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WEST AFRICAN CURRENCY UNION: IMPACT ON ECONOMIC GROWTH

BATI AFRİKA PARA BİRLİĞİNİN: EKONOMİK BÜYÜMEYE ETKİSİ

Yüksek Lisans Tezli

Kamal Tasiu Abdullahi

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Danışman: Prof. Dr. Mehmet Şişman

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ACKNOWLEDGEMENTS

First, I would like to thank Allah (SWT) for His mercies, blessings and bringing me this far. My respect also goes to my amiable and honest supervisor, Professor Mehmet Şişman not only for his supervision but for his suggestions, endless support, enthusiasm, and friendliness towards the successful completion of this thesis. I am thankful also to my lecturers in the Economics department for guiding me and giving me friendly advice during my studies. I would like to use this opportunity to express my profound gratitude to my gentle and hardworking father, Tasiu Adam Abdullahi, and my caring mother, Hauwa Tasiu for their tireless effort, continuous encouragement, and unfailing support to see me pass every level of my study successfully. At this juncture, I will not forget to mention my sweet and caring siblings Hilal, Shamsuddeen, Fatima, Aliyu, and Zainab for their unfailing encouragement and support to see me succeed in my academic pursuit. Also, special thanks to Abdulrahman Muhammad, Goodluck, and Ahmad.

Istanbul, 2020 Kamal Tasiu Abdullahi

ABSTRACT

In an attempt to accelerate the economic growth of West Africa, and the success made by the euro as a single currency inspired the Economic Community of West African States (ECOWAS) to propose "the eco" to serve as a common currency for member states. This thesis looked into the proposed currency Union and how its creation will impact on the economic growth of the region. The thesis applied a descriptive statistical analysis in line with the theories of the currency union, and also Europe being the pioneer of a common currency was also taken into consideration. Factors for establishing a currency union such as GDP, inflation rate, interest rate, and inter-trade between member countries were considered. So far, some countries have been able to achieve some convergence criteria like low inflation, low interest and exchange rate. After reviewing the economic trends and other criteria needed for establishing a currency union area, the Economic Community of West African States should not proceed with the proposed eco currency and should consider the exchange rate and trade development to remove the imbalances that exist and also should address the issue of France who is trying to hijack the monetary sovereignty of the currency.

Keywords: Currency Union, Economic Community of West African Statements (ECOWAS)

Eco, Euro, European Union

ÖZET

Batı Afrika'nın ekonomik büyümesini hızlandırmak ve Euro'nun tek bir para birliği olarak elde ettiği başarı, Batı Afrika Devletleri Ekonomik Topluluğu'na (ECOWAS) üye devletler için ortak bir para birimi olarak hizmet etmek üzere “eko” önermesine ilham verdi. Bu tez, önerilen para birimi Birliğini ve yaratılmasının bölgenin ekonomik büyümesini nasıl etkileyeceğini inceledi. Tez, para birliği teorileri doğrultusunda betimsel bir istatistiksel analiz uygulamış ve aynı zamanda ortak bir para birliğinin öncü olan Avrupa da dikkate alınmıştır. Üye ülkeler arasında GSYİH, enflasyon oranı, faiz oranı ve ticaretler arası para birliği tesis eden faktörler göz önünde bulundurulmuştur. Şu ana kadar bazı ülkeler düşük enflasyon, düşük faiz ve döviz kuru gibi bazı yakınsama kriterleri elde edebilmişlerdir. Bir para birliği alanı oluşturmak için gereken ekonomik eğilimleri ve diğer kriterleri inceledikten sonra, Batı Afrika Devletleri Ekonomik Topluluğu önerilen eko para birliğiyle devam etmemeli ve mevcut dengesizlikleri gidermek için döviz kurunu, ticaret gelişimini, ve ayrica para birliğinin parasal egemenliğini ele geçirmeye çalışan Fransa meselesini dikkate almalıdır.

Anahtar kelimeler: Para Alanı, Batı Afrika Devletleri Ekonomik Topluluğu (ECOWAS) Eko, Euro, Avrupa Birliği

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ABBREVIATIONS

AAFC: Alliance Armed Forces of the Community

AFISMA: African-led International Support Mission to Mali

AQIM: Al Qaeda in the Islamic Maghreb

BOP: Balance of Payments

CAP: Common Agricultural Policy

CET: Common External Tariff

CFSP: Common Foreign and Security Policy

CFA: French Colonies in Africa

CSDP: Common Security and Defense Policy

CNY: Chinese Yuan Renminbi

CPA: Comprehensive Peace Agreement

CPLP: Community of Portuguese Speaking Countries

CTP: Common Trade Policy

EAEC: European Atomic Energy Community

EC: European Community

ECB: European Central Bank

ECOMOG: Economic Communuty of West African Monitoring Group

ECOMIB: ECOWAS Mission in Guinea-Bissau

ECOWAS: Economic Community of West African States

ECPF: ECOWAS Conflict Prevention Framework

ECREE: ECOWAS Regional Centre for Renewable Energy and Energy Efficiency

ECSC: European Coal and Steel Community

EEB: ECOWAS Efficiency Buildings

EEC: European Economic Community

ESF: ECOWAS Standby Force

ESM: European Stability Mechanism

EMCP: ECOWAS Monetary Cooperation Programme

EMI: ECOWAS Monetary Institute

EMU: European Monetary Union

ERM: European Exchange Rate Mechanism

ETLS: ECOWAS Trade Liberalization Scheme

EPA: Economic Partnership Agreement

EU: EuropeanUnion

GAAT: General Agreement on Tariff and Trade

GDP: Gross Domestic Product

GIZ: German Development Corporation

GNPC: Ghana National Petroleum Corporation

IPSAS: International Public Sector Accounting Standards

IIP: International Investment Position

IMF: International Monetary Fund

JBP: Joint Border Post

JHA: Justice and Home Affairs

MISSANG: Angolan Military Mission in Guinea Bissau

MODEL: Movement for Democracy in Liberia

MUJAO: Movement for Unity and Jihad in West Africa

NPFL: National Patriotic Front of Liberia

OAU: Organization of African Union

OCA: Optimum Currency Area

OSIWA: Open Society Initiative for West Africa

RAP: Regional Action Plan

RRDO: Regional Regulatory Development Bureau

SAP: Systems Application and Products

SCF: Structural and Cohesion Funds (SCF)

SMC: Standing Meditation Committee

SSM: Single Supervisory Mechanism

TEC: Treaty establishing the European Community

TEU: Treaty on European Union

UN: United Nations

UNIDO: United Nations Industrial Development Organization

UNMIL: United Nations Mission in Liberia

WAHO: West African Health Organization

WAEMU: West African Monetary Union

WAGP: West African Gas Pipeline Network

WAMI: West African Monetary Institute

WAMZ: West African Monetary Zone

WAPP: West African Power Pool

PREFACE

Currency union has been touted to be a leading approach in integrating countries and promote growth and development. For this to happen, effective policies need to put in place. History has shown how European Union succeeded in forming a currency union which also led to arguments it is an optimal currency area or not. Bearing this in mind, this thesis look at the EU as an optimal currency area and the theories of optimum currency area and analyze the West African countries under the Economic Community of West African States by looking at their GDP, unemployment, inflation, interest rate, and inter-regional trade.

Chapter one looks at the background and lays a foundation for the thesis. The background, statement of the research problem, research objectives, research hypothesis, as well as analysis approach. are mentioned in the chapter.

Chapter two reviews the literature review of the optimum currency area with notable sub-sections on the perspective of R. Mundell, R. I. Mckinnon, Y. Ishiyama and G.S. Tavlas. The chapter also reviews the European Union with its history, the Maastricht Treaty, the European Monetary System Crisis, Why Some Countries Are Not Using Euro? Schengen Area, Advantages and Disadvantages of Euro, Is Europe an Optimum Currency Area? The other part of this chapter covers the Economic Community of West African with its aims and objectives, which followed by its aims and objectives, fundamental principles, functions, achievements and challenges, Eco Currency and France vs. the Eco. Included in this part are the economic outlooks of ECOWAS aimed at addressing the issue of eco as an optimum currency area.

Chapter three is the final chapter which summarizes the empirical findings of the West African Currency Union and its Impact on Economic Growth. It also concludes using an analysis approach from descriptive observations and the status quo and then gives recommendations.

CHAPTER 1

1. INTRODUCTION

1.1 BACKGROUND

The success made by the European Economic and Monetary Union (EMU) to lunch the euro as the single currency to be used by the member states of the European Union has pushed so many other regions like Africa to renew their interest in the formation of a currency union. In Africa, West African integration is regarded as the biggest integration considering the population size of almost 402 million people (World Population Review, 2020). Apart from the population size, other factors such as the largest number of nations, over 5.1 million square kilometers of territory, and the largest variations of minerals ores almost make it standout integration in Africa. Even though West Africa comprises of two Unions that is the Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (WAEMU), there has been a call to establish another monetary union by 2020. The move to establish another West African Monetary Union called the West African Monetary Zone (WAMZ) started On April 20, 2000, in Accra, Ghana. Already the French-speaking countries have the West African Economic and Monetary Union (WAEMU) and CFA is used as the currency for the medium exchange.

The feasibility of establishing a currency union is also attributed to the failure of countries to address issues like unemployment, costs of exchange rate transactions as a result of trade, macroeconomic instability, and addressing trade patterns.

It is noteworthy that the currency union in a region promotes economic growth. Its operations and management are designed in such a way that will lead to sustainable economic growth that has a trickle-down effect. Having a currency union is said to bring price stability by containing the costs of high inflation, and also remove the costs of hedging and foreign exchange transactions (John, p.12, 2000).

Implementation of a common currency union is regarded as the process of forming an economic integration that involves countries giving up their independent monetary policies in exchange for a common central bank that will be responsible for regulating the monetary policy for the member nations. Despite the preference of trading independent monetary policy over a common monetary policy, there are expected benefits of the integration, some of which are increased trade, low transaction costs of cross border trade, and natural resources management (Ndiaye and Korsu, 2014).

Forming a currency union has been figured out as an important element of economic growth**.** A regional central monetary institution is envisaged to harmonize economic and monetary policies, liberalize trade in the region, supervise members' balance of payments, provide members with better access to the resources of the primary international institutions and also offer the community a better instrument at the world's collective bargaining table.

In linking the growth model and the ECOWAS integration and single currency, adopting the static effects can lower trade costs and enhance factory mobility, criteria which are significant in establishing a currency union. Adopting the static effects will give ECOWAS member countries an upper hand to utilize the inputs they already have in place, and with a constant investment ratio, there will be an increase in investment and output (to promote dynamism) (Badinger, p. 5, 2001).

In assessing the relationship between inflation and economic growth, there are different controversial views on this. To some scholars, there is a positive relationship between inflation and economic growth, to some negative and to some, there might be no relationship at all (Mamo, p. 8, 2012). In analyzing the positive relationship between inflation and economic growth, the Phillips curve approach asserts that there is a positive relationship between inflation and economic growth; a high inflation rate is likely going to cause low unemployment and afterward promote economic growth but this is valid in the short-term. According to R. Mundell (1991), rising inflation leads to the contraction of individuals' wealth through savings until the situation changes and force the monetary authority decrease the inflation rate that will encourage and increase in investments. On the contrary, countries with insufficient financial institutions, the government imposes inflation tax through the Central Bank as a way of generating revenue. In general, there is a positive relationship, negative relationship, and the neutrality relationship between inflation and economic growth is still debatable in a currency area.

According to neoclassical economists, wage differential can be referenced to the value-added and created in the way production. Additionally, there is a relationship between the marginal productivity of workers, capital, and wage of workers. However, as pointed out by Robinson and Eatwell (1973) and cited by Drahokoupil & Agnieszka (p, 8, 2017), profits cannot be attributed to products during the production process but after an entrepreneur determines the costs and labor of production. In some or most cases lower wages are attributed to lower productivity, the technology employed, the efficiency of workers, and developed infrastructure. Drahokoupil & Agnieszka (p, 6, 2017) there are other reasons that lead to wage differentials in a currency union. For example, the wage differentials in Europe between Eastern and Western European countries are not as a result of value addition in a product but the international competition with a difference in capital stock instead of labor productivity. Similarly, in a more developed economy, workers are expected to earn higher wages because of unionization and high profitability industries.

1.2 STATEMENT OF THE PROBLEM

West African region is a region that is blessed with abundant natural resources and is a region with the strongest regional integration in Africa named ECOWAS. ECOWAS is a regional integration that was established to change the destiny of its member countries but after more than 4 decades of its existence it has failed to address so many issues which resulted in a move to adopt a single currency in 2003 but failed and later postponed to 2005, 2010 and in 2014. Finally, the community has decided to establish the currency union in July 2020. What triggered

ECOWAS to establish a currency union and launch a single currency to be used by its members is the success of the euro. However, an alternative to the adoption of the currency yet to be launched “the euro” questions remain on whether ECOWAS countries are ready to give up their national currency and start using the new currency. It was often observed that Nigeria as the leading country in ECOWAS, and the country with the strongest economy and political importance would anchor the new currency and asked the member states to adopt its currency, “the naira” a role which was played by Germany during the introduction of the euro and a move that would pave the way in promoting economic growth in the region. Solomon Jamuri stated that "ECOWAS is ultimately about regional economic integration. Ultimately, that cannot be achieved without the currency[1]," In contrast to this, some argued that having a West African monetary union now is not an idea that is accepted by all because "In a way, we now have two Ecos, one that the 15 African countries voted for and whose name was already decided in 2003. And today there is a new Eco which France and the West African Economic and Monetary Union (WAEMU) countries have chosen — independently of the others. This seems astonishing. One could at least have waited for them to give their approval."**(**Martial Ze Belinga, 2019).[2]

Concerning economic growth, a currency union is assumed to be a positive supplement, but given the GDP growth and the problems posed by countries that are using CFA in the ECOWAS region questions are raised over the possibility of having an optimal currency area. However, given the achievements made by ECOWAS, the benefits of having a currency union, the countries that are using CFA, and the intervention of France in the establishment of the “eco” the need to write this thesis became a serious born of contention and motivation. Another motivation is to look at the key areas that need to address in the community which is well taken care of will lead to a successful currency union that will promote economic growth.

[1] Solomon Jamuri is the Deputy Minister of Information of Sierra Leone.
[2] Martial Ze Belinga is a Cameroonian economist.

1.3 RESEARCH OBJECTIVES

The core aim of the research is to investigate and examine the cost and benefit of the proposed monetary union in West Africa. Other sub-objectives the research intends to accomplish are stated as:

1. To determine the relationship between the currency union and the development of West Africa.
2. To investigate the costs of forming a currency union using empirical evidence.
3. To find out how forming a monetary union will help develop the West African Region.

1.4 RESEARCH HYPOTHESIS

The integration of European countries paved the way for many countries to take a step in forming their own monetary union in which ECOWAS is one of them. Among the achievements of the EU is the integration of many countries, the use of a common currency, increase in trade, and faster economic growth. It widely argued that having a common currency called "eco" in West Africa will serve a similar purpose as the euro. The launching of eco just like that of euro is to promote economic growth, monetary unification, non-inflationary growth and the provision of employment opportunities, and raise the living standards of the citizens in the region. Having a common the currency will help address ECOWAS challenges the way the euro helped countries in the Eurozone to travel freely without restrictions and enjoy other benefits but on the other hand, the currency the eco like euro will not succeed because of weak institutions that will not be able to address economic crisis like the way Europe was not able to handle the Greek debt crisis and unemployment in other members countries.

1.5 ANALYSIS APPROACH

The analysis approach used to carry out this research is descriptive statistics[3]. To have a clear understanding of the thesis topic and to analyze the topic well, the theory is analyzed. Subsequent sections looked at the experience of the European Union and the euro to understand the successes and failures of the currency and to also see if the EU has fulfilled all the criteria of forming a currency union as outlined by R. Mundel. With a view to all these, the Economic Community of West African States which is the champion of the “eco” is analyzed and with a clear concept, theoretical frame and objectives and having a clear theoretical frame, concepts as well as elaborate objectives, a conclusion is drawn on the subject matter of the thesis which is “West African Currency Union: Impact on Economic Growth.” However, the analysis is carried out based on the available data.

[3] Descriptive statistics summarizes data in an organized manner and condense data into a better and simpler manner to enable its users to assess a situation before making a judgment (Kaur, Stoltzfus, & Yellapu p, 4, 2018).

CHAPTER 2

2. LITERATURE REVIEW

2.1 OPTIMUM CURRENCY UNION

The currency area can be defined as a geographical region of one or more currencies in which the exchange rates are pegged. The pegged currencies are subject to fluctuate with the fluctuation of the rest of the world.

In another definition, a currency union is "a territory with one or several currencies whose relative values are fixed permanently but whose common external value is determined in markets free from official intervention" (Grubel, 1970, p. 318).

The concept of optimality is attributed to economic openness, the mobility of labor and capital, diversification of production and consumption, price and wage flexibility, fiscal and political integration, and similarity in inflation rates.

The concept of Optimum Currency Area (OCA) was pioneered by Canadian economist Robert Mundell (1961), and co-authored by Ronald McKinnon (1963) and Peter Kenen (1969) who made a contribution to the establishment of monetary union with a flexible exchange rate, the role of independent money supply, and the adjustment of price with output to achieve output stabilization and employment.

