

## 12 A comparative analysis

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### **Introduction**

The lessons of experience suggest that the establishment of any properly functioning monetary union is a feat requiring, above all, time for full preparation. The experience of other monetary unions, especially the European Monetary Union and the Gulf Cooperation Council (GCC), vividly highlights the fact that formation of a monetary union is a long-term process, requiring both political will and culture of regionalism. In view of these all-important realities, this chapter provides a comparative analysis between the WAMZ and other monetary unions, with specific reference to the GCC and the West African Economic and Monetary Union (WAEMU).

### **The WAMZ and GCC compared**

The Authorities of the GCC countries decided in 2001 to establish a monetary union by 2010, about the same time the WAMZ Authorities decided to have monetary union. However, unlike the WAMZ authorities that envisaged a monetary union in just 18 months, the GCC gave themselves a nine-year period.

The GCC states have several distinct socio-economic characteristics that make them more homogeneous and less likely to suffer asymmetric shocks. They are also culturally and historically the same people, with the same language, religion and geographical proximity. Using the principles of the Optimum Currency Area (OCA), the GCC made progress with respect to economic structure, real and nominal convergence, a customs union, labour mobility and financial integration. Comparable selected macroeconomic statistics for the two monetary unions are given below.

The GCC countries are relatively wealthier than the WAMZ countries. They have vast oil and gas reserves (the world's largest if measured in barrels of oil per capita), yet unlike many other oil-rich states have very small populations. The total population of the GCC is about 36.5 million compared to WAMZ population of about 189.2 million. While the population of the GCC is one-fifth that of WAMZ, the total nominal gross domestic product (GDP) of the GCC is more than triple that of the WAMZ. Average per capita income in the GCC is

thus 20 times that of the WAMZ. The GCC has a combined GDP of US\$774.4 billion as at 2007 against the WAMZ's US\$214.5 billion during the same period. Thus the average per capita income for the GCC stood at US\$23,548.2 against WAMZ per capita income of US\$1,286.8.

Relative to the WAMZ, there is also less heterogeneity and more symmetry in the economic structure of the GCC, although diversification has increased among the countries. Unlike the WAMZ, where there is only one major oil producer, the GCC countries are all oil-producing, although the level of production varies from country to country. The contribution of agriculture to the GDP in the GCC is insignificant, and the country with the highest contribution is Saudi Arabia (3 per cent). In the case of the WAMZ, the smallest contribution to GDP by agriculture is 22.3 per cent (that of Guinea). On average, agriculture contributes about 37 per cent to the WAMZ's GDP, compared to about 0.8 per cent in the GCC. Also compared to the WAMZ countries, where the structure of production has remained basically static over the last three decades, the GCC countries have achieved rapid progress in the past three decades, leading to a 30 to 35 per cent decline in oil's contribution to GDP, from 65 to 70 per cent in the mid-1970s. In terms of relative size, Saudi Arabia constitutes about half the GDP of GCC, while the largest WAMZ economy, Nigeria, represents about four-fifths of the GDP of the Zone.

The GCC agreed on five convergence criteria, which mimic those applied by the EU member states for the euro. In addition, all members have their currencies pegged to the US dollar, except for Kuwait, which moved to a peg of baskets of currency. The inflation rate in the GCC as at 2007 ranged between 3 per cent (Saudi Arabia) and 12 per cent (Qatar). Comparative figures for the WAMZ were 6.2 per cent (The Gambia) and 12.5 per cent (Ghana). Foreign exchange reserves for the GCC countries ranged from four months of import equivalent for Bahrain to 13.8 months for Kuwait. In the WAMZ, comparable months of import cover ranged from one month (Guinea) to 13 months (Nigeria).

The GCC adopted a common external customs tariff in 2003. In early 2008, the common market initiative for the GCC countries was launched and implementation is underway through the adaptation of national legislation and regulations. Currently, about 75 per cent of the needed harmonization has already been achieved. Labour mobility is quite high within the GCC. Unlike in the WAMZ, infrastructure in the GCC is well-developed, comparable to that of Europe, education for nationals is free, including at the tertiary level, and there is access to a universal healthcare system. Public sector workers are among the best paid in the world.

