend. It is important to note that the political leadership in the ECOWAS has demonstrated the will to actualise the objective of a single currency in the sub-region, through the active support for the second monetary zone.

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