2.1.1 PERSPECTIVE OF R. MUNDELL

The Nobel Prize winner, a Canadian economist, Robert Mundell was the first person to formulate the theory of optimum currency area in 1961 in his famous article titled "A Theory of Optimum Currency Areas." (Mundell, 1961)[4]. The proposed theory of optimum currency as proposed by Mundell is the association of a single currency concerning flexible exchange rate and the role a monetary authority play in the adjustment of relative prices with a purpose of employment creation and the stabilization of output. (Goldberg, 1999, p.5). In an area comprising of different countries with sovereign currencies, the employment pace is set by surplus countries and inflates the employment pace in deficit countries. But in a currency area where different countries use a single currency, the inflation pace is set by the central authorities and create unemployment in deficit regions. These two systems can be in the form of avoidance of unemployment in the global economy on the condition that central banks would allow surplus countries to carry the burden of international adjustment which would inflate until deficit countries eliminate their unemployment problems, or a single international central bank could be set up with autonomy in establishing an international means of payments. Regardless of any type of currency area neither unemployment nor inflation can be prevented among member nations because the two systems are not just about the type of currency area, but the domain of the currency used which makes optimum currency area unachievable.

Due to trade, the global economy is liberal and this makes capital to be highly mobile both nationally and internationally. But the dynamism of balance of payments and the differences in interest rates among nations coupled with international migration affects the mobility of labor. To solve this problem, Mundell argues that countries should opt for flexible external exchange rates.

According to Mundell, for an area to be regarded as an optimal area there has to be factor mobility or otherwise labor mobility. He asserted that if there are two regions, say regions A and B, if the exchange rate system in region A causes unemployment in region B, or if it serves as the

[4] R Mundell was given the Nobel Prize in Economics in 1999 as recognition for his work on optimum currency areas.

solution to unemployment in region B then the concept of optimality does not hold. This term in the words of Mundell is referred to as “The optimum currency area is not the world[5]” (1961, p. 659).

With regards to the national currency and flexible exchange rates, So many countries in the globe lead to the variation of the exchange rate. A shift of a product from one country to another as a result of international trade causes depreciation and appreciation in the countries involved. For example the movement of goods from country B to country, A will cause a depreciation in B and appreciation in country A and therefore reduce unemployment in country B and inhibit inflation in country A resulting in correcting the external imbalance in the two countries.

In another example, suppose that there are two countries in the world, Nigeria and Turkey, each with its currency says Naira[6] and Lira[7]. Also assume that there are only two regions- the East and the West, where the Eastern region produces crude oil only and the Western region produces car spare parts. To know how the flexible exchange rate works, in this case, assume that Naira fluctuates relative to its counterpart’s Lira and that an increase crude oil sector per se leads to an increase in the supply of car spare parts and, the demand for crude oil. When this happens, there will be unemployment in the East as a result of a shift in demand, and the West, there will be inflationary pressure, and because of the balance of payments deficit in the East, bank reserves will flow to the West. To ease unemployment in the Eastern region, both regions’ central banks would have to either expand or contract their domestic money supplies or avert inflation in the Western region. The occurrence of this would lead to equilibrium in the national balances of Nigeria’s exchange rate and that of Turkey. Thus, both unemployment and inflation can be prevented but at the cost of inflation if unemployment is to be prevented in the two countries or inflation can be averted at the cost of unemployment; or, the two regions can share the burden between them with either some inflation in the East and some unemployment in the West or vice versa. The critical point is neither inflation nor unemployment can be avoided. Although the

[5] Mundell, “Theory of Optimum Currency Areas.’
[6] Nigerian currency.
[7] Turkish currency.

flexible exchange rate system can correct the balance of payments problems between Nigeria and Turkey.

In summary, According to Robert Mundell's theory (1961), one of the basic criteria of optimum currency area is the mobility of production factors. If the internal factor mobility is not sufficient, there will be the persistence of unemployment and inflation in an economy and will lead to an economic destabilization. High factor mobility between potential members of a currency union can reduce alteration of real factor prices and the nominal exchange rate in response to disturbances. However, high factor mobility of labor and capital can solve the problem of asymmetry shocks and even though absolute mobility is not possible because of migration can be desirable in trade: "the human race tends to be rather immobile, and prefers to trade rather than migrate" (Mundell, 1973, p.116). Generally, countries are susceptible to asymmetry shocks, but the stability of the exchange rate between them and the mobility of production factors such as labor and capital can deal with asymmetric shocks.

2.1.2 PERSPECTIVE OF R. I. MCKINNON

In 1963 R.I. Mckinnon[8] developed the theory of optimum currency area and regarded economic openness as the criterion for optimality. He classified output into two: tradable and non-tradable goods[9]. As cited by Mehmet Ugur (2002, p. 355) McKinnon assumes that the idea of optimality is based on 'the ratio of trade to non-tradable goods' is applicable either in production or consumption. However, the specialized nature of exports can lead to an excess of exportable goods over exports and less domestic consumption and the specialized nature of imports can lead to an excess of importable goods over imports. Hence, even in the case of the trade balance, here, the values of importable consumed goods need not be equal to the value of exportable goods, but

[8] McKinnon, R.I., 1969. Discussion: the currency area problem. In: Mundell, R.A., Swoboda, A.K. (Eds.), Monetary Problems of the International Economy. University of Chicago Press, Chicago, p. 112.

[9] Tradable goods are exportable goods which are produced domestically; while non-tradable goods are importable goods which are both imported and produced domestically.

underbalanced the total value of tradable produced goods and the value of tradable goods consumed need to be equal.

Moreover, Mckinnon further stated that asymmetric shocks such as money illusion can be avoided if there is a higher degree of openness through trade integration. Economic openness gives countries the right to maintain a fixed exchange rate rather than floating between each other and increases the benefits of having an optimum currency and getting rid of money illusion by wage earners. Frankel and Rose (1996, p. 6) are of the notion that a small open economy that decides to join a currency union can benefit from trade with her trading partners whose economies are open. The benefit could be from in the form of reduced transaction cost, exchange rate risk, and/or credible monetary policy.

In general, R.I. McKinnon sees 'Optimum' as one currency area within which fiscal-monetary policy and according to him flexible external exchange rates can be applied to achieve three conflicting objectives which are: 1. full employment maintenance; 2. balance of payments maintenance; 3. stable internal average price level maintenance.

2.1.3 PERSPECTIVE OF KENEN: AN ECLECTIC VIEW

P.B. Kenan in 1969 developed the idea of optimality that was previously worked on by Mundell and McKinnon. Kenan disagrees of perfect labor mobility as said by Mundell does not prevail in reality. He opined that as cited by Tanja (2005, p. 4)

"When regions are defined by their activities, not geographically or politically, perfect interregional labor mobility requires perfect occupational mobility. And this can only come about when labor is homogenous (or the several regions belonging to a single currency area display very similar skill requirements). In consequence, Mundell's approach leads to the sad certainty that the optimum currency area has to be small. It must, indeed, be coextensive with the single-product region."

On the notion of degree of openness as suggested by McKinnon, Kenan (1969)[10] says that economic openness will always lead to the argument of having fixed exchange rates and a closed economy makes an economy to be placed in an advantageous position to adopt a flexible exchange rate. He further argues that a higher degree of openness in an economy will make the prices of foreign tradable goods in a domestic economy higher which in turn make the living condition of the locals higher. Thus, in this case, changes in the exchange rate will not serve as a good mechanism in terms of trade. Therefore, to achieve a balance of payments and for small open economies to benefit from joining a currency area, the instrument of fiscal policy should be used. Another factor that Kenan (1969) sees as a factor to achieve optimality, is product diversification. A country with high diversification is more suitable for a currency union and this can make it less vulnerable to the external shock in the event of changes in its nominal exchange rate. On the contrary, a county with a less diversified economy is vulnerable to shock. Tanja (2005, p. 6) cited the words of Kenan as:

"…diversity in a nation's product mix, the number of single-product regions contained in a single country may be more relevant than labor mobility."

In analyzing this situation, it is assume that a well-diversified economy is likely to withstand international shocks and help in stabilizing the domestic economy. To support this argument, Kenan highlighted that as against a specialized or rather single-product economies, changes in terms of trade are not needed in a well-diversified economy. It also gives a country the advantage of exporting numerous products, and any slight change or fall in the exportation of one product will be compensated with the exportation of other products. Also, a country whose economy is highly diversified has comparative advantages which make it export to and import from their trading partners. Falls in the demand of its exported products will not severely cause serious unemployment as compared to a less-diversified economy. In the event of exogenous disturbances, a country with diversified products and similar factor requirements will benefit laid-

[10] Kenen, P.B., 1969. The theory of optimum currency areas: an eclectic view. In: Mundell, R.A., Swoboda, A.K. (Eds.), Monetary Problems of the International Economy. University of Chicago Press, Chicago, pp. 41–60.

off workers that are affected by a reduction in export. The laid-off workers will be readily placed in other sectors of the economy unlike in the case of a less-diversified economy where a small decline in its export changes the cause of its employment. Additionally, a diversified economy is protected from external shocks and its investment and capital formation are stabilized[11].

In summary, to Kenan, highly diversified economies with similar export patterns form an optimum currency area and the most appropriate exchange rate system suitable for this optimum currency area is a fixed rate system. Diversification also gives a country-comparative advantage, increase investment, stabilizes internal capital formation, and creates employment opportunities, and the occurrence of high factor mobility.

2.1.4 PERSPECTIVE OF Y. ISHIYAMA A SURVEY

Most of the controversial discussions of optimum currency areas are on the optimality of the exchange rate. Friedman (1953)[12] and Sohmen (p. 314, 1969a) stated that in the real world there is a variation of flexibility for countries. Even though countries are not the same in size, trade openness, policy attitude and, mobility of factors of production, exchange rate flexibility treats the currencies of these currencies equally.

Moreover, in assessing the worthiness of an optimum currency area, two conditions should be put in place. The first condition is that the advantages of using a fixed exchange rate outweigh its disadvantages mainly from national interest stance and the welfare of the nation, instead of global welfare. The second condition is that the optimum currency area compares fixed exchange rates with flexible exchange rates, while practically, they cannot be compared.

[11] export diversity protects the internal market and investment activity helps in absorbing external shocks to some extent.

[12] Friedman, M., 1951. Comments on monetary policy, Reprinted from: Friedman, M., (Ed.) 1953, Essays in Positive Economics. University of Chicago Press, Chicago, pp. 271–273. Review of Economics and Statistics 53, 179–200.

In Y. Ishiyama (1975)[13] survey on the theory of optimum currency two things must be put in place which are the traditional approach, a currency area which provides a margin between the costs and benefits of forming a currency area, and the other approach which is the one where each nation and national currency are considered as a single unit to form a currency area.

Also, in Mundell's high mobility factors of production as the basis for a single currency area, the assumption is that a shift in the demand causes disequilibrium in the balance of payments. Mundell argues that this case does not destroy the functionality of the flexible exchange rate system, but will have an impact on its relevance to national currencies. For the flexible exchange to be effective there is a need to adopt regional currencies and abandon national currencies. However, since regions contain so many countries, the interregional payments adjustment may not adequately solve the problem of national currency adjustment. Mundell argues that for fixed exchange rates to be consistent in achieving full employment and price stability there must be a high degree of factor mobility.

That notwithstanding, Mundell's factor mobility argument is condemned because of two reasons. The first reason is emphasizing the importance of drawing a line between capital mobility and labor mobility which Fleming (p. 348, 1971) remark to form a currency area, there is a need for internationally mobile capital which serves as a tool for economic stabilization in a currency area.

The second reason is the interregional labor mobility as a mechanism for payments. Lanyi (p.349, 1969), Schitovsky (1967), Dunn (1971), and Corden (1972) believe that interregional labor mobility cannot be counted as a sufficient mechanism for payment adjustment. The movement of workers from one country to another to even in the same country cannot be regarded as a substitute for payment adjustment. This can be referenced to the statement made by Corden (1973, pp. 167-68):

Can it really be imagined that a U. K. depressed-area problem could be solved by the large-scale migration of British workers to Germany? It is conceivable; but when Britons are reluctant even

[13] Ishiyama, Y., 1975. The theory of optimum currency areas: a survey. IMF Staff Papers no. 22, 380–383.

to move from Scotland or Tyneside to the south, though the language is almost the same, it takes some imagination to conceive of labor mobility solving the central problem of monetary integration.

In McKinnon's (p. 349, 1963) opinion of a high degree of openness as a tool of categorizing an optimum currency area, he defined an open economy as the proportion of the production of importable and exportable goods about the total output of in that economy. In his assumption, economic outputs are tradable and non-tradable. McKinnon, on the contrary states that by adopting flexible exchange rates system trade is affected because of money illusion in wage determination and money management. Also, he emphasizes the relevance of the absence of money illusion. In a small area, where workers would not accept changes that are tied to a price index of exported goods, exchange rate variation would serve as an ineffective tool in correcting the external imbalance.

Hence, in an open economy, there would be equal variations in costs that would deprive the flexible exchange rate to perform its function of corrective functions sooner or later. In this argument, Corden (1972)[14] argues that McKinnon's criterion was not a general one. He asserts that economic openness does not apply to macroeconomic demand changes in a domestic economy. In addition to that, Corden declares that even when the stability of the external environment holds as stated by McKinnon, there is no gain in using fixed exchange rates; it only signifies that having a very open economy reduces the cost of maintaining fixed exchange rates concerning the increase in the unemployment rate that will affect the balance of payments improvement like in the closed economies.

Product Diversification, Kenan (p. 353, 1969) opines that a low level of product diversification serves as a good motive for forming an optimum currency area. His concern is based on the notion that microeconomic demand disturbances are caused by the payments imbalances. A country that produces and export different types of products will not be affected that much if

[14] Corden, W.M., 1972. Monetary Integration. In: Princeton Essays in International Finance, vol. 93. Princeton University, International Finance Section.

there is a drop in one of its exported products since its economy is well-diversified under a fixed exchange rate system. The use of an exchange rate to maintain employment at a certain level in the event of a fall in terms of trade is working well in a well-diversified economy. But a significant change in the exchange rate would not be essential in a diversified economy due to external shocks as export earnings would be stable. Based on these, Kenan concluded that fixed exchange rates can be tolerated in high product diversified countries, while flexible exchange rates can be tolerated in less product diversified countries and, also currency area is possible here.

In the real world, the criterion opines that demonstrates that small and less diversified economies are optimum currency areas. Thus, countries like Denmark, Iceland, Singapore, etc could use flexible exchange rates. In the United States, less-diversified states like California and Virginia can have their independent currency areas, but according to Kenan is better to not adopt a flexible exchange rate for regions within a nation.

Flanders (p. 359. 1969) questioned Kenan's analysis of the term "diversified". Kenan refers to the term to refer to only an economy with an import-competing industry without mentioning an economy exporting many products. This makes it weak in terms of an analytical model to be tested formally.

Degree of financial integration, Ingram (p. 354, 1969) believes that Mundell, McKinnon, and Kenena leave out money discussion in their analysis. He further states they expressed prices in real terms of trade and any external adjustment does not occur on any account but current account, thereby eliminating all the other interesting issues. Intagram states that to determine the optimum size of a currency area, there is a need to look at financial characteristics of the economies not just its real characteristics.

Conceivably, to form an optimum currency area, a high degree of international financial integration of long term securities is necessary (Ingram 1962a, 1962b, and 1973) and Scitovsky (1958 and 1967). A high degree of financial integration in the capital market rules out the need for flexible exchange rates.

Ingram (1962a) if internal financial integration is insufficient, the dissimilarity of exchange rate structure will be perceptible in longer terms rates as sales of securities and foreign purchases are likely to be determined in shorter terms where foreign exchange risk can be enclosed in the forward market. Ingram asserts that lack of free transactions in long-term securities among countries will cause balance of payments instability as there are short-term claims of foreign holdings that are liquidated with regards to interest rate differentials, therefore, resulting in the decline of forwarding exchange cover. That being so, the sufficient condition for forming a common currency area is the financial integration that relates to long-term securities.

On a similar note, when there is a high degree of financial integration there would be no for exchange rate changes since on a part of the interest rates would cause changes in capital movements across national borders.

Ingram criterion has several drawbacks. The first drawback is disequilibrium in capital flows even if his presumptions are accepted. Secondly, in the present era, there is only a small stock of internationally recognized financial assets, as against Ingram’s criterion. Countries with a surplus balance of payments do not want to lend a staggering amount to deficit countries.

Tower and Willet (p. 356, 1970) argue that Ingram and Scitovsky’s analysis concentrated on financing, rather providing a method of correcting or adjusting the imbalances that occur in payments. Corden (p. 356, 1972) says that Ingram’s approach does not provide a short term solution and it is like Mundell's (1962) argument for fiscal-monetary mix manipulation of the achievement of internal and external balance.

Financing and adjustment are distinguished accordingly. Financing of payments can be done by making transfer claims thereby leading to a reduction in expenditure in the long run. However, there is no clarity about whether financing observes lesser adjustment cost for areas with payment deficit.

These criticisms render Ingram criterion an insufficient criterion for solving the problems of optimum currency areas.

Similarities in rates of inflation, the developers of this criterion are Haberler (1970) and Fleming (1971)[15]. They are of the idea that similarity in rates of inflation is one of the criteria that should have been discussed more than any of the currency area factor. This criterion places importance on principal source of the payments imbalance often caused by a different shift in inflation rates because of differences and developments such as the differences that exist in national monetary policies, differences in trade union aggressiveness, and structural developments. This criterion focuses on macroeconomic phenomena.

Productivity growth and differential rates of inflation as a source of disturbances are the determinants of the usefulness of the inflation rate criterion. Fascinatingly, for the academicians, accrual of interest in exchange flexibility is the reason for microeconomic disturbances, while to the governments, payments imbalance to inflation and insufficient demand management policy are the major causes.

Inflation swift among countries and the extent of divergent cost are other effects of inflation rate criterion. If nations have their own inflation-employment bargains, then they will incur high-cost, when there is a change on the Phillips Curve, to decrease the varying trends. Parkin (1972) argues that if the differences in inflation rates are not intractable disturbances, the reality that in the past different countries had different inflation rates would not be an adequate reason for attaching the utmost importance to the inflation rate criterion.

Degree of policy integration, According to Haberler (p. 356, 1970), Ingram (1969), and Tower and Willet (1970) think that the policy behaviors of member nations are not so much of economic distinctiveness that will make a set of countries a successful optimum currency area.