In September 2008, the GCC central bank governors approved the charter for a monetary council (equivalent of the European Monetary Institute and the West African Monetary Institute), a precursor to a regional central bank. In September 2008, the governors of the GCC countries indicated that there are three important policy issues that need to be addressed before the commencement of the monetary union. These are: inflation needs to be reduced to lower

single-digit figures rather than at low levels; the statistical base needs to be harmonized to provide comparable economic and financial data; and the Gulf Monetary Union needs to be supported by investments in financial infrastructure (including legal and regulatory), payments systems and developments and linkage of money markets and capital markets. However, a recent review by the authorities indicates that the realization of the target date of 2010 for a monetary union is unlikely, given the outstanding challenges, which include: agreement on the nature and scope of the GCC monetary authority and the introduction of a common currency; harmonization of key regulatory and supervisory frameworks, especially for the financial sector, and statistical methodologies for key financial and economic indicators; and agreement on the customs union and the issues outstanding with regard to the sharing of customs revenue.

GCC central bank governors have recently signalled that the new common currency would not be in circulation by the agreed 2010 target.

In essence, the challenges faced by the WAMZ countries on the road to monetary union are not unique, as even the GCC that is comparatively more homogeneous in population, economic structure and even culture and religion is also facing similar challenges. Recently, Oman has opted not to join the single currency if the 2010 deadline is maintained. While reiterating a full commitment to monetary union, Saudi Arabia, the largest economy in the GCC, indicated that the 2010 target was "very ambitious", leaving the door open for a postponement, thus effectively calling for the launch of the single currency to be delayed, but certainly not cancelled. In comparing the progress of the GCC to that of the WAMZ, it becomes clear that, while the GCC has had a long-term view of monetary union, the WAMZ has been somewhat over-ambitious in the target dates it has set for achieving monetary union.

### **The WAMZ and the WAEMU compared**

The West African Monetary and Economic Union (WAEMU/UEMOA) was established in 1994, comprising countries that already shared a single currency in the form of the CFA franc. The longstanding prior existence of the CFA franc and Central Bank of West African States (BCEAO) helped WAEMU to take the lead in the monetary and economic integration processes in West Africa and it now includes eight countries (Guinea-Bissau joined in 1997). The second monetary zone, the WAMZ was set up in 2001, comprising five member countries with the objective of establishing a common central bank as well as introducing a common currency, to be called the eco. Both WAEMU and WAMZ are sub-regional institutions within the Economic Community of West African States (ECOWAS) and are expected to work towards establishing a single currency for the whole of ECOWAS.

While the WAMZ adopted a macroeconomic convergence framework as the basis for forming economic and monetary union, the WAEMU monetary union essentially emerged out of the historical relations between France and its

former colonies. It was only in 1994, following the devaluation of the CFA, that the pre-existing monetary union was extended to include aspects of economic integration, with WAEMU adopting a set of macroeconomic convergence criteria.

There are strong cultural, historical, social and economic ties between the peoples of the WAEMU and WAMZ. Aside from the geographic proximity of the two blocs there is greater similarity in the structure of the economies of the two groupings. Agriculture is the largest employer in most of the countries in both, with the primary sector accounting for the largest share of GDP. Nigeria is so far the only major oil-exporting country in the WAMZ while all the countries in the WAEMU are oil-importing, with the exception of Côte d'Ivoire. Both zones are potentially rich in mineral resources. Apart from Nigeria and Côte d'Ivoire, most of countries in ECOWAS are small open economies. All the countries are, however, susceptible to exogenous shocks.