Tower and Willett (1970, p. 411) in their words as cited by Miraslov:

Perhaps of primary importance for a successful currency area with a less than perfect internal-adjustment mechanism is that there be a reasonable degree of compatibility between the member

[15] Frankel, Jeffrey A. and Rose, Andrew K. (1997) 'The Endogeneity of Optimum Currency Area Criteria' The Economic Journal 108(449): 1019-1025.

countries' attitudes toward the growth of inflation and unemployment and their abilities to 'trade-off' between these objectives. A nation with a low tolerance for unemployment, … and price pressures from concentrated industries, would make a poor partner for a country with a low tolerance of inflation and high productivity growth, making for a very favorable 'Phillps Curve.'

Fleming (p. 356, 1971) states that in mitigating payments imbalance, fiscal policy can play a big role. Countries with a depressed economy would play a big role in correcting payments imbalances in prosperous countries that have surplus economies until a unified fiscal policy.

Fleming doubts the extent of the effectiveness of policy integration on monetary policy. An example is a unification of banking to promote equalization of short-term interest rates and capital mobility throughout the area; such unification does not always help to stabilize payments disturbances among member nations of a monetary union.

As an alternative approach, in the case where the exchange rate difference is effective in correcting payments disturbances, the approach evaluates the costs incurred with the payments adjustment concerning deflation and depreciation of fixed exchange rates to maintain price stability and achieve full employment. However, all these assumptions said little about the advantages of an optimum currency area.

Advocates stress the importance of differences in inflation rates, and the lack of agreement of national policies on-demand management (as emphasized by Haberler) as a major reason for payments imbalances. These differences of inflation rate differentials might be attributed to sociological forces upsetting either increase that accrues on the law of dynamic or sociological forces as emphasized by Kaldor. The microeconomic disturbances are said to be impermanent in which variation in the exchange rate would not be needed and price changes and divergent wage would force social changes.

The traditional approach also does not give concise and precise models despite using the tradables and non-tradables, Keynesian model, and Phillip Curve. The Keynesian model states that adjustment cost is expressed in the reduction in real absorption under a fixed exchange rate, but under a flexible rate, this adjustment is expressed in different ways – terms of trade deterioration and price instability.

However, the fundamental drawback of this approach is the lack of balancing the benefits and losses of fixed exchange rates or common currency. For example, it does not state what a country would gain if it gives up its independent monetary policy and participates in a currency union. Also, even though there are several benefits that a country enjoys if it joins a currency union, such as the elimination of exchange speculation, it is difficult to evaluate all the costs and benefits it will accrue.

Ishiyama further explains the benefits of forming a currency union which is: In the first instance, forming a currency union and monetary integration is regarded as a dynamic and evolutionary process. Some of the functions of money are but not limited to the store of value, universally accepted medium of exchange, and a universal measure of value. Having a common currency as the medium of exchange abolishes the costs incurred in converting the money and forward cover under a flexible exchange rate system. A large area's currency would also be a good store of value for money and benefit from price stability by ignoring inflation. About these, a currency union can be referred to as a conducive environment to integrate an economy and an area for allocative efficiency. On this basis, an optimum currency area can be regarded as the world. In a practical context, if money should exist, there is a necessity for a fixed exchange rate. For example, countries like Denmark, Switzerland, and Singapore cannot be regarded as so small and they can peg their currencies to another currency to secure the monetary value of their national currencies.

Secondly, in a currency area, there is the benefit of capital flows elimination which gives authorities the right to have monetary control of their capitals. Fleming (p. 362, 1971) thinks that the presence of exchange unification eliminates the concept of revaluation and devaluation of currencies.

It can be concluded that depending on the evolutionary period of a currency union, the fixity of exchange rates may not be completely assured. To put it into practice, it is not easy for the member nations to make a prompt decision when there is a disruption in the currency area due to speculative capital flows, therefore to regulate political unification must be achieved.

Balassa (p. 364, 1973) posits there is no clear view as to whether speculation should be fought or not and for the exchange rate to be fixed and for speculation to be eliminated governments must provide an alternative exchange rate system and be effective in its monetary policy.

Thirdly, even though there is a benefit of saving on exchange rate reserves there is doubt in it in the early stage of the union because member countries are not fully aware of the future of the events. For the currency union to succeed, member countries must cooperate, but the realization of reserve saving in the interim stages of having a currency union is a policy question.

Kafka (1969) recognizes two aspects of currency union problems. The first aspect is the economization on reserves by member countries due to intra-trade and credit grants to each other. The second aspect is economizing reserves by a group of countries with third countries if there is a mutual offsetting of the reserves. Kafka is skeptical about the benefit of currency union if it is composed of only developing countries as there is limited mutual trade among them, therefore, reserve saving can only be realized through direct payments in the union instead of financial centers.

Kafka (p. 364, 1973) considers the monetary integration of Latin American. He postulates that Latin America is not a currency area but a limited scale of reserving-pooling arrangements may be enviable. Kafka takes up the issue of Latin American as a region of regional protection because of payment difficulties to ensure liquidation.

Mundell (1973a) specifies six benefits – information saving, risk pooling, reserve saving, innovation, a reduction in the cost of financial management, and intermediation. Among these benefits, the one that is seen as the most important one is reserve saving, which can be in the form of a reserve pool or swap arrangement.

Fourthly, Mundell (1973a) and Laffer (p. 364, 1973) emphasized the benefit of risk pooling and the spreading of economic distress over the space of time. They believe risk pooling results in inefficiency in resource allocation. However, these models are vague and intuitive.

In a similar argument, just as fixed exchange rates did not make remarkable progress in the economic and monetary integration of the European Communities; it may be unrealizable for monetary union to be beneficial in the anticipated future. For a monetary union to work a strong supranational fiscal authority must be put in place.

However, in the costs of forming a currency union, Lutz (p. 365, 1972) states the loss of autonomy in monetary policy as the cost of a common currency. A country that participates in a currency union loses its sovereignty of money supply, the supranational central bank, and establishments of the integrated capital market. The national government fears that being in a currency area may have an effect on their economy given the difference in price, national wage and production trends and this will make a surplus country to magnify domestic inflation which in return make deficit country to suffer from unemployment and depression depending on the overall coordination of the monetary policy of the currency union. Mundell (1962) and Fleming (1962) say that in this literature national monetary becomes unable to upset employment. An expansion of monetary policy in a country will cause downward pressure on the interest rate that would cause a drop in the balance of payments to absorb domestic money. This procedure continues until the accumulated capital deficit on the stock of domestic money is restored to its original position[16].

The second impact is on national policy implication. It is generally believed that the national government use fiscal policy is used to expand government expenditure or reduce the tax to increase employment and income. However, this believes is not clear on how effective fiscal policy is in a currency union. It is quite known that the currency union is well coordinated in its goals and policies – fiscal policy included in maintaining joint external payments equilibrium in

[16] Miroslav, N.J. (1998). International Economic Integration: Monetary, Fiscal and Factor Mobility Issues Critical Perspectives on the World Economy. Routledge London and New York.

participating countries. Arndt (p. 366, 1973) gives a brief analysis of the policy system of an optimum currency area. Assume that there are three countries, and two countries form a currency area leaving the third one aside. It is presumed there is perfect capital mobility within the currency area and imperfect capital mobility stuck between that currency area and other countries of the world. Johnson (p. 366, 1971) examines the implication of fiscal policy in a common currency area. He stresses that governments finance their deficits by borrowing on competitive terms from the international capital market. Thus, this system deprives governments of the creation of money that will go in their favor just like the way local governments borrow money within a country[17].

Thirdly, assuming that the Phillips Curve holds the currency area may entail the declining part of inflation-unemployment relationships. Fleming (1971) argues that fixing the exchange rate will increase the unemployment rate needed to hold inflation at any particular rate and will increase the inflation rate equivalent to any rate of unemployment in the currency area. The reason for this occurrence is the rounded relationship between inflation and unemployment in the Phillips curves.

Moreover, in the presence of expenditure policy as the only policy of coordination in the country and two countries having the same Phillips curves and economies, Fleming asserts that the countries are presumed to have the same point and external equilibrium on the curve. If there is a disturbance in any of the country's payments equilibrium, then one of the countries must deflate and the other must inflate. If the position of a country that has a deficit is higher than the one that has a surplus on the Phillips curve, any payments adjustments will result in the decline of inflation and the employment in both countries will remain unchanged. However, this assumption by Fleming has been criticized because surplus countries with low inflation would dominate and force others to adjust which would lead to a rise in unemployment in the union.

Parkin (p. 368, 1972) has an almost opposite idea of this. He presents that there is a positive relationship between monetary union and the inflation rate of a member nation. Laider (1973), on

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[17]International Monetary Fund (1975).The Theory of Optimum Currency Areas: A Survey

the monetarist view, he presents that the inflation rate in an open economy cannot deviate from the one that is prevailing in the rest of the world; spillover of trade deficit due to extreme expenditure relative to income, and asserting pressures on prices and wages (as in the case in the case of the United Kingdom in inflation and devaluations). If this view is to be taken into account, the serious devaluations and deflations would not be required and both internal and external balance could be relied on especially on the forces of international competition.

Fourthly, there is a possible weakening of regional economies in a common currency area as a result of international labor migration. This is evident in the case of Europe where differences in money wage increase in some regions are smaller than the growth rates on productivity. Kaldor (p.368, 1970) terms this as ‘the Verdoorn Law.’ The law states that regions with lower unit labor costs about slow growth regions tend to have unemployment problems because regions with fast growth attract capital. This said law led to the questioning of how countries like Scotland, Northern Ireland, or Southern Italy would have progressed by having their currencies and depreciate them without external pressure.

In a currency union, for national or regional distress to be compensated, the supranational fiscal transfer is needed and tax revenues or explicit transfers must be lowered from depressed regions.

In general, several theories such as traditional and the benefit and cost approach have been identified to ascertain the benefits and costs of forming an optimum currency union. Theoretical contributions have been observed in which it can be concluded that the real problem of monetary unification is very small. Strictly, the theory of an optimum currency area is more applicable to small regions, and for the global monetary arrangements, global welfare considerations must be invoked. In conclusion, these arguments are more of scholastic discussion rather than providing practical problems of forming an optimum currency union and solutions to the problems of exchange rate policy.

2.1.5 PERSPECTIVE OF G. S. TAVLAS ON THE 'NEW' THEORY OF OPTIMUM CURRENCY AREAS

The main difference between the new theory of optimum currency area and the other early theories is that early theorists focused more on the cost of forming a currency area while the new theory focused more on the benefits of forming a currency area.

Furthermore, the new theory of optimum currency areas as proposed by Tavlas (p. 670, 1993) is a theory that has been modified because of different reasons which are exchange rate determination, time inconsistency and credibility problems, developments in expectations formation, and labor mobility under conditions of uncertainty. The development of the theory of currency areas seeks to discuss the costs and benefits of participating in a currency area so that a nation can 'get it right' or 'get it wrong' (Barro, p. 112, 1992).

On the effectiveness of the monetary policy, Alesina, Barro, and Tenreyero (p. 383, 2002) disagree with Corden (1972) that joining a currency union makes a country lost control over its monetary policy and exchange rate but the costs of giving up monetary independence are lower because the currency area is composed of many countries with the higher association of shocks between them. Mélitz (p. 283, 1991) points out those countries with similar shocks might need to use different policies to tackle the shocks because their economic positions are not the same and this makes the loss of monetary policy insignificant.

To pin down monetary stock in a currency area, two systems can be adopted, namely: the symmetric systems of cooperation by member countries for a policy solution, and asymmetric systems of taking a leadership position by a single country. Frenkel and Goldstein (p. 650, 1986) say that in the symmetric systems, there is a loss of the 'safety-valve' which serves as a conflict resolution mechanism between currency suspension and trade restrictions or capital flows. In the event of asymmetric (cooperative) systems, pressures will force member countries to adopt independent national monetary policies (Friedman, 1989, and 1992; Feldstein, 1992; and Salvatore, 1993). De Grauwe (1992b) points out, in the asymmetric (hegemonic) systems, problems that emerge in the pursuance of the objectives of monetary policy; such systems can affect the domestic cycle of the peripheral countries.

To caveat the monetary neutrality in the currency area, the following should be adopted:

Firstly, when countries have the same shocks, each of them may require different approach and parameters such as wage flexibility, price flexibility, trade responsiveness, and tax structure (p. 321, Melitz, 1991, and Tobin, 1993); hence, two nations with symmetric shocks may have aligned exchange rates to produce external disequilibria like in the case of the United Kingdom ERM (Tobin, 1993).

Secondly, in monetary integration, there is endogenous growth implication which results in an increase in specialization and vulnerability of the participants within the currency area to asymmetric shocks (Artis, 1991, p. 317). However, in the event of an exchange rate uncertainty, the unit scale of operations, and the location of production facilities must be planned ahead of time. Under fixed exchange rates, hedging is not necessary, thus, there is a geographic concentration of production facilities (Bailey and Tavlas, 1998, and 1991; De Grauwe, 1989 and 1992b; and Artis, 1991).

Thirdly, the use of a single currency union brings about the imposition of legal restrictions. These restrictions discourage excess money distribution and forecast errors. Dowd and Greenway (1993, p. 11) show that the legal restrictions applied do more harm than good to a currency area. These restrictions increase the costs of money switching.

Fourthly, countries with an underdeveloped tax system may lose their seigniorage income at the national level (1991, p. 319). According to De Grauwe (1992b, pp. 27-28) countries with less developed fiscal systems suffer from economic costs, increasing taxes, and increasing revenues through inflation.

In conclusion, the newly proposed theory of optimum currency areas stresses the criteria, methodology, the costs, and the benefits of forming an optimum currency area. The new theory can be summarized as follows:

Firstly, just like the earlier literature, the new theory of currency area also emphasized the main costs of a single currency mainly in the quest of countries to choose a particular point on the Phillips curve is not compelling in the long run. In the new theory, it is assumed that the neutrality position of the Phillips curve is subject to numerous warnings such as political problems in cooperative monetary unions under a state of affairs of asymmetric shocks, endogenous growth effects, and the possibility of countries with the underdeveloped tax system to lose the sovereignty of their national currency.

Secondly, when there are no such warnings, a country operating under fixed exchange rates can choose its preferred inflation rate. Given the high costs of inflation and time inconsistency issue, a country's monetary policy can be improved by joining hands with a country with low inflation. However, in the transition costs of monetary integration, there is a likelihood of an increase in unemployment in countries with a high rate of inflation and the difficulty in regulating the amount of money in circulations in light of rising capital inflows.

Thirdly, under uncertainty, factor mobility in a currency area can be minimized because of an increase in the variability of income. As Bertola noted, the variability of income is generated via the differences in terms of trade shocks. Moreover, in the recent theory, countries that are subject to asymmetric shocks are desirable for flexible exchange rates.

Fourthly, in this new literature, given sufficient time, exchange rate changes are subject to external disequilibria.

In general, the new optimum currency area theory entails somewhat fewer costs in the loss of autonomy of national macro policies, and there are somewhat fewer benefits too such as benefiting from inflation credibility. Moreover, to gain credibility, pegging coupled with other policy measures should be put in place.

2.2 THE EUROPEAN UNION

2.2.1 HISTORY OF THE EU

The breakdown of IMF per value system led several European countries to start operating a joint float by linking their currencies together and limiting the rate at which the exchange rate fluctuates between any two countries that belong to the group. The main motive behind this was that currencies of participating countries move relative to dollars. This movement band and fluctuation of the currencies of member countries against the dollar was promptly dubbed by financial journalists as the "European Snake[18]."

Later on, the idea of forming the European Union emerged and the main reason for setting it up was to fix the carnage and the bloody wars that happened between European countries. Looking at how the war affected European politics and economy, six Western European countries namely Belgium, France, Italy, Luxembourg, the Federal Republic of Germany, and the Netherlands came together to ensure peace, security, and economic development within the European Community. To achieve this, the Eurozone was established to have political stability and economic integration (Krugman, p. 439, 2013). Furthermore, Krugman "that the euro has become an economic trap, Europe a nest of squabbling nations and those economists should have seen it coming." According to Krugman, the adoption of OCA helps in the elimination of currency, lower interest rates, and among others but in this regard, the option of devaluation is not possible in times of crisis. Frankel & Rose, 1998; Copeland 2014, acknowledge that adopting an OCA makes the adjustment of a currency difficult because the currency of the European countries is not governed by their central banks but by the European Central Bank (ECB). During the Maastricht Treaty in 1992, some convergence criteria were designed for a country to abide before joining the European Union (ECB, 2017)

[18] The European currency snake (13 October, 1997) https://www.cvce.eu/content/publication/1997/10/13/d4f8d8aa-a518-4e56-9e19-957ea8d54542/publishable_en.pdf. Retrieved 17 February, 2019.

On 18 April 1951, the European Coal and Steel Community (ECSC) was established which marked the first step taken to integrate Europe. The benefits of establishing ESCS was to have a single market that will contribute to the development of the economy of the founders of the union, promote political reconciliation and have sovereignty and control of coal, steel, and raw materials of war (Archick, p. 6, 2016). The establishment of ECSC helped the founding members of it to increase coal and steel trade by 129% and also achieve their political aims (Archick, p. 6, 2016). Initially, ECSC was signed for 50 years and it expired on 23 July 2002.