Although WAMZ has fewer member countries, it has a relatively larger population than WAEMU. WAMZ is home to 189.2 million inhabitants (2007 estimate), of which 78.2 per cent reside in Nigeria. WAEMU has a combined population of 87.3 million, or around half of the total population of the WAMZ. The combined estimated GDP of WAMZ at US\$214.5 billion is four times larger than that of WAEMU, which stood at US\$57.2 billion. Of the total GDP of WAMZ, Nigeria accounts for 86.1 per cent, while Côte d'Ivoire accounts for 34.6 per cent of WAEMU's GDP. While the relative proportionate share of the total GDP of WAEMU is broadly dispersed, the proportionate share of the combined GDP in WAMZ is largely dominated by Nigeria.

Average per capita income (purchasing power parity in US\$) is slightly higher in the WAMZ (US\$1,286.8) than in WAEMU (US\$1,147.38), and weighted average inflation is relatively lower in the WAEMU (3.7 per cent) than in the WAMZ (10.1 per cent). The average reserve position, expressed in months of imports, is slightly higher in WAEMU (6) than in WAMZ (5.6).

There are disparities between the member countries in both zones in respect of the achievement of sustainable macroeconomic convergence. However, there is some evidence of the convergence of macroeconomic stability indicators, in particular inflation and fiscal balance, in WAEMU. In the WAMZ, harmonized policy coordination through observance of prescribed macroeconomic convergence criteria is progressing steadily.

As regards the ECOWAS common market programme, countries in both zones have adopted the ECOWAS common external tariff and are participating in the ECOWAS Trade Liberalization Scheme (ETLS). The protocol on free movement of goods and services is also being widely observed. However, the objective of labour mobility, although entrenched in the ECOWAS protocol, is not being fully complied with in either of the two zones.

The overall picture indicates that, while there is relative macroeconomic stability in the WAEMU zone (due mainly to the lower rate of inflation), the levels of competitiveness as well as economic growth are generally higher in the WAMZ.

## Conclusions

The challenges faced by the WAMZ countries on the road to monetary union are not unique, as is well illustrated by the fact the GCC, with its comparatively more homogeneous population, economic structure and even culture and religion, is also facing similar challenges. A credible monetary union is usually premised on the achievement of specific criteria by its candidate member countries and in the European case it took half a century to introduce the euro (in 1999, after postponements and shifts in dates along the way). These examples demonstrate the need for sufficient time to build a durable union that will be credible. The overriding concern of the WAMZ monetary union at this point should not necessarily be that of any damage to its credibility arising from further postponement, but the long-term sustainability and viability of such a union. Overall, it is clear that, the establishment of a sustainable and efficient monetary union in the WAMZ is not just an imperative but an ultimatum. The key to success will be found in doing the right thing at the right time, with the help of appropriate durable and sustainable infrastructure and economic fundamentals.