After the achievement of ECSC, two new treaties were signed in Rome on 25 March 1957 in the name of the "Treaties of Rome." The first Rome treaty signed gave birth to the European Economic Community (EEC) and the European Atomic Energy Community (EAEC or EURATOM). The objective of EEC was the creation of a common market or rather customs union to allow people, capital, goods, and services to move freely and to also have common economic policies that will contribute to the development of the transport and agricultural sectors. EEC was designed on a 12-year transitional period and with the purpose of the abolishment of the customs union and the adoption of common external tariffs. However, this goal was achieved in 1968. To develop the agricultural sector of member countries especially the countries whose agricultural sectors were not as effective as other member countries and to also create a market for their agricultural products, a common agricultural policy (CAP) was introduced with five objectives attached to it. The objectives: to adequately supply of agricultural products among the member nations; to ensure the stability of the agricultural sector; to supply agricultural products at affordable prices; to adequately supply agricultural products; and to ensure that the agricultural community is treated fairly. Euratom as part of the Rome treaty was established to coordinate nuclear research energy activities and contribute towards the establishment and development of nuclear plants within the founding member nations. What also promoted the establishment of Euratom was the Suez crisis which had led to oil supply problems and coal energy to be replaced by nuclear energy which was referred to as "civilian nuclear energy." The 1960s was a good period for the European economy because the abolishment of customs duties and the control over food production contributed immensely to the economic growth of member countries and the volume of trade among them. In 1967, he ECSC, the EEC, and EURATOM were amalgamated and called the European Community (EC). On 1 January 1973, Denmark, Ireland, and the United Kingdom were added to the Union, thereby increasing the number of member countries to nine.

In October 1973 Europe experienced economic problems and energy crises due to the brutal war between Arab and Israeli which put their economy at a stake. The end of dictatorships rule in Portugal and Spain gave them the chance to join the European Community. Greece joined the community in 1981 which made it the 10th member, and later on, Spain and Portugal joined in 1987 thereby bringing the number of the union members to 12. To sort the problems of free movements of goods and services and to successfully create a single market across EU the Single European Act was signed in 1981. On 9 November 1989, the Berlin wall was pulled down which brought an end of what was called East and West Germany and made the country to be addressed as Germany only.

On 14 June 1985, a new framework (Schengen Agreement) for integrating Europe and the elimination of border controls among member countries of the EC was established in a small village in Luxembourg. The pioneers of the Schengen Agreement were the Benelux countries[19], France and the Federal Republic of Germany. Other countries followed in succession in the Schengen Agreement. On 27 November 1990, Italy joined, on 25 June 1991 Spain and Portugal signed too, then Greece on 6 November 1992, on 28 April 1995 Austria and Sweden, on 19 November 1996 Denmark, Finland, and Sweden. On 19 December other members outside the Union but belonging to the Nordic Passport Union also followed. These countries are Iceland and Norway. Indeed, two countries namely Ireland and the United Kingdom decided to keep their border checks instead of complying with others.

On 1 November 1993, the European Union Treaty is otherwise known as Maastricht was signed for a Common Foreign and Security Policy (CFSP). This Treaty also gave rise to the adoption of a Common Security and Defense Policy (CSDP) and set up common policies on Justice and

[19] Benelux countries is a cultural, economic and political union composed of three Western European countries, namely Belgium, Netherlands, Luxembourg.

Home Affairs (JHA) among member countries. Other provisions were also attached to the treaty. To ensure political and economic integration Eurozone was created to share a common monetary policy (but without a fiscal policy), a common currency, and a common Central Bank (known as the European Central Bank, or ECB)

On 1 May 1999, the Amsterdam Treaty came into force after being ratified by all of the 15 EU members of the European Union. The Amsterdam Treaty made some amendments on the Maastricht Treaty and included human rights, democracy, and rule of law as conditions for accession the EU; the role of public services (such as policies on health and environment) was also included; United Kingdom’s social policy derogation was repealed, and amendments were made on foreign policy.

On 26 February 2001, the Treaty of Nice was signed but it did not come into force until 1 February 2003. The Treaty of Nice gave the United Kingdom the right to maintain its veto on vital issues like developing policies on common foreign policy, defense and, security policy. Also, within this period the number of EU member countries increased to 27[20].

On 13 December 2007, a new Treaty was signed in Lisbon otherwise known as the Treaty of Lisbon. This treaty became effective on 1 December. The Treaty of Lisbon came up with the Treaty establishing the European Community (TEC) and the Treaty on European Union (TEU). This treaty gave countries the right to make EU ratification on economic, social, and political issues in line with their national constitutions. The treaty also gave rise to EU citizens’ initiative to propose new proposals that will benefit EU; the right of a country to withdraw its membership from the Union; right of every EU citizen to “four freedoms" which are the free movement of goods, services, capital and, persons; solidarity if a member nation is subject to disasters and terrorist attacks; and tightening security.

The global financial crisis of 2008 affected the EU. Between 2007 and 2009 most banks in the EU with low capital and high dependency on short-term market funding were severely hit. Before

[20] The Czech Republic joined in…, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia, then Bulgaria, Cyprus, Malta, and Romania. Croatia became the newest member on 1 July, 2013.

the crisis, there was high leverage and high profit-making with over-reliance on short-term credit. As cited by Haan and Kakes (2018) during the global financial crisis the reliance on the market-oriented business model, high leverage, and low capital ratios by large banks made them feel the global financial crisis more than small banks. Also, faulty investments in the EU led to the cost of some EU citizens their life savings. Some of the hard-hit countries are Greece and Spain. Unemployment in these countries reached 27 percent.

According to Espito (p. 2, 2014), the Eurozone crisis was a result of easy access to credit at low-interest rates by Southern Europe. For example, companies and individuals from Spain and Italy borrowed money beyond their capacity and used it to buy houses and went on vacations. These attitudes led to increases in total debt in France, Italy, Spain, and Greece to over 250 percent. As reported by Espito, in the words of Stephen A. Hall[21]: "With the advent of the single currency, international financiers treated all the member states as safe markets and flooded them with cheap money. Was it entirely unwise for firms and governments to take advantage of those funds to fuel their growth? Perhaps—but as we know in this country, they were not alone". According to Walter (p. 4, 2010), the Eurozone or EU's crisis was as a result of the adoption of the same American business model by European Financial Institutions. In the EU the way countries structure their financial agencies is important in the union, but the problem the union is having is that there is fragmentation among the financial authorities slowed down the responsiveness of the EU to the financial crisis. After the aftermath of the financial crisis, some countries in the Eurozone have accused the business model of originate-to-distribute, a model that made them overtake the European Union banks and regarded as highly profitable but too risky. Even though the institutions that carried out these activities were bailed out by their countries' central banks, the European Union Central Bank suffered the consequences of not supervising those institutions.

The global financial crisis affected Europe and this made Europe to establish the 'Banking Union' for stronger, safer, and more reliable banks. Added to this, the European Union decided to establish a 'single supervisory mechanism' (SSM) under the supervision of the European Central

[21] Stephen A. Hall is an American Government Professor.

Bank and also to use the European Stability Mechanism (ESM) for direct bank recapitalizations to preserve the euro and avoid the future crisis of the banks (Veron, p. 11, 2018).

2.2.2 THE MAASTRICHT TREATY

December 10, 1991, marked the time the leaders of the EU countries met at Maastricht[22] to amend the 1957 Treaty of Rome. These amendments paved the way for the establishment of the European Monetary Union (EMU), and the introduction of a common currency to be effective in 1999. Even though the main motive for the Maastricht Treaty was for the provisions of monetary policy it included harmonization of social policy for the benefit of the European Union member nations[23].

The Maastricht Treaty was signed in February 1992 by 12 member nations[24] to set up the criteria for the members of the European Union in the Economic and Monetary Union.

To maintain a stable sound economic and financial situation in the European Union, the following criteria must be satisfied:

1. A stable exchange rate: Maintenance of currency in the European exchange rate mechanism (ERM II) for at least two years without severe tensions and fluctuation bands of 15% against the euro except for the Danish krone whose margin is maintained at 2,25% below or above the central rate;
2. Low and stable long-term interest rate: Maintaining an average exchange rate of 2 % above the average rate of the three countries with the lowest inflation rates in the region;
3. A high degree of price stability: The inflation rate of member countries should not be more than 1.5% average inflation rate of the three best performing Member States with regards to price stability;

[22] Maastricht is in the ancient city of the Dutch city.
[23] The social policy included policy on immigration rules, consumer protection, as well as centralizing foreign policy decisions.
[24] Belgium, Denmark, France, Greece, Italy, Ireland, Luxembourg, Netherlands, Portugal, Spain United Kingdom and West Germany signed the Maastricht Treaty.

4. Sound public finance: The public debt must be within the range of 60% of GDP and government debt must be kept within 3% of the GDP.

After the ratification of the Monetary Union, almost all members of the EU accepted to implement EU's laws and adopt a common currency except for a few[25].

Several reasons made the EU opted for a single currency with the region and abolish the European Monetary System. Some of the reasons are:

1. To provide greater market integration and the elimination of converting EMU currency when trading with each other.
2. To give equal opportunity to all member countries in monetary policy decision making and to abolish Germany's monopoly of the EMS management which makes it the only decision-maker as thought by some EU leaders.
3. Abolish the cost of maintaining fixed exchange rates with national currencies, and to promote capital movements within the EU to having permanently fixed exchange rates for all member countries through the adoption of a single currency.
4. To align the economic interests of EU member states and promote economic stability.

[25] United Kingdom and Denmark opted to maintain their national currencies despite being part of the EU.

Table 1: EMU Timetable

Towards Maastricht		Between Maastricht and the Euro		The single currency	
1970	Werner Action Report	1994	European Monetary Institute (precursor of ECS)	1999	Monetary union starts
1979	European Monetary System starts	1997	Stability and Growth Pact	2001	Greece joins
1989	Delors Committee	1998	Decision on membership	2002	Euro coins and notes introduced
1991	Maastricht Treaty signed	1998	Conversion rates set	2007	Slovenia joins
1993	Maastricht Treaty ratified	1998	Creation of ECB	2008	Cyprus and Malta join
				2009	Slovakia joins

Source: Richard Baldwin and Charles Wyploz (The Economics of European Integration, 2009, p. 512).

The table above shows how the Maastricht Treaty marks the end of three decades of attempts of forming a monetary union with ratified signatures and changing the name of the European Community (EC) to the European Union. The table also recognizes how the Maastricht Treaty was designed to widen economic issues.

2.2.3 THE EUROPEAN MONETARY SYSTEM CRISIS

The crisis European Monetary System (EMS) of the 1990s was considered a serious threat to European monetary integration. The tension of the currency crisis took place in September because of Germany's monetary policy that resulted in the limitation of exchange rate fluctuations, and high-interest rates which slowed down the economic recovery of Europe. The decision taken by German to increase the interest rates forced other countries to increase their interest to ensure the stability of their currencies and make sure that the values of their currencies do not fall against the German mark. The exchange rate mechanism set by EMS resulted in the devaluation of several countries and forced the withdrawal of Italy and the United Kingdom from the EMS.

2.2.4 WHY SOME COUNTRIES ARE NOT USING EURO?

It is well known that the European Union is composed of 28 member countries, but out of these 28 countries, only 19 are using the euro as their currency (European Union, 2019). During the creation of the European Union, it was widely expected that all 28 member countries would adopt the euro, but this is exactly not the case today because 9 EU member countries are not using euro namely; Bulgaria, Croatia, Czech Republic, Denmark, Hungary, Poland, Romania, Sweden, and the United Kingdom. Denmark and the United Kingdom are among the countries that signed the Maastricht Treaty but in the conditions, countries are not obliged to adopt the euro as their currency. Denmark pegged its currency known as krone to 1 DKK = ~0.13 EUR while the United Kingdom pegged its currency known as pound sterling to 1 GBP = ~1.1 EUR. Sweden is a country that has no signature in the Maastricht Treaty and the main reason why the country did not adopt the euro is because of the referendum of 2003 in which the country voted to maintain the Swedish krona currency and the currency stands at 1 SEK = ~0.09 EUR. Bulgaria, Croatia, and Romania are other countries that are not using euro and the main reason for that is the lack of fulfillment of some criteria but there are working on establishing nominal euro convergence criteria for Bulgaria in 2022, Croatia, 2023, and Romania in 2024. Instead of using the euro, Bulgaria uses and 1 BGN = ~0.5 EUR, Croatia uses kuna and 1 HRK = ~0.13 EUR and Romania uses leu and 1 ROM = ~0.2 EUR (Smithson, 2010, Poland, Poland does not use euro, it uses zloty, and 4.20 zloty= ~1 EUR and the main reason why is because the country believes that is better not to use the euro as adopting the euro will affect the country's economy. The Czech Republic, as the country, refused to use the euro as their currency because of the risk of isolated and not being involved in key European policy decision making. Moreover, many Czechs believe that using the euro will deprive the country of its sovereignty and impossible for the country to devalue its currency in the period of economic shocks (Kafkadesh, 2019) the Czech Republic currency is Czech Koruna, 1 CZK = ~0.0039 EUR.

2.2.5 ADVANTAGES OF EURO

The Euro has been in existence for over 20 years and it is a currency that is used in more than 37 countries by over 340 million Europeans (European Central Bank, 2019). Out of the 28 countries in the European Union, only 19 countries adopt the Euro as their national currency. In the Eurozone, the European Central Bank is the sole body charged with the responsibility regulating the money supply and through its monetary policy in the EU and the usage of the euro as the common national currency.

The advantages of the Euro are

2.2.5.1 Diverse Macroeconomic Benefits

The adoption of the Euro as a single currency has helped in reducing instability and uncertainty caused by the nominal exchange rate. Countries trading in Euro have benefited from the increase in international trade. There has been the elimination of hedging and costs of transaction which also helped countries to reduce the cost of bond financing and equity capital and resulted in financial integration thereby leading to lesser market disunion.

2.2.5.2 Exchange rate stability

Using the euro as a single currency has eliminated the cost of exchanging money between European countries. From another perspective, the euro has enhanced trade and investment opportunities among its users and has integrated capital markets. Moreover, the member state of the EU has benefited from the removal of exchange rate fluctuations. Having a common currency, have saved European countries from changing their currencies to euro notes and coins and has eased the cost of buying goods and services among member countries and abroad.

2.2.5.3 Lower interest rate

The use of the euro as a single currency has made it possible for countries to have a credible monetary policy and elimination of exchange rate risk premiums which contributed immensely to the fall of interest rates from 9 percent in the 1990s to 0.75 percent in 2012 (Financial Times, 2012).

The European Central Bank through its management of the euro and its mission of maintaining price stability has been able to keep the inflation rate at an average of 1.75 percent since January 2000 as measured by Harmonized Index of Consumer Prices[26].

Figure 1: Euro Area Consumer Price Inflation as Measured by the Year-over-Year Percentage Change in the Harmonized Index of Consumer Prices

Source: ECB (03 November, 2019) www.europarl.europa.eu Date Accessed 11 April, 2020

The graph shows how ECB has kept various trends in inflation from 1996 to 2019. Since January 2010, the ECB maintained an average rate of 1.35 percent of HICP inflation which played a greater role in maintaining a high degree of price stability for the majority of European countries who were used to higher average inflation rates.

[26] Karl, W. (September 12, 2019). http://www.europarl.europa.eu/cmsdata/159706/WHELAN_final%20publication.pdf December 18 2019.

2.2.5.4 Investment and Trade

Euro has significantly contributed to the integration of Europe and has contributed to the increase of trade among member countries and foreign investment. The European Commission reported that trade and investment in Europe have raised the GDP of most European countries by 9% (OECD, p. 22, 2019).

2.2.5.5 Serving as an international currency

Since the emergence of the euro in 1999 it has been serving as an international currency and a store-of-value used by both private and public (otherwise official) sectors. From 2005-2006 euro overtook the dollar in the share of the most outstanding international debt securities. In line with this, the euro is also used as a unit of account in conducting trade with non-euro countries (Quere, p. 5 & 6, 2015). Other benefits associated with the euro as an international currency is a seigniorage where non-EU residents benefit from interest-free loans. At the end of 2013, there was 144.5 billion euro outside the euro area which reflected the benefit of seigniorage.

2.2.5.6 Stability, Mobility, and growth within the EU

The creation of the EU has led to stability, peace, and tranquility. It has also helped in raising the standard of living of people in the region. The abolishment of border controls has moved easier between EU countries, and it has given opportunities to EU citizens to live, study, and work in Europe without worries since everything is done uniformly.

Among the goals of the establishment of the EU is the creation of a single market. This enables the EU to buy and sell goods without barriers, move freely, and make a transfer of money without any hitches (European Union, 2019).

2.2.5.7 Establishment of Transparent and Democratic Institutions

To ensure transparency and democracy, the EU makes decisions openly and the ones that benefit the citizens of the region. Elected national parliaments are given powers to make decisions and they work closely with European parliaments, European council, and Council of the EU.

To promote freedom of speech and expression, the EU encourages citizens to have greater say in the policies made and suggest ways and complaints concerning EU law (European Union, 2019).

2.2.5.8 Trade Promotion, Humanitarian Aid, Diplomacy and, Security

The EU is the largest trade bloc in the world with the biggest exporter and importer of manufactured goods and services market for over 100 countries and with a commitment to world trade liberalization.

In its commitment to helping victims of natural and man-made disasters all over the world, the EU provides supports over 120 million victims each year.

To foster relationships between the EU and the rest of the worldwide, the EU plays a big role in diplomacy and works closely with the countries to ensure stability, rule of law, fundamental freedoms, and democracy (European Union, 2019).

2.2.6 DISADVANTAGES OF THE EURO

2.2.6.1 Euro as a fiduciary currency

Euro is like a fiat currency which is based on the trust of people, not standard. The disadvantage of the euro is that the European Central Bank can adopt discretionary monetary policies similar to the ones adopted by the national governments of European countries. By so doing, they devaluate the euro and go as far as financing the budget deficits of a Eurozone country. An example of this is the restoration of monetary emissions by the European Central Bank during the crisis in Greece. Theoretically, it looks impossible, but the acceptance of junk bonds of Greek government by the European Central Bank showed that the bank behaved like any other national government with a huge amount of debt faced with the option of using deficit monetization to solve its problems. By doing so, the European Central Bank went against the principles of convergence criteria of euro.

2.2.6.2 Placing some countries in an advantaged position

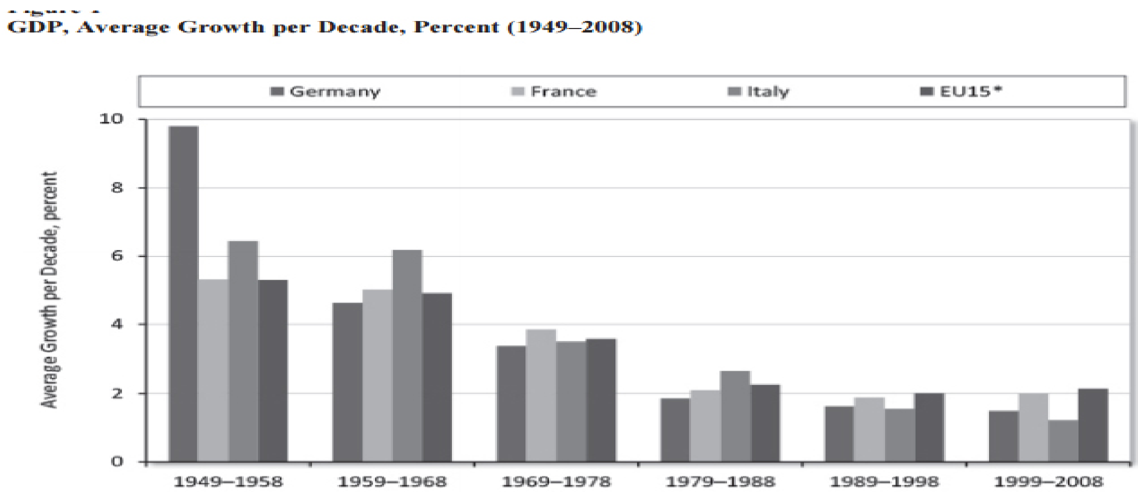
The introduction of the euro has made countries that were known for populism and lack of commitment more disciplined in their fiscal and monetary policies but brought disservice to the citizens of countries like the Netherlands and Germany who are used to stable currencies. Using the euro as a single currency in the euro has led to the transfer of wealth from the regions with low inflation to the ones with high inflation through importation which is being covered by government bonds (Mursa, p. 66, 2014).

Centralization of decisions: The use of the euro my many countries has led to the centralization of decisions and powers in the hands of few individuals and this makes it difficult for national governments to directly pressurize their central banks to regulate their budget deficits.

2.2.6.3 The decline of intra-European trade

Overregulation has led to a decline in intra-trade in the EU. The centralization of powers in Brussels, Belgium has played a role in the decline of Western European growth. This is shown below

Figure 2: The Decline of Intra-European trade



Source: Marian L. Tupy (June 06, 2016), edb26-revised.pdf Date Accessed 23 December, 2019

As shown in the graph, from 1949 to 2008 much of Europe stopped growing. On the individualistic level, between 1949 and 1958, Germany it recorded a growth rate of 9%. Within that period, France had a growth rate of 5.8%, while Italy and 15 EU countries recorded a growth rate of 6.2% and 5.8% respectively. This trend fell to its lowest level between 1989 and 1998 and 1999 and 2008. Between 1989 and 1998, Germany and France averaged a growth rate of 1.6% while Italy and the 15 EU member countries recorded 1.9% respectively. This fell further between 1999 and 2008 especially in German and Italy with a growth rate between 1.5% and 1.7% while France and 15 Euro zone countries. Both countries had an annual growth According to Marian (2016), this has nothing to do with demographics but the aging population and low birth.

2.2.6.4 Irregularities in transfer payments

The transfer system used by the EU in the name of the Structural and Cohesion Funds (SCF) is said way of misallocation of funds and corruption and a way to spur growth in Southern underdeveloped Europe. Due to this, the European Court of Auditors refused to put their signatories on a 20 year budget in a row.

Initially, the euro was designed to lower unemployment, increase growth and prosperity, but because it was poorly designed despite the maximum GDP of 60 percent and the deficit of maximum 3 percent there was lack of credible enforcement mechanism which paved way for top countries like Germany and France to break their deficit and debt commitments and made other countries to follow suit.

Worst still, some member countries of the EU who do not manage their economies properly have taken advantage of the EU's low-interest-rate to expand their budget.

2.2.6.5 Failure of the euro to the use of Fiscal policy:

The articles signed on the Maastricht treaty was aimed at having price stability without having many fiscal problems and an article known as the "no bailout" clause was signed to prevent countries ECB from purchasing sovereign bonds and countries from supporting other member countries with sovereign debts problems. As it turns out, this signed agreement was not respected because the ECB ended up purchasing sovereign bond debts (Whelan, p. 13, 2019).

It was believed that EU countries who are in EMU would carefully manage their national budgets due to the absence of an adjustable exchange rate or national interest rate, but they failed to use it, and countries like Greece, Ireland, Portugal, Spain, and others ended in economic shocks in the 2008 financial crisis despite their strong public finances.

In the quest to tackle the global financial crisis and improve on the current account deficit to the current account surplus, fiscal austerity measures were taken, but unlike in the case of the Asian Tigers crises of the 1990s, the gradual balance of the current account took a decade as shown in the graph

2.2.6.6 Financial Instability

Before the introduction of the euro, the financial stability of the region especially banking stability was not given too much consideration. In the pre-EMU creation, much of the focus was on the euro as an optimum currency area and asymmetric shocks.

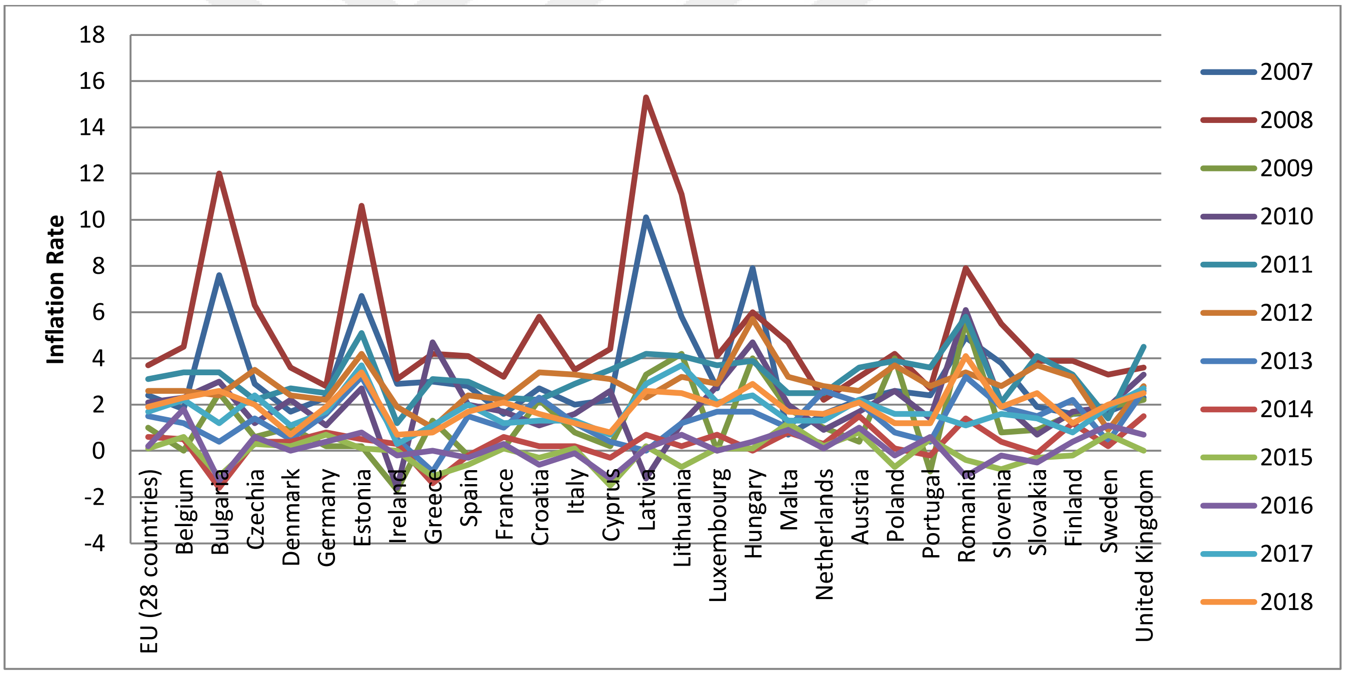
The global financial crisis hit the EU hard by affecting Europe's budgetary positions, a decline in public ratios of Spain and Ireland, and housing bubbles that underlined problems in the public finances of the European countries. Also, the financial crisis exposed how vulnerable the euro area countries are to systematic banking pressures.

2.2.7 IS EUROPE AN OPTIMUM CURRENCY AREA?

The theory of an optimum currency area states the criteria to establish a currency union in the area.

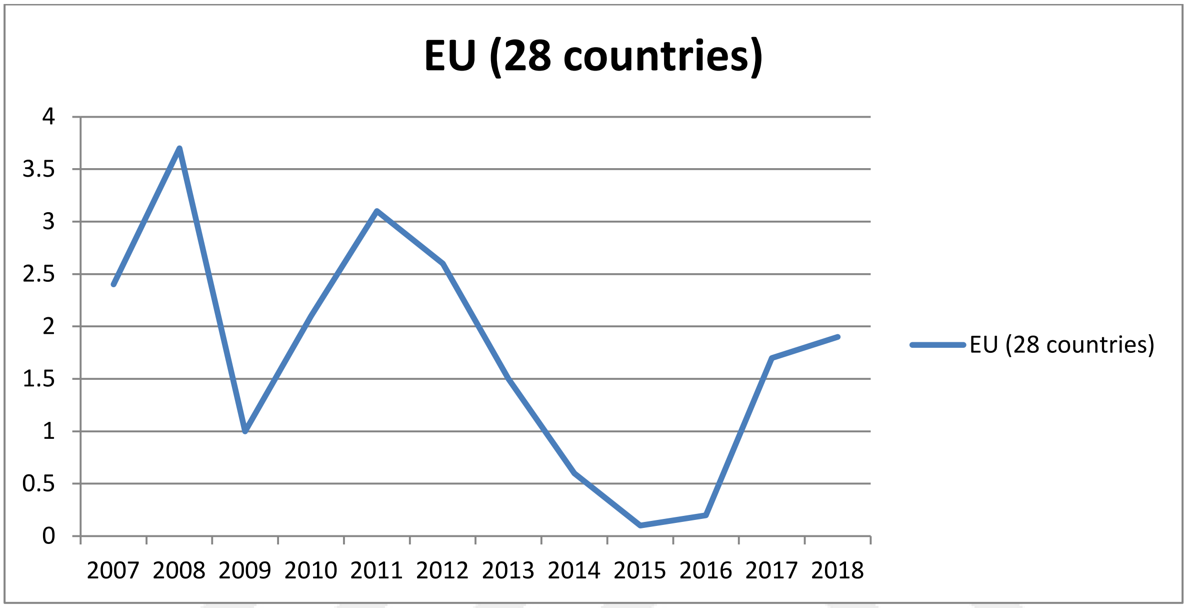
2.2.7.1 Inflation

Figure 3: Inflation



Source: Eurostat (30 April, 2019)
http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=tec00118&lang=en Date Accessed 03 May, 2019

The chart illustrates the inflation rate in the EU between 2007 and 2018. The European Central Bank sets the inflation rate in the European Union to adhere to the single monetary policy. As seen in the above charts, different countries have a different inflation rate but despite the differences, most of them try to maintain an average of 1 to 3. In 2008, most countries were hit by the financial crisis which increased their inflation rate. For example, in 2008, Latvia had an inflation rate of 15.3%, Bulgaria 12%, Lithuania, and Estonia with 11.1% and 10.1% respectively.

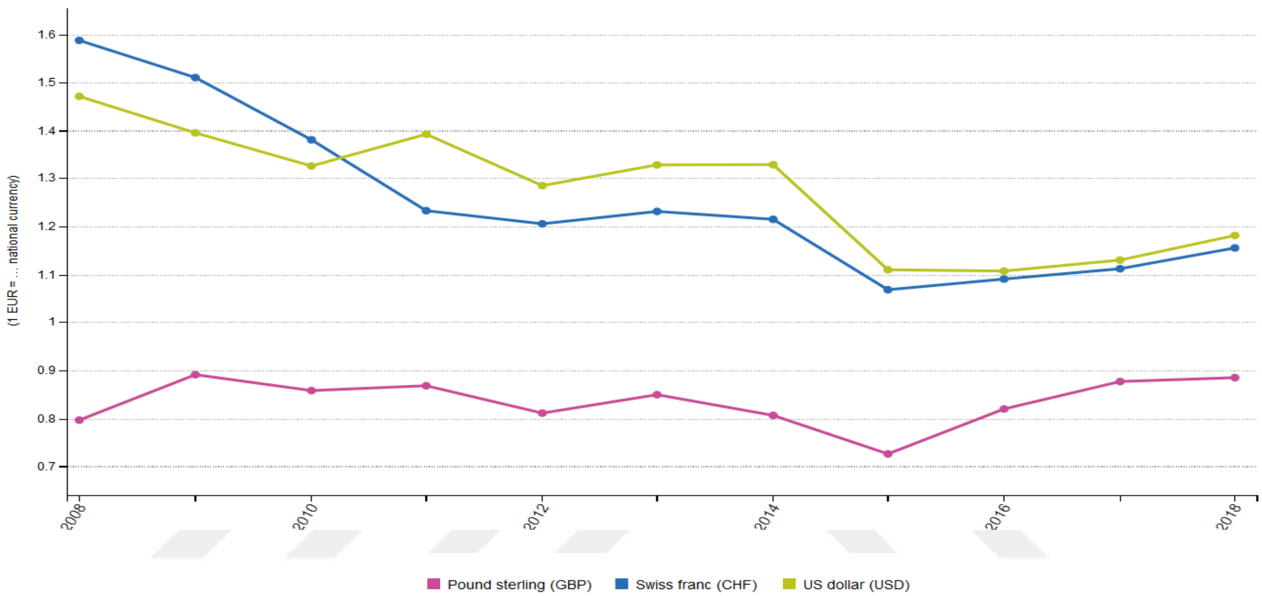


Source: Eurostat (30 April, 2019)
http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=tec00118&lang=en Date Accessed , 03 May, 2019

In general, the EU has been able to maintain an inflation rate as specified in the Maastricht treaty. The only time the inflation rate rose high was in 2008 due to the global financial crisis where it hit 3.7 and an all-time low in 2015 with 0.1%. In general, combined EU countries have been able to keep a low inflation rate of less than 2% since after 2013.

2.2.7.2 Exchange Rate

Figure 4: Exchange Rates Against the Euro, 2008-2018



Source: Eurostat (30 April, 2019)
https://ec.europa.eu/eurostat/statisticsexplained/index.php?title=File:Exchange_rates_against_the_euro,_2008-2018_(1_EUR_%3D_%E2%80%A6_national_currency)_A_FP19.png
Date Accessed , 03 May, 2019

The graph above shows the exchange rates of the Pound sterling, Swiss franc, and US dollar against the euro from 2008-2018. In 2008, the euro was 0.80 against Pound sterling, 1.59 against the Swiss franc, and 1.47 against the US dollar. In 2013, foreign exchange fell to 0.85 against Pound sterling, 1.23 against the Swiss franc, and 1.33 against the US dollar. This value changed in 2018 and the euro fell to 0.88 against Pound sterling, 1.56 against the Swiss franc, and 1.18 against the US dollar. The main reason for the fall of the euro against foreign currencies over the years is a result of a global growth slowdown (The Wall Street Journal, 2019).

Figure 5: Chinese Yuan Renminbi (CNY) against the Euro, 2008-2019

Source: Trading Economics (14 November, 2018)

https://tradingeconomics.com/china/currency **Date Accessed 16 March, 2019**

From 2008 to 2013 the euro against the Chinese yuan renminbi (CNY) was on average 10.5 to 8.2 and from 2014 to 2019 the euro against the Chinese yuan renminbi was on average 8.2 to 7.8. The 2008 financial crisis played a part in the fall of the euro against yaun. According to BBC (2019) yuan has weakened as a result of the trade war between China and the US and policy shift which resulted in trade protectionism, an increase in tariff, and unilateralism.

2.2.7.3 Trade Openness

Openness can be related to buying and selling goods between one or more countries usually referred to as import and export. The graph below shows the degree of openness among EU member nations.