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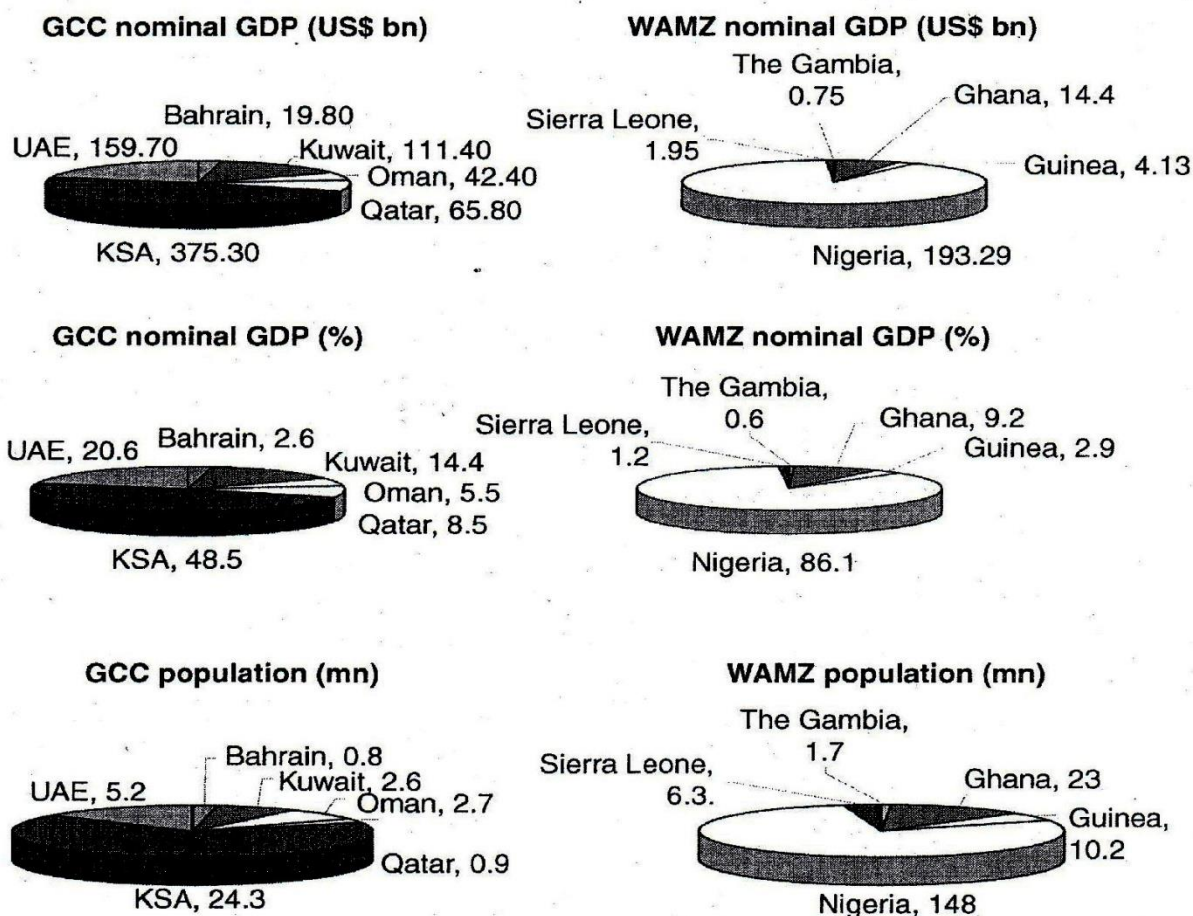


Figure 12.1 Production and income in the GCC and the WAMZ (2007) (source: World Bank (2008) and WAMI (2008)).