Table 2: Share of Imports by Member State (%)

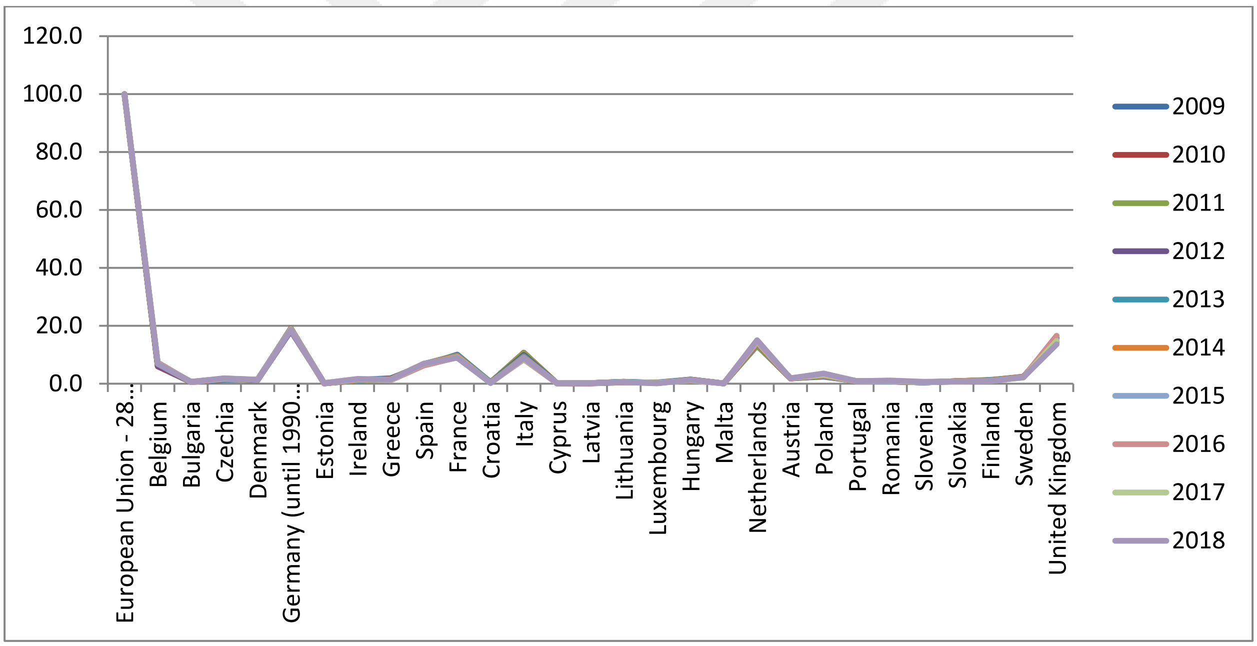
GEO/TIME	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
European Union - 28 countries	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Belgium	6.1	5.9	6.3	6.2	6.8	7.1	7.3	7.3	6.9	6.8
Bulgaria	0.5	0.5	0.5	0.6	0.6	0.6	0.5	0.5	0.6	0.6
Czechia	1.3	1.6	1.6	1.5	1.5	1.6	1.7	1.6	1.7	1.9
Denmark	1.4	1.2	1.2	1.2	1.3	1.4	1.4	1.3	1.3	1.3
Germany (until 1990 former territory of the FRG)	19.0	19.1	19.0	18.2	18.6	18.6	18.9	18.8	18.7	18.5
Estonia	0.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.2	0.2
Ireland	1.3	1.1	1.0	1.1	1.1	1.2	1.4	1.5	1.5	1.6
Greece	1.8	1.6	1.4	1.5	1.5	1.5	1.2	1.2	1.3	1.4
Spain	6.4	6.6	6.7	6.7	6.8	6.8	6.4	6.3	6.8	6.9
France	10.0	9.5	9.8	9.6	9.8	9.6	9.2	9.0	9.0	8.9
Croatia	0.5	0.4	0.4	0.3	0.3	0.2	0.2	0.3	0.3	0.3
Italy	10.1	10.7	10.6	9.9	9.5	9.1	8.9	8.4	8.6	8.8
Cyprus	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
Latvia	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.2
Lithuania	0.4	0.5	0.6	0.6	0.6	0.5	0.5	0.4	0.5	0.5
Luxembourg	0.4	0.2	0.2	0.3	0.3	0.2	0.3	0.3	0.2	0.1
Hungary	1.4	1.4	1.3	1.2	1.3	1.2	1.1	1.1	1.2	1.3
Malta	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Netherlands	13.1	13.4	13.2	13.9	14.1	14.2	14.5	14.1	14.8	15.0
Austria	1.8	1.7	1.8	1.8	1.9	1.9	1.9	1.8	1.9	1.9
Poland	2.4	2.6	2.6	2.8	2.9	3.0	3.0	2.9	3.2	3.5
Portugal	0.9	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.9	0.9
Romania	0.8	0.8	0.9	0.8	0.8	0.9	0.8	0.9	1.0	1.1
Slovenia	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5	0.6
Slovakia	0.8	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8
Finland	1.2	1.2	1.3	1.2	1.2	1.1	0.9	0.9	1.0	1.0
Sweden	2.2	2.4	2.3	2.3	2.2	2.3	2.2	2.2	2.1	2.2
United Kingdom	15.2	14.8	14.6	15.8	14.2	14.5	15.2	16.6	14.8	13.6

Source: Eurostat (30 April, 2019)

https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ext_lt_intratrd&lang=en Date Accessed 26 March, 2019

Table 2 shows the share of imports of all 28 EU member countries from 2009 to 2018. In total all the 28 countries are engaged with each other. The countries with the largest share of imports are Germany, France, Spain, Italy, the Netherlands, and the United Kingdom. Among these countries Germany is the country with the largest share of import averaging more than 18% from 2009 to 2018 followed by the Netherlands with 13% and 14% within the same period and United Kingdom with a slight difference with 14-15% and France, Italy, and Spain with 10%, 9% and 6% respectively. Other countries have lower share of imports. The countries with the lowest share of imports are Luxembourg and Hungary with 0.1%. In general, Germany is the country with the largest share of imports while Luxembourg and Hungary are the ones with the lowest share of imports.

Figure 6: Share of Imports by Member State (%)



Source: Eurostat (April 30, 2019)
https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ext_lt_intratrd&lang=en Date Accessed 26 March, 2019

Figure 6 is the graphical presentation of the share of imports of 28 EU member countries from 2009 and 2018. As shown in the graph, Germany and Netherlands occupied the top spot among all the 28 countries with almost 20% of the total share of imports and the countries with the lowest share are Luxembourg and Hungary with 0.1%. The size of the economy of both Germany and the Netherlands made them occupy the top spot and this has been ongoing for quite a long time as shown in the graph.

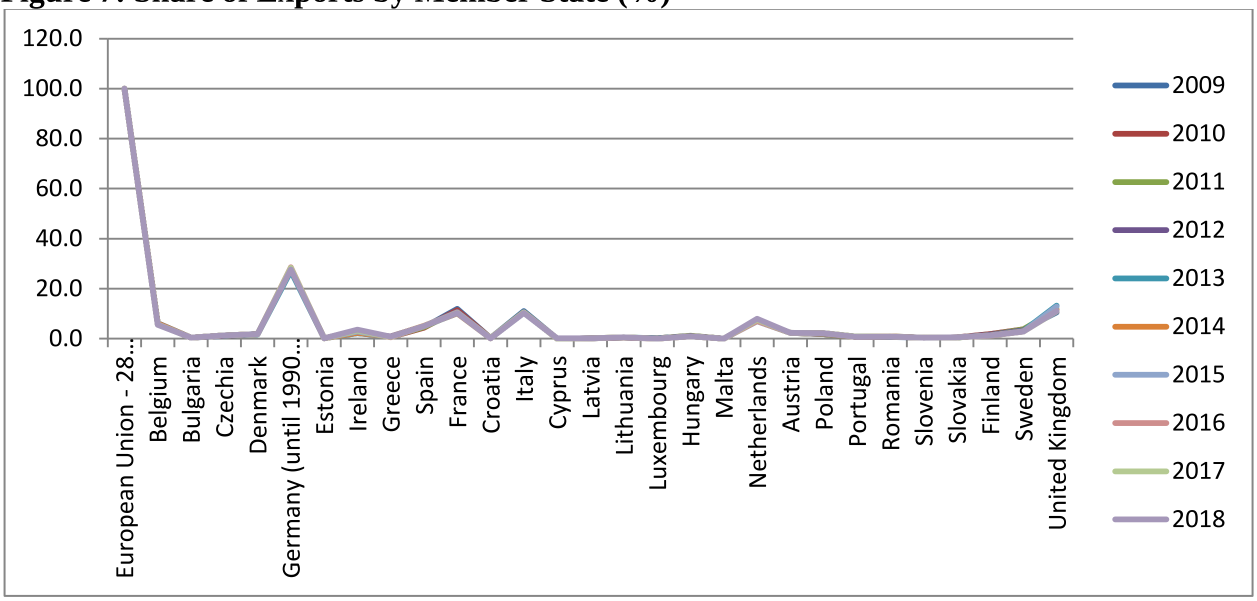
Table 3: Share of Exports by Member State (%)

GEO/TIME	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
European Union - 28 countries	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Belgium	5.9	6.1	6.2	6.2	6.1	6.1	5.7	5.8	5.7	5.5
Bulgaria	0.4	0.4	0.5	0.5	0.5	0.5	0.4	0.5	0.5	0.5
Czechia	1.1	1.2	1.3	1.4	1.3	1.4	1.3	1.4	1.4	1.4
Denmark	2.0	1.8	1.8	1.8	1.7	1.8	1.9	1.9	1.8	1.8
Germany	27.4	27.8	27.6	27.9	27.0	28.0	28.1	28.6	28.3	27.7
Estonia	0.2	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Ireland	2.9	2.8	2.5	2.2	2.2	2.4	2.9	3.4	3.2	3.6
Greece	0.7	0.7	0.8	0.9	0.8	0.8	0.7	0.6	0.7	0.8
Spain	4.5	4.4	4.7	5.0	5.1	5.2	5.0	5.0	5.1	5.1
France	11.9	11.4	10.7	10.8	10.2	10.2	10.5	10.5	10.4	10.3
Croatia	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2
Italy	11.1	10.5	10.5	10.6	10.4	10.6	10.4	10.5	10.6	10.3
Cyprus	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.2
Latvia	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Lithuania	0.4	0.5	0.5	0.5	0.6	0.6	0.5	0.5	0.6	0.6
Luxembourg	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Hungary	1.1	1.1	1.2	1.1	1.0	1.0	0.9	1.0	1.0	1.0
Malta	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Netherlands	7.3	7.3	7.1	7.3	7.1	7.2	7.0	7.1	7.6	8.0
Austria	2.4	2.4	2.3	2.3	2.3	2.4	2.3	2.3	2.3	2.3
Poland	1.8	1.8	1.9	2.0	2.2	2.2	2.1	2.1	2.2	2.2
Portugal	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.7	0.8	0.7
Romania	0.7	0.8	0.8	0.8	0.9	0.9	0.8	0.8	0.8	0.8
Slovenia	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5
Slovakia	0.5	0.6	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Finland	1.8	1.8	1.6	1.6	1.4	1.4	1.2	1.2	1.3	1.3
Sweden	3.6	3.8	3.8	3.4	3.1	3.0	2.9	2.9	2.9	2.9
United Kingdom	10.5	10.9	11.7	10.9	13.2	11.6	12.9	11.1	10.9	11.1

Source: Eurostat (April 30, 2019)
https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ext_lt_intratrd&lang=en Date Accessed 26 March, 2019

The table above shows the total share of exports of all EU member countries from 2009 to 2018. There is cooperation between the countries in the Eurozone. Just like the share of imports, Germany also has the largest share of exports. Between 2009 and 2018 Germany recorded a total share of exports of 27%, followed by the United Kingdom with a range of an average of 11%, and France and Italy with an average of 10%. On the other hand, there are two countries that have the least share of exports namely Luxembourg and Malta with a rate of 0.1%. In general, most of the countries with the strongest economy are the ones with the largest share of exports.

Figure 7: Share of Exports by Member State (%)



Source: Eurostat (30 April, 2019) https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ext_lt_intratrd&lang=en Date Accessed 26 March, 2019

Figure 7 shows the share of exports of the total EU member countries in a graphical form. From 2009 and 2019, the strong economies in the Eurozone like Germany, France, Italy, the Netherlands, and the United Kingdom accounted for more than 67%. On the other hand, Luxembourg and Malta have a total share of 0.2%.

In conclusion, the charts above show the ratio of imports and exports among member nations. From the chart, the Germany index is higher and this is because the trade intensity index takes Germany into account as the center country for old members of the EU.

The charts also illustrate that most EU member nations are very open and even smaller countries benefit from being members of the monetary union.

2.2.7.4 Wages and Price Flexibility

There is no flexibility of Wages and prices in the EU. In the majority of the EU member countries, wages increase almost every year thereby causing an increase in the unemployment rate.

Table 4: Wages and Price Flexibility

GEO/TIME	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Belgium	:	26.61	27.89	29.17	29.58	30.30	30.62	31.43	32.56	33.66
Bulgaria	1.22	1.23	1.29	1.32	1.39	1.47	1.55	1.65	1.89	:
Czechia	3.41	3.86	4.64	5.39	5.47	5.85	6.63	7.14	7.88	:
Denmark	25.92	26.53	28.54	29.06	30.30	30.70	31.98	33.09	34.74	:
Germany	24.00	25.00	25.60	26.20	26.80	26.90	27.10	27.60	27.80	:
Estonia	2.60	2.85	3.22	3.67	4.01	4.24	4.67	5.50	6.60	7.51
Ireland	:	:	:	:	:	:	:	:	:	:
Greece	10.61	10.98	11.62	12.46	13.37	:	:	:	:	:
Spain	14.22	14.22	13.07	13.63	14.21	14.76	15.22	15.77	16.39	:
France	23.57	24.84	26.00	27.04	27.68	28.46	29.13	30.08	31.06	31.78
Italy	18.68	18.99	19.27	19.99	20.64	21.39	:	:	:	:
Cyprus	8.41	8.95	9.31	9.76	10.37	11.10	11.65	11.98	12.46	13.31
Latvia	1.85	2.22	2.29	2.39	2.37	2.52	2.77	3.41	4.41	5.42
Lithuania	2.31	2.63	2.78	3.00	3.10	3.16	3.56	4.21	5.09	:
Luxembourg	22.52	24.48	25.39	26.21	27.02	29.97	31.10	31.98	33.00	33.63
Hungary	3.14	3.63	4.04	4.91	5.08	5.49	6.06	6.34	7.13	:
Malta	:	:	:	7.29	7.49	8.23	8.45	8.56	8.88	:
Netherlands	21.14	22.31	23.88	25.19	26.45	27.23	27.41	:	:	:
Austria	22.71	23.05	23.65	24.13	24.98	25.32	25.72	26.01	26.33	26.50
Poland	4.05	4.48	5.30	5.27	4.70	4.74	5.55	6.03	6.78	:
Portugal	7.99	8.13	8.60	9.10	9.60	10.20	10.60	10.97	11.32	11.73
Romania	:	1.41	1.57	1.67	1.60	1.76	2.33	2.68	3.40	:
Slovenia	8.94	8.98	9.51	10.09	10.54	10.41	10.76	11.37	12.09	:
Slovakia	2.76	3.07	3.26	3.59	4.02	4.41	4.80	5.33	6.41	:
Finland	21.37	22.10	23.59	23.82	24.78	25.34	26.70	27.20	27.87	29.38
Sweden	25.34	28.56	27.33	28.57	30.03	31.08	31.55	32.16	33.30	:
United Kingdom	20.84	23.71	24.51	25.24	23.56	24.71	21.80	22.90	23.54	:

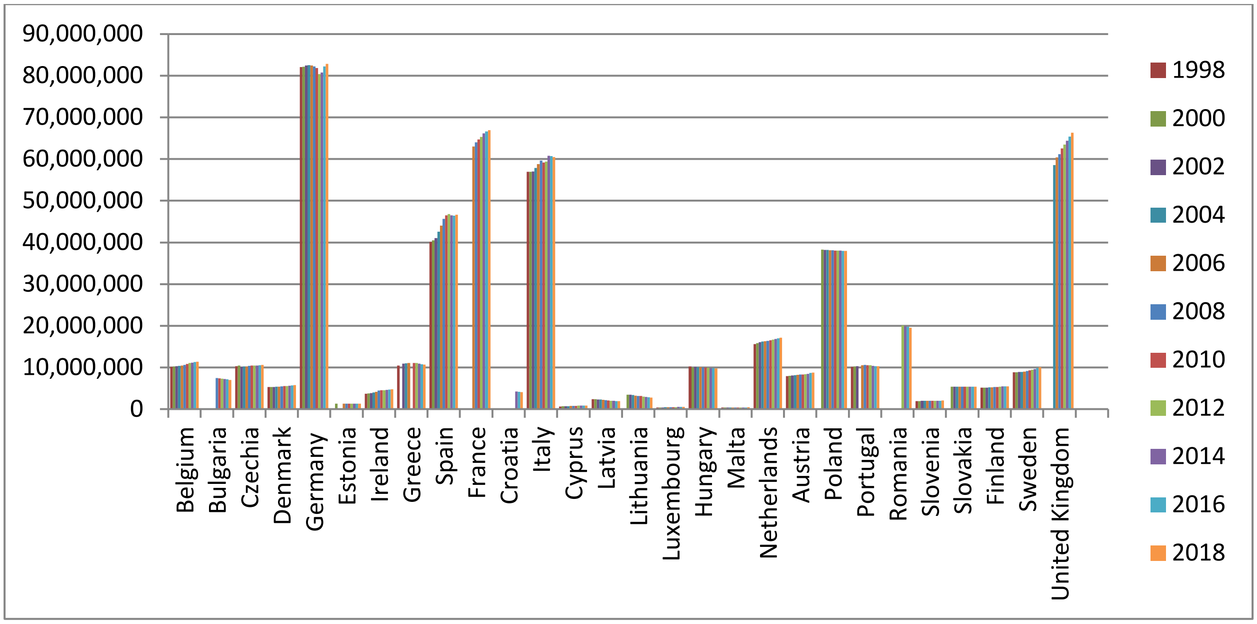
Source: Eurostat (30 April, 2019)
https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=lc_an_costh&lang=en Date Accessed 26 March, 2019

From 1999 and 2008, there were some changes in the wages and price flexibility in Europe. Most of the European citizens travel to top countries like Belgium, Denmark, Germany, and United

Kingdom. What contributed to these differences in the European Union is the economic condition of the countries and the presence of institutions in the most economically advanced countries.