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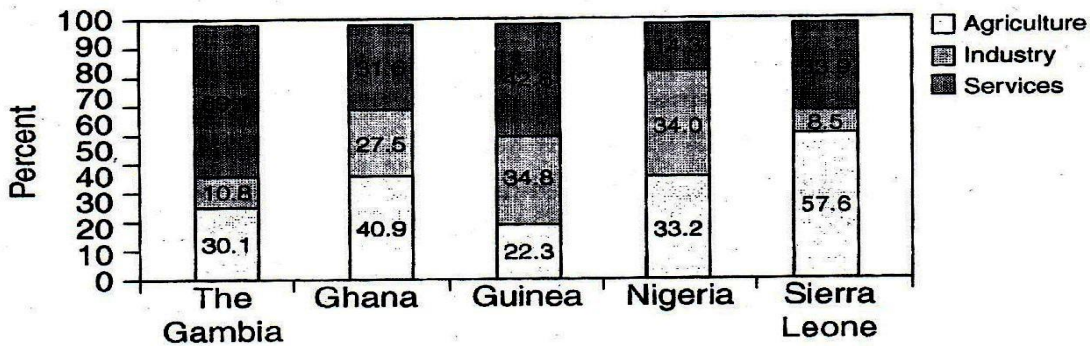
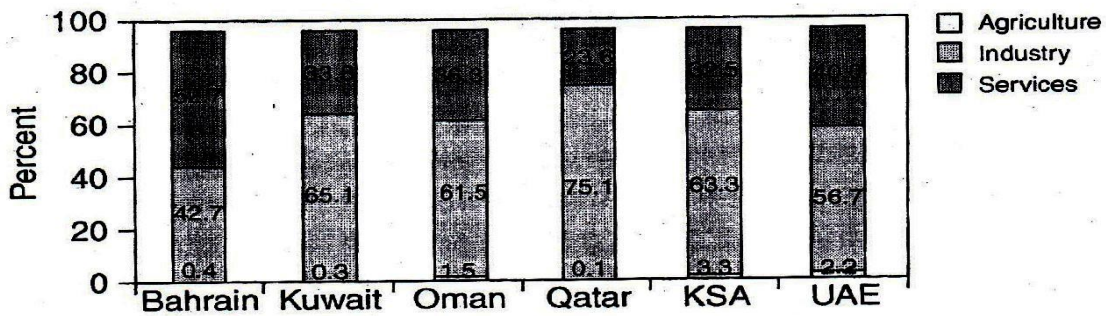
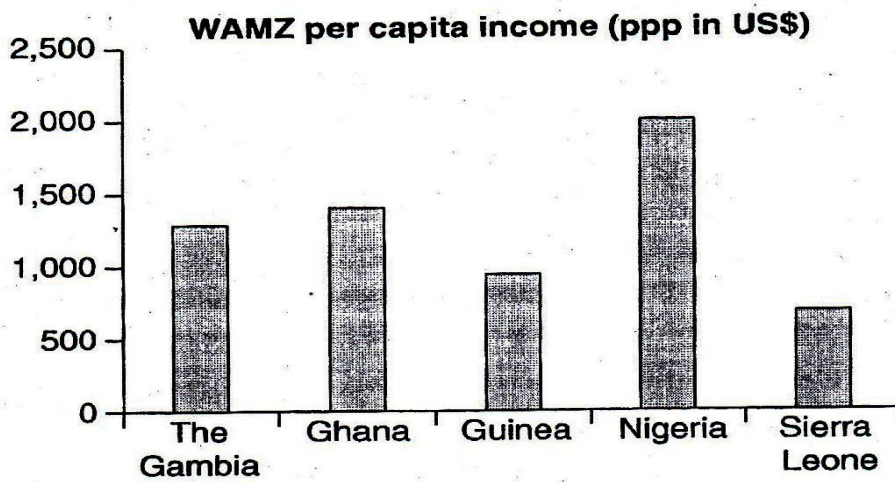
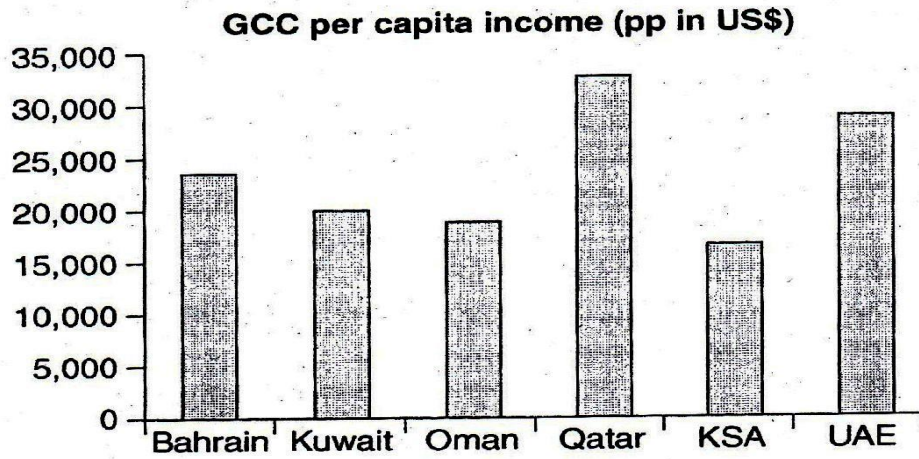


Figure 12.1 continued.