2.2.7.5 Labor Mobility

Figure 8: Labor Mobility



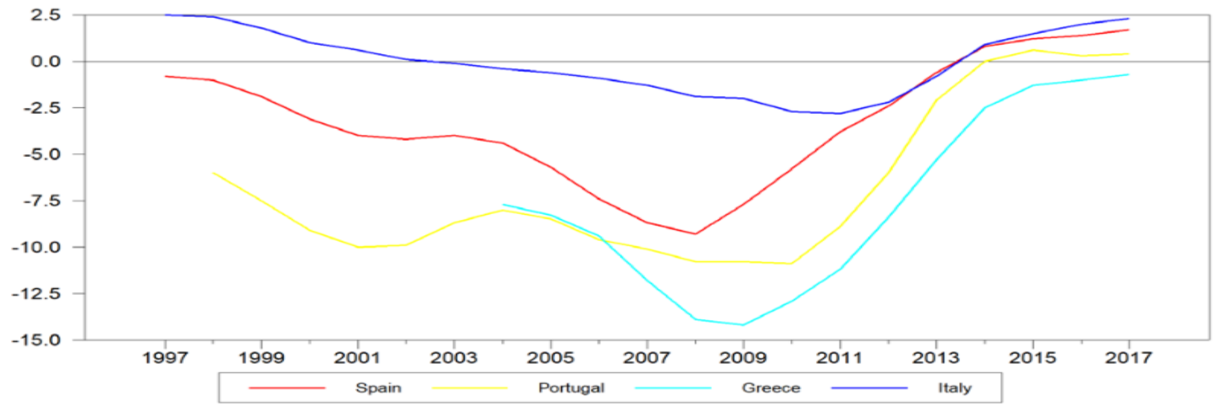
Source: Eurostat (30 April, 2019)

http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do Date Accessed 26 March, 2019

The above chart shows migration within the EU from 1998 to 2018. From the chart, it can be seen that there are so many EU citizens working or living in Germany, Italy, Spain, France, and the UK compared to other EU countries. However, Germany is the country with the highest number of EU citizens. Countries with low labor mobility are Ireland and Luxembourg. Belgium also many foreigners working there and this is attributed to the presence of the European institutions in the country. From this, it can be included that the EU is not highly mobile.

2.2.7.6 Current Account Deficits as a share of GDP in Selected Euro Area Countries

Figure 9: Current Account Deficits as a share of GDP in Selected Euro Area Countries

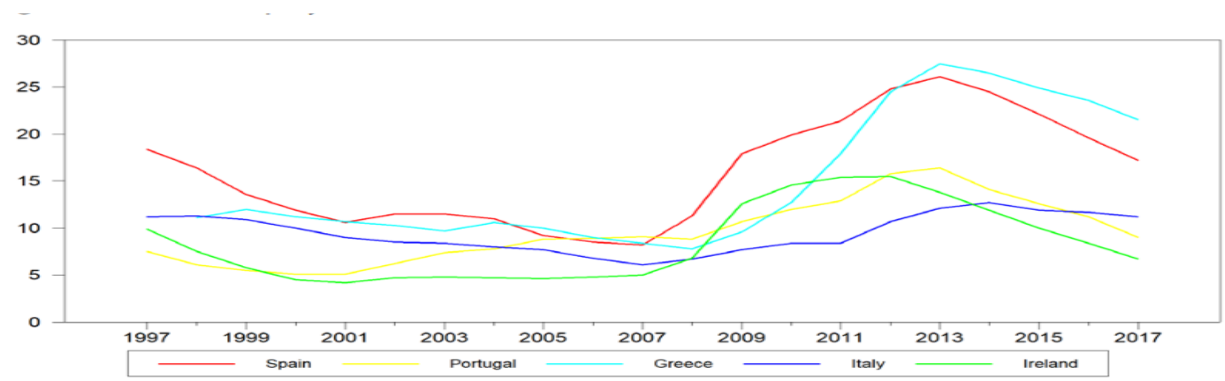


Source: ECB (25 December, 2017) Mb200707_focus03.en-1 Date Accessed 26 March, 2018,

The figure above shows the gradual return of current accounts of Spain, Portugal, Greece, and Italy. From the figure, it can be seen that since after the 2008 financial crisis there has been a slow pace of adjustment in the current account. This slow adjustment led to pressure on domestic costs and an increase in the unemployment rate. This is illustrated below.

2.2.7.7 Unemployment Rates in Selected Euro Area Countries

Figure 10: Unemployment Rates in Selected Euro Area Countries



Source: ECB (25 December, 2017) Mb200707_focus03.en-1 Date Accessed 26 March, 2019

The graph shows how Portugal and Ireland took a decade to minimize the unemployment rate before the financial crisis. However, unemployment in Greece and Spain is still higher than it was before 2008.

2.2.8 Four freedoms in the European Union

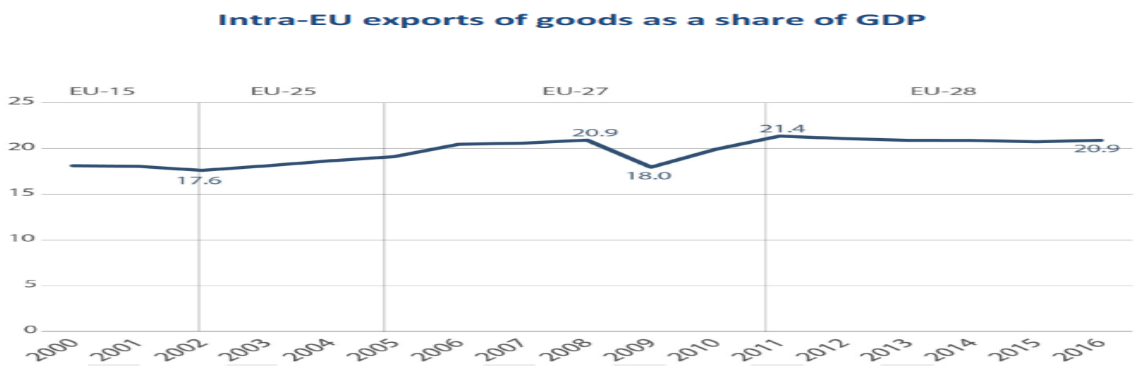
The four freedoms of the European Union imply that so many boundaries that exist among member countries are eliminated despite the differences in culture, language, and market. European Union as a Union of 28 member states gives access to almost 500 million EU citizens the freedom of movement of goods, freedom of movement of people, freedom of movement of services, and freedom of movement of capital. These four fundamental freedoms are said to be the biggest achievement of the European Union and they are cornerstones of the formation of the Union (Enderlein, p. 2, 2017).

2.2.8.1Free Movement of Goods

The free movement of goods is very vital in the EU and is one of its success stories. The main goal of this free movement is for the EU member countries to circulate their industrial goods and place them on their internal markets and to also import goods to member countries without placing technical restrictions.

To facilitate the free movement of goods, the EU opened benchmarks to remove license requirements and import permits on the products that are listed in the Customs Union and to ease the buying and selling of goods and services across the internal borders of member countries, the customs union was upgraded (Klugman,p. 2, 2018).

Figure 11: Intra-EU Exports of Goods as a Share of GDP



Source: Intra –EU Exports (30 May, 2019)
EPRS_BRIE_61563_Free_Movement_of_goods_within_the_EU_single_market-Final.pdf
Date Accessed 13 June, 2019

As shown above, the free movement of goods in the EU has helped intra-EU exports to grow from 18% in 2000 to 21% in 2016.

In practice, the free movement of goods is aimed at reducing non-tariff barriers to trade (NTBs) on various forms such as safety rules, health, different product standards, currency devaluations, or the tax system. The European Free Trade Agreement (EFTA) also gives other countries like Iceland, Norway, and Liechtenstein the right to enjoy a single market.

2.2.8.2 Free Movement of Services

The European Economic Area agreement states that no citizens of the EU should be restricted from enjoying the freedom of movement of services within the EEA. As stated in the European Union Treaty Article 49 and 52[27] EU member states are free to establish companies and services in any of the EU member states. Statistically, since the integration of EU countries and the establishment of the single market, the free movement of services has contributed to the GDP growth of the EU by 2.2%, promoted investment, and generated employment by 2.8 million. To ensure the smooth running of businesses and services, in 2006 the European Parliament adopted the Services Directive to remove red tape among member countries, promote a wider range of

[27] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A12008E049.

services for EU citizens, and simplify the procedures of establishing companies in the EU territories.

2.2.8.3 Free movement of workers in the Eurozone

The free movement of workers in the Eurozone is enshrined in the Treaty of the European Union article 45 which defines its functions. Initially, the treaty on the Functioning of the European Union ('TFEU') was only for people who are actively seeking jobs and the ones who are already employed but in 1993, during the Maastricht Treaty, it was revised and gave EU citizens the right to move with their families and reside freely in any of the EU members states without discriminations on having access to education, becoming a member of trade unions, access to training for EU member states' children and apprenticeships, good working conditions, right to employment, and social and tax advantages. Concerning this treaty, inactive citizens also have the right to stay in any other EU member country for more than 3 months as long as they have the financial capacity to cover for their stay and health insurance.

The free movement of workers in the Eurozone does not only apply to the citizens of EU member states but it also applies to any country that is a member of the European Free Trade Area under the agreement of Free Movement of Persons ('AFMP') with Switzerland and the establishment of the European Economic Area ('EEA').

2.2.9.4 Free Movement of Capital

Free movement of capital is one of the most key elements enshrined in the Maastricht Treaty to promote the EU single market. The main goal of this is to have more integrated and efficient financial markets in the EU.

Free movement means right to open a bank account in the EU; invest in a place that can yield the best return; buy shares in companies abroad; purchase real estate; and for companies to raise money in a place that is the cheapest for them.

The Council of the European Communities of Article 67 of the Maastricht Treaty[28] defines that free movement includes buying and selling real estates, foreign direct investments (FDI), buying and selling of securities (e.g. bonds, shares, bills, etc), granting credit and loans, and other personal capital investments or operations like endowments, entitlements, dowries, legacies, etc.

[28] https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A31988L0361 September 19 2019.

2.3. ECONOMIC COMMUNITY OF WEST AFRICAN STATES

2.3.1 OVERVIEW OF ECOWAS

The need to establish attain sustainable economic development in the West African region promoted the establishment of the Economic Community of West African States. The move to establish ECOWAS was made in 1964 by the then President of Liberia William Tubman[29] of Liberia led to the signing of an agreement between Cote d'Ivoire, Guinea, Liberia, and Sierra Leone in February 1965[30]. To promote this idea of economic integration of West Africa, two generals from Nigeria and Togo namely General Yakubu Gowon[31] and General Gnassingbe Eyadema[32] called for a meeting between December 10 and 15, 1973 to study a draft of the treaty which later gave birth to the Economic Community of West African States (Johnson, 2003).

The Economic Community of West African States was established on May 28, 1975, when the treaty of Lagos was signed but the protocol launching was launched on 5 November 1976. During the establishment of ECOWAS, there were sixteen member countries, but the withdrawal of Mauritania in 2002 makes it fifteen now (Johnson, 2003). The current member nations of ECOWAS are Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togo. Since ECOWAS consists of countries that were colonized by three different colonies, three languages are recognized as the official languages which are English, French, and Portuguese. There are also over a thousand existing cross-border local languages Hausa, Fulfulde, Ibo, Yoruba, Ewe, Ga, Wolof, Mandingo, etc. ECOWAS is one of the five pillars of the African Economic Community (AEC) with the ultimate goal of establishing an economic and monetary union that will foster self-sufficiency,

[29] William Vacanarat Shadrach Tubman served as the 19th president of Liberia from *January 3, 1944 – July 23, 1971 (Britannica, 2019).*

[30] Udogu (June, 1991), "Economic community of West African states: From an Economic Union to a peacekeeping mission?" The Review of Black Political Economy 26(4):55-74.

[31] Yakub Gowon served as Nigerian military president between (1966-1975) *(Britannica, 2019).*

[32] Gnassingbé Eyadéma, original name Étienne Eyadéma served as Togo in 1967 *(Britannica, 2019).*

stimulate economic growth and development and, increase the volume of trade between member states.

ECOWAS as a region is unique in its nature given the differences in the ecological diversity of the region, as well as cultural and linguistic diversity. These diversities make the region a diverse region and present opportunities and challenges for the formation of the community union.

The goal of ECOWAS revolves around forming an economic integration to achieve harmonization, coordination, and promotion of national policies and integration programmes. The ECOWAS treaty also establishes a common market through the elimination of customs duties on imports and exports, non-tariff barriers elimination to establish a Free Trade Area, and free movement of goods, services between member nations (Adepoju, p. 2, 2007).

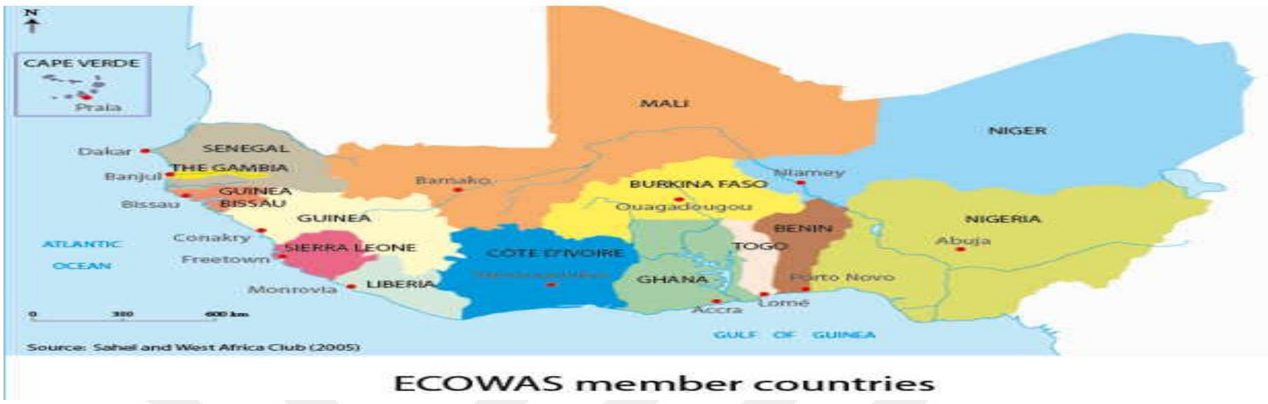
The table below shows ECOWAS envisioned goals

Table 5: ECOWAS Envisioned Goals

Step	Common market (1)	Customs union (2)	Monetary union (3)	Economic and Monetary union (4)
ECOWAS action	No date had been set as of August 2010 for the establishment of a common market	A customs union was supposed to be completed by 2000. It has not yet been achieved	The goal of the revised treaty was to have monetary union by 2004. Additionally, the formation of an economic and monetary union was to occur no later than 5 years after the formation of a customs union. A new date for completion has not been set	The goal of the revised treaty was to have an economic union by 2005. Additionally, the formation of an economic and monetary union was to occur no later than 5 years after the formation of a customs union. A new date for completion has not been set

Notable recent works on the legal aspects of integration in Africa include R.F Oppong, Legal Aspects of Economic Integration in Africa, (Cambridge: Cambridge University Press, 2011); J.T Gathi, African Regional Trade Agreements as Legal Regimes, (Cambridge University Press, 2011)

Figure 12: ECOWAS Member Countries



Source: ECOWAS Member Countries (01 January, 2019) from https://www.ecowas.int/ Date Accessed 28 July, 2019

ECOWAS vision 2020 is aiming at replacing "ECOWAS of States" with an "ECOWAS of People." The reason for this move is to have an oriented regional vision for people. To adopt the vision of "ECOWAS of People," the West African Heads of States aimed to look at the following questions:

- Does the ECOWAS of people have an obvious and self-evident meaning?
- Does it have the same meaning for people in the region?
- Does it have a common understanding and convergence of views around the theme?
- What are the unifying tenets surrounding the West African shared vision?
- Can the vision be well understood by all and if adopted will it make a difference in the development process?
- Is the vision attainable and realistic?
- For the regional vision to be realized, is there some necessary conditions that must be met?
- Who are the rightful stakeholders to be involved to ensure a broad-based, bottom-up grass-root visioning and ownership among the sub-region?

With this in mind, the following are described as the vision of ECOWAS

- A region that citizens free ride to explore the abundant resources in the region and create opportunities for a sustainable environment.

- An integrated region for citizens to enjoy free movement, have access to effective health and education, engage in economic activities, and live in peace and harmony.
- A region governed by the rule of law, good governance, and principles of democracy.

The vision is summarized in a vision statement as: "*To create a borderless, peaceful, prosperous and cohesive region, built on good governance and where people have the capacity to access and harness its enormous resources through the creation of opportunities for sustainable development and environmental preservation.*[33]"

2.3.2 AIMS AND OBJECTIVES OF ECOWAS

The ECOWAS aims to establish a strong economic union in the West African region and promote cooperation and integration that will lead to the raising of the standard of living of the people in the region, maintaining and enhancing economic stability and fostering the relations among member countries.

To achieve its aims and objectives, ECOWAS revised its treaty in 1993 to ensure;

(a) the harmonization and coordination of national policies and the promotion of integration programmes, projects, and activities, particularly in food, agriculture and natural resources, industry, transport, and communications, energy, trade, money and finance, taxation, economic reform policies, human resources, education, information, culture, science, technology, services, health, tourism, legal matters;

(b) the harmonization and coordination of policies for the protection of the environment;

(c) the promotion of the establishment of joint production enterprises;

(d) the establishment of a common market through:

  (i) the liberalization of trade by the abolition, among the Member States, of customs

[33] ECOWAS Vision "Towards a Democratic and Prosperous Society (01 January, 2019) http://araa.org/sites/default/files/media/ECOWAS-VISION-2020_0.pdf (29 March 2019).

duties, levied on imports and exports, and the abolition among the Member States, of non-tariff barriers to establishing a free trade area at the Community level;

(ii) the adoption of a common external tariff and, a common trade policy vis-à-vis third countries;

(iii) the removal, between the Member States, of obstacles to the free movement of persons, goods, service, and capital, and to the right of residence and establishment.