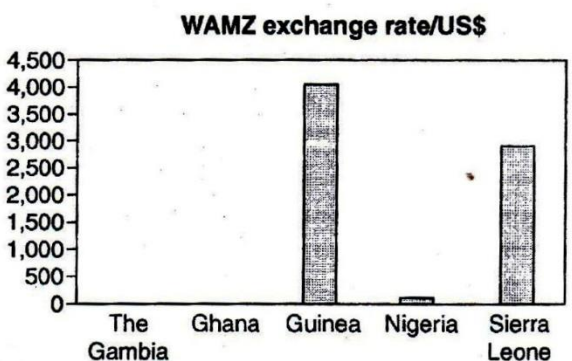
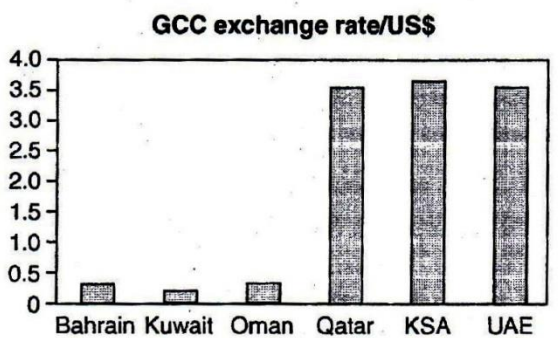
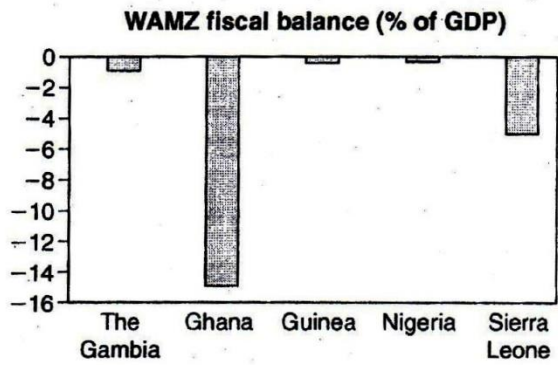
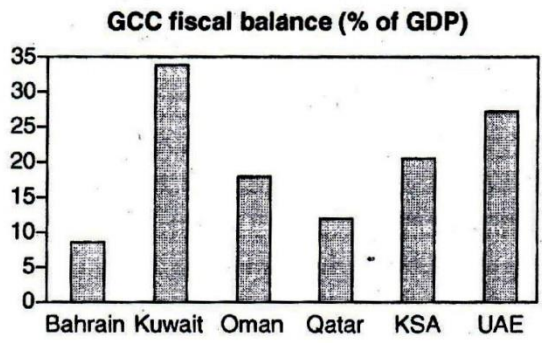
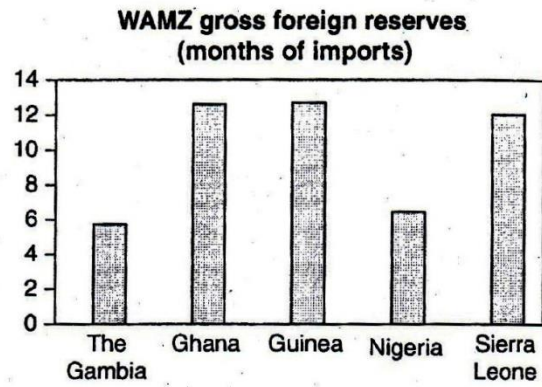
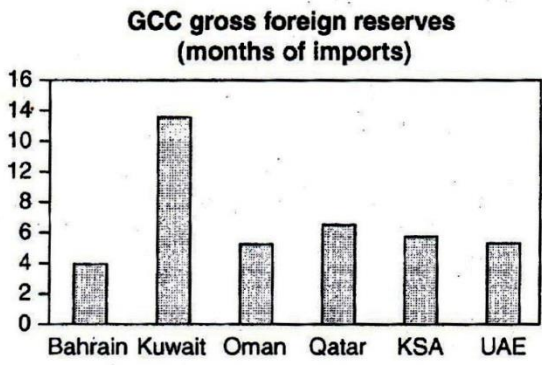
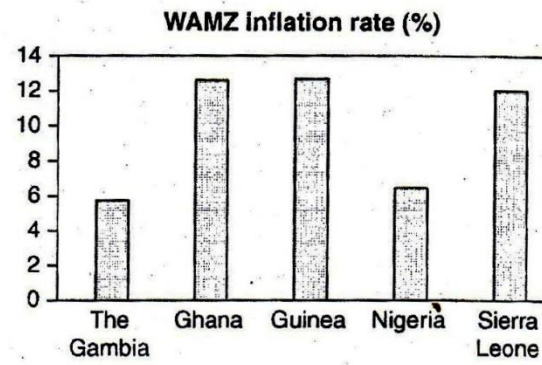
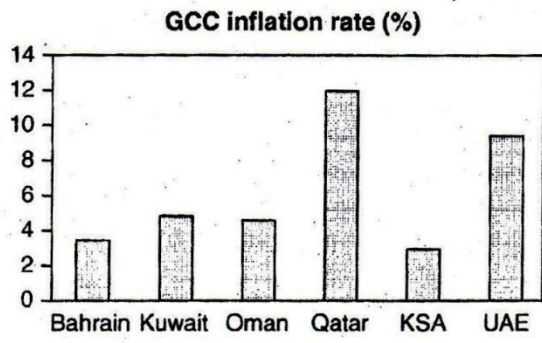
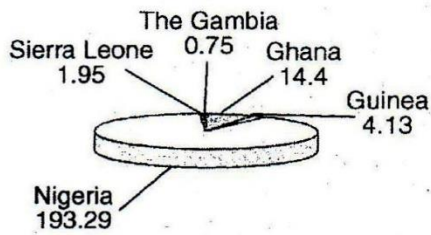


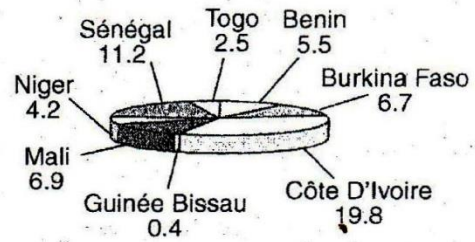
Figure 12.2 Key indicators in the GCC and the WAMZ (2007) (source: World Bank (2008) and WAMI (2008)).



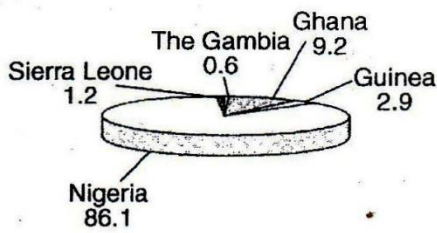
**WAMZ nominal GDP (US\$ bn)**



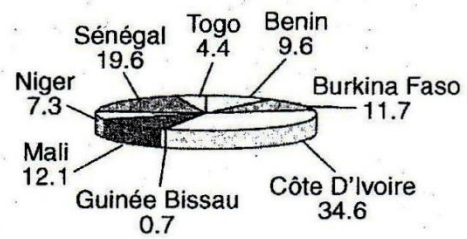
**UEMOA nominal GDP (US\$ bn)**



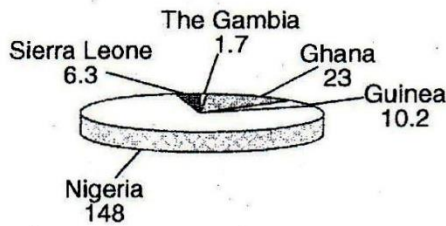
**WAMZ share of GDP (%)**



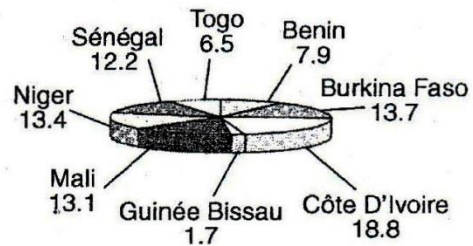
**UEMOA share of GDP (%)**



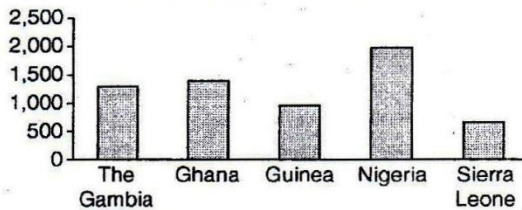
**WAMZ population (mn)**



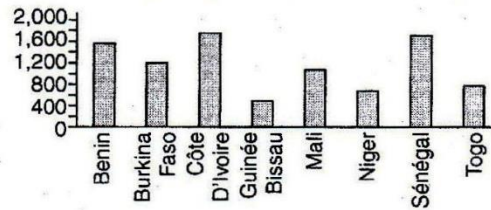
**UEMOA population (mn)**



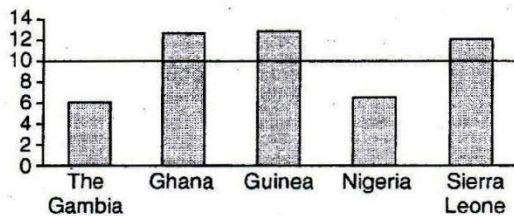
**WAMZ per capita income (PPP in US\$)**



**UEMOA per capita income (PPP in US\$)**



**WAMZ inflation rate (%) end period**



**UEMOA inflation rate (%) end period**

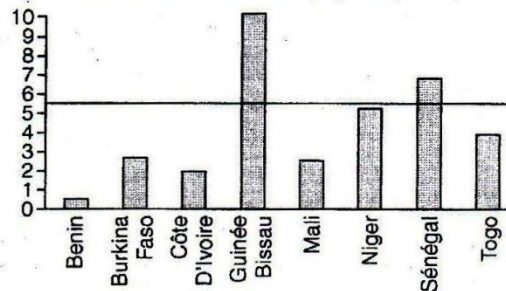


Figure 12.3 Key indicators in the WAMZ and the WAEMU/UEMOA (2007) (source: World Bank (2008) and WAMI (2008)).

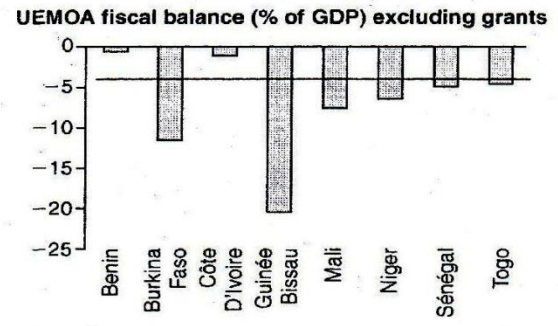
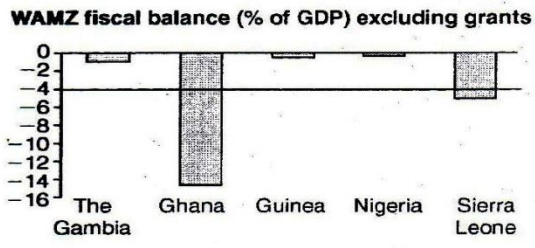
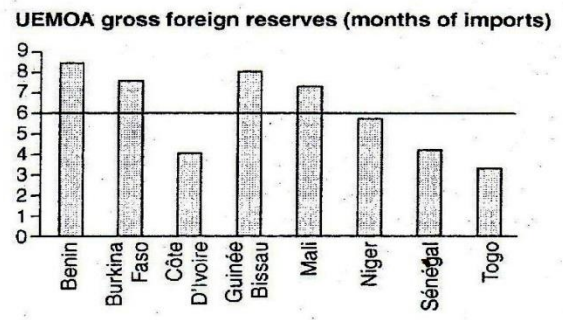
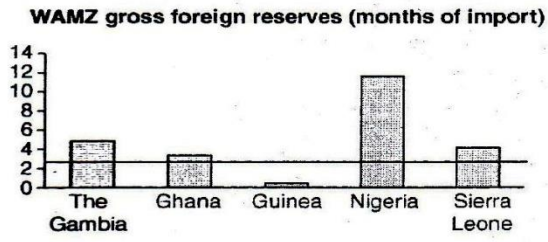


Figure 12.3 continued.