(e) the establishment of an economic union through the adoption of common policies in the economic, financial social and cultural sectors, and the creation of a monetary union;

(f) the promotion of joint ventures by private sectors enterprises and other economic operators, in particular through the adoption of a regional agreement on cross-border investments;

(g) the adoption of measures for the integration of the private sectors, particularly the creation of an enabling environment to promote small and medium scale enterprises;

(h) the establishment of an enabling legal environment;

(i) the harmonization of national investment codes leading to the adoption of a single Community investment code;

(j) the harmonization of standards and measures;

(k) the promotion of balanced development of the region, paying attention to the special problems of each Member State particularly those of land-locked and small island Member States;

(l) the encouragement and strengthening of relations and the promotion of the flow of information particularly among rural populations, women and youth organizations and socio-professional organizations such as associations of the media, businessmen, and women, workers, and trade unions;

(m) the adoption of a Community population policy which takes into account the need for a balance between demographic factors and socio-economic development;

(n) the establishment of a fund for cooperation, compensation, and development; and

(o) any other activity that the Member States may decide to undertake jointly to attain Community objectives.

2.3.3 FUNDAMENTAL PRINCIPLES OF ECOWAS

To adhere to the objectives of Article 3 of the ECOWAS treaty, certain fundamental principles are enshrined in bringing the members of the community together. The following fundamental principles are[34]:

a) equality and inter-dependence of Member States;

b) solidarity and collective self-reliance;

c) inter-State cooperation, harmonization of policies and integration of programmes;

d) non-aggression between the Member States;

e) maintenance of regional peace, stability, and security through the promotion and strengthening of good neighborliness;

f) peaceful settlement of disputes among the Member States, active cooperation between neighboring countries and promotion of a peaceful environment as a prerequisite for economic development;

g) recognition promotion and protection of human and peoples' rights under the provisions of the African Charter on Human and Peoples' Rights;

[34] ECOWAS Commission "ECOWAS revised treaty 2010" (01 January, 2019) http://www.ecowas.int/wp-content/uploads/2015/01/Revised-treaty.pdf 19 January 2019.

h) accountability, economic and social justice and popular participation in development;

i) recognition and observance of the rules and principles of the Community;

j) promotion and consolidation of a democratic system of governance in each Member State as envisaged by the Declaration of Political Principles adopted in Abuja on 6 July 1991; and

k) equitable and just distribution of the costs and benefits of economic cooperation and integration.

2.3.4 FUNCTIONS OF ECOWAS

In order to carry out its function, ECOWAS established institutions of the community which are:

a) the Authority of Heads of State and Government;

b) the Council of Ministers;

c) the Community Parliament;

d) the Economic and Social Council;

e) the Community Court of Justice;

f) the Executive Secretariat;

g) the Fund for Cooperation, Compensation and Development;

h) Specialized Technical Commissions; and

i) Any other institutions that may be established by the Authority.

2.3.5 ACHIEVEMENTS OF ECOWAS

In cognizance of conflict prevention in the West African region, ECOWAS realized the need of forming the ECOWAS Conflict Prevention Framework (ECPF) in 2008. The objectives of ECPF are conflict prevention through awareness and preparedness between member nations, external partners as well as the civil society (Atuobi & Okyere, p.4, 2010). The ECPF preparedness aspects started with the development of the ECOWAS Standby Force (ESF), ECOMOG, by increasing the number of soldiers and their supplies, extensive training of the troops and reducing the deployment time of soldiers from 30 days to 14 days in line with the protocol of the African Union deployment and peace-keeping missions (Kabia, p. 6, 2011). The reactionary approach of the ECPF was to peace-keeping. OSIWA (Open Society Initiative for West Africa) outlines the ECPF as[35]:

It is: a guide for enhancing cohesion and synergy between relevant ECOWAS departments on conflict prevention initiatives to maximize outcomes and ensure a more active operational posture on conflict prevention and sustained post-conflict reconstruction from the ECOWAS system and its Member States.

ECPF develop 15 components in order to integrate and implement "human security architecture". The components are: Security Governance, Youth Empowerment, and Enabling Mechanisms, Preventive Diplomacy, Human Rights and the Rule of Law, Practical Disarmament, Early Warning Systems, Democracy, and Political Governance, Woman Peace and security, Natural Resource Governance, Media, Cross-border Initiatives (Kabia, p. 7, 2011). The ECPF is regarded as the most sophisticated action taken by ECOWAS to safeguard the region from violence and threats. It has been able to create among West African political parties and their leaders.

[35] OSIWA (18 June, 2016) http://www.osiwa.org/ecowas_at_40/40-years-integration-west-africa/ 04 February 2019 p. 1.

2.3.5.1 Political Affairs, Peace and Security

Initially, ECOWAS was established to promote economic cooperation among member nations but due to the instability that engulfed the region, and to prevent regionalization of domestic wars and conflicts, they adopted the mechanism of promoting peace and security. To tackle regional security threats, ECOWAS signed a protocol on NON-aggression in 1978 and the Mutual Assistance Protocol in 1981. These signed protocols were referred to as insurance against internal and external security threats of member nations in the areas of coup attempts, political dissidents support, political instability, and for the provision of peacekeeping capability, regime survival and security. Even though the above-mentioned protocols were signed in 1978 and 1981, the ECOWAS mechanism for peace and conflict resolution was adopted in Lome in December 1999. Adebajo and Rashid (p. 8, 2004) pointed out that the ECOWAS security mechanism of 1999 led to the establishment of three organs namely: the Defense and Security Commission, the Council of Elders, and the Mediation and Security Council. This adopted mechanism led to the formation of the ECOWAS Mission in Guinea- Bissau (ECOMIB)[36] and the Economic Community of West African States Monitoring Group (ECOMOG)[37] to promote peace, stability, and the bilateral relationship among member countries. The military and peacekeeping operations of ECOMOG started in Liberia followed by Sierra Leone, Guinea Bissau, and Ivory Coast.

2.3.5.2 The Role of ECOWAS in Guinea Bissau

The coup de tat on 12 April 2012 led to political turmoil in Guinea Bissau and destabilized the country which led to security concerns by ECOWAS and international security[38]. The major security issue that was identified in Guinea Bissau was drug trafficking by Columbian drug lords. Guinea Bissau was used by drug lords as a base to traffic drugs from South America to Europe.

[36] ECOWAS "mission in Guinea Bissau (ECOMIB") (03 January, 2015) https://www.africa-eu-partnership.org/sites/default/files/apf_factsheet_-_ecomib.pdf Retrieved 20 January 2019.

[37] Lima "Exploring the Prospect For Peace In West Africa: Is Ecomog The Solution?" (05 June 2015) https://apps.dtic.mil/dtic/tr/fulltext/u2/a420441.pdf. Retrieved 20 January 2019

[38] Ramet "Civil-military relations in Guinea-Bissau: An unresolved issue". (07 July 2017) http://www.europarl.europa.eu/RegData/etudes/briefing_note/join/2012/491437/EXPO-DEVE_SP(2012)491437_EN.pdf Retrieved, February 1 2019.

To calm things down, ECOWAS in accordance with the Protocol of conflict prevention mechanism deployed The ECOWAS Mission in Guinea- Bissau (ECOMIB) on 18 May 2012. Among the roles of ECOMIB was to bring relief to the Angolan Military Mission in Guinea Bissau (MISSANG)[39] which was initially charged with the responsibility of assisting the security sector reform (DSSR) and defense of Guinea Bissau but due to MISSANG coup de tat foiled an attempt by the army of Guinea Bissau in December 2011, the relationship became unfriendly and allegations followed and ended MISSANG and security sector reform (DSSR) of Guinea Bissau. To assist in the freedom of movement of humanitarian agencies and restore constitutional rule, the ECOMIB intervened and played a greater role in the pulling out of MISSANG from Guinea Bissau on 9 June 2012 and at the same time cooperated with other regional and international organizations WAEMU, AU, EU and the Community of Portuguese speaking countries (CPLP) which brought Jose Mario Vaz into power in a successful and peaceful election. ECOWAS also contributed to the reconstruction of schools and health centers as parts of its humanitarian support in the country.

2.3.5.3 The Role of ECOWAS in Ivory Coast

31 October 2010 marked the first time Ivorians went to the pool to conduct an election for the first time in 10 years after several postponements. On 4 November 2010 the result of the election was announced by the Independent Electoral Commission (IEC) which showed that the incumbent President Laurent Gbagbo had received 38.04 percent of the total votes cast, while the opposition leaders Alassane Ouattara and Henri Konan Bédié had received 32.07 and 25.24 respectively (HRW p. 1, 2011)[40]. Based on this result and in line with the constitution, a run-off was required by the incumbent president, Laurent Gbagbo, and the opposition leader, Alassane Ouattara. On 28 November 2010, the run-off was held and IEC declared Alassane Ouattara as the

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[39] All Africa "Angola Defence Minister Speaks on Guinea Bissau Mission" https://allafrica.com/view/group/main/main/id/00017448.html * 20 January 2019.

[40] HRW "The New Racism The Political Manipulation of Ethnicity in Côte d'Ivoire" (15 June, 2015) https://www.hrw.org/report/2001/08/28/new-racism/political-manipulation-ethnicity-cote-divoire Retrieved 19 December 2019.

winner after getting 54 percent of the total vote that was cast. This result was recognized by the international community and ECOWAS but did not go down well with the supporters Gbagbo alleging that the election was rigged in the hometown of Ouattara and led to the nullification of about 600,000 of the election result which subsequently resulted in a political deadlock between the two parties. This political deadlock caused division in the country with the army of Gbago controlling the south, and the rebels backing Ouattara controlling the north. This division resulted in the loss of lives, displacement of people, and destruction of properties. Pending the return of normalcy, ECOWAS endorsed Alassane Ouattara on 7 December 2010 as the legitimately elected president of the Ivory Coast (Yabi, p. 18 2012). On 24 December 2010 following the mediation failure ECOWAS used force to stabilize the country which was not well resourced. The lesson to be drawn and which can be counted as an achievement is that ECOWAS played a crucial role in the Democracy and Good Governance of Ivory Coast and their mediation effort showed that nullify the election an undemocratic leader who wants to remain in power.

2.3.5.4 The Roles of ECOWAS in Mali

In March 2012, Mali experienced security crackdown as a result of the overthrowing of Amadou Toumani Touré[41] in an organized military coup by Captain Sanogo. Initially, before the coup and elections were scheduled to take place in April 2012. As Aiereff and Johnson (2012: 1) the reason for the coup was "motivated by government's failure to devote adequate resources toward fighting a rebellion in the vast, sparsely populated north by a loose alliance of predominantly ethnic Tuareg separatists and Islamist extremists." The International Crisis Group (2012: 8) stated that the reason for the emanation of the Malian crisis was the "brutalization of the population by the security forces, failure to comply with commitments made in the various peace agreements, the government's lax approach to AQIM and drug traffickers, and corrupt use of international aid provided for the north."[42] The success of the coup gave a returning insurgents

[41] Jeuneafrique (19 November, 2019) https://www.jeuneafrique.com/personnalites/amadou-toumani-toure/ Retrieved December 11, 2019.

[42] International Crisis Group (23 April 2012) Crisis and Conflict: Global Challenges in 2012. https://www.crisisgroup.org/global/crisis-and-conflict-global-challenges-2012Retrieved December 11, 2018) p. 1.

group from Libya, MNLA and Ansar Dine, the opportunity to have control of three towns in Northern Mali which are Timbuktu, Gao, and Kidal. Also, these insurgent groups were able to advantage their operations in the South gained control of Konna town. The coalition of Al Qaeda in the Islamic Maghreb (AQIM) linked group, Tuareg rebels and the presence of Arab and Songhay militias, and The Movement for Unity and Jihad in West Africa (MUJAO)[43], chased the Malian army from the Northern part of the country and gained a stronghold of the region (Amnesty International 2012).

Aireff (2013: 1) said that: Mali has been mired in overlapping security, political, and humanitarian crises. After Mali's government was overthrown in a military coup in March 2012, insurgents, capitalizing on the ensuing power vacuum, seized much of the country's vast and sparsely populated northern territory. As of early January 2013, three loosely connected Islamist extremist groups—including Al Qaeda in the Islamic Maghreb (AQIM), a U.S.-designated Foreign Terrorist Organization—reportedly controlled all major towns in the north.

Mali being a former French colonist and looking at the way the country was falling into the hands of terrorists, the French government in collaboration with the Malian army fought the terrorist groups and recaptured several towns such as Konna, Timbuktu, Gao, Dialaby, and Douentza. France gained the freehand to intervene under the deployment of African-led International Support Mission to Mali (AFISMA) and Serval operation as endorsed by ECOWAS and the international community in its quest for maintaining peace and order in the country[44]. Pryce (2013: 1) pointed out that "Drawing its mandate from UN Security Council Resolution 2085, adopted unanimously by that body on 20 December 2012, AFISMA is intended to

[43] BBC news (6 April 2012) Mali Tuareg rebels declare independence in the north. https://www.bbc.com/news/world-africa-17635437 Retrieved December 11, 2018 p. 1.

[44] African-Led International SupportMission in Mali (AFISMA): Military ahead of Politics (February 14, 2013). http://studies.aljazeera.net/mritems/Documents/2013/2/14/2013214835996734AFISMA_MilitaryaheadofPolitics.pdf Al Jazeera Center for Studies Report Retrieved January 20 2019.

gradually take over responsibility for maintaining peace and security in Mali from the French intervention that was hastily initiated in mid-January 2013."

Although ECOWAS was not able to end the security problem in Mali, it took some measures steps to help in stabilizing the country. Among its contribution was securing a ceasefire in an attempt to conduct a peaceful presidential election in 2013. It secured this ceasefire agreement by appealing to the EU, AU, and the UN. It also helped in deploying the ECOWAS Standby Force (ESF) as part of its contribution AFISMA. In March 2012, ECOWAS suspended Mali's membership and imposed sanctions on the master minder of the coup.

2.3.5.5 The Roles of ECOWAS in Liberia

Liberia has a long history of chaos, dominance, ethnic conflicts, and preemption of power. Liberia's chaotic history began in 1847 by Americo-Liberians who created a system that will place them above the indigenous people of Liberia even though they represent only five percent of the total population. This group ruled with a hierarchical social system and strictness for almost two decades and took control of both the political and economic sectors of the nation.

The rule of the Americo-Liberians came to an end during the era of President William Tolbert in 1979 because of the crackdown between Americo-Liberians elites and anti-Tolbert over the unavailability and increase in the price of rice that is widely eaten by Liberians[45]. In 1980, a Liberian National Guard, Samuel Doe aged 28 led a coup d'état and assassinated President Tolbert together with his immediate security forces. Within the same period, a revolutionary government was formed and other subsequent executions of top government officials and political figures that served under Tolbert followed by and ended the reign of Americo-Liberians. During Doe's reign, a new tension emerged between Doe, the Krahns, and another ethnic minority. These ethnic tensions along with corruption, social, economic problems led to a violent reaction by Charles Taylor a fugitive from justice in the United States, an Americo-Liberian, and a former official in the Doe Government. To take over the government of Doe, Taylor staged a

[45] Alao (2017) The Burden of Collective Goodwill The international involvement in the Liberian Civil War. P. 19. Routledge London October 10 2018.

base in Côte d'Ivoire and organized a few hundred rebels. Towards the end of January 1990, with the backing of Libya, Burkina Faso, and Côte d'Ivoire, Taylor's rebel advanced from the border of Côte d'Ivoire into Liberia and gained control of Nimba Country in north-central Liberia after killing so many innocent civilians and, forcing thousands to seek refuge in countries that share a border with Liberia such as Sierra Leone, Guinea, and Côte d'Ivoire. Human Rights Watch (1993) reported that over one-third of the population fled to Côte d'Ivoire and Guinea as a result of weeks of invasion by Taylor and his rebels. Taylor and his rebels otherwise known as National Patriotic Front of Liberia (NPFL) advanced their operation to the capital city, Monrovia in June 1990 in a move to take over the country and unseat Doe, which proved unsuccessful and lead to a full-scale war that lasted for seven years and affected all aspects of the life of the Liberians (Ayoob, 1995; 3).

The gulf war between Iraq and Kuwait[46] captured headlines and ignored what was happening in Liberia with the United States and the United Nations saying "African solutions to African problems." Massive migration, destruction of lives and properties, and massive violations of human rights forced ECOWAS to intervene by establishing the ECOWAS Standing Mediation Committee (SMC) comprising the Gambia, Ghana, Mali, Nigeria and, Togo to 'settle disputes and conflict situations within the Community … and to look into inter-state dispute and conflicts which have a disruptive effect on normal life within the member states and the smooth functioning of the Community' (Nwachukwu 1991:104). The responsibility of SMC in Liberia was to serve as a mediator to end the conflict. In August 1990, the Mediation came up with the "ECOWAS Peace Plan for Liberia" and called for the formation of the ECOWAS Monitoring Group in Liberia (ECOMOG). The ECOMOG comprised of 3,500 troops from the Gambia, Ghana, Guinea, Liberia, Nigeria, Sierra Leone and Liberia and they were charged with the responsibility of ending the carnage of civilians, evacuation of foreign nationals, the imposition of a cease-fire, imposition of an embargo on the acquisition and import of arms, disarmament of the warring parties and establishment of an interim government and preparation for elections. ECOMOG forces intervention enforced a short-term ceasefire and the taking over of Monrovia

[46] The gulf war took place between 1990 and 1991 in which Egypt and other Arab countries joined hands together to go against Iraq invasion of Kuwait.

from the rebels. Hutchful (*1999*, p. 111) attributed some factors to ECOWAS intervention in Liberia as the ability of the organization to shift the mandate of its force from peacekeeping to peace enforcement and peace-making as developments on the ground dictated, to and to turn to regional (OAU) and international (UN) initiatives as its sub-regional initiatives flagged; and the growing consensus among states in the region that conflict was self-defeating and those sovereign interests were best served by a credible common security mechanism.

ECOMOG experienced a setback and so many consultations and agreements failed between 1993 and 2003 and also gave birth to another rebel group called the Movement for Democracy in Liberia, (MODEL)[47]. In August 2003, normality was established after the resignation of Charles Taylor, the presence of the United Nations Mission in Liberia (UNMIL), and a Comprehensive Peace Agreement (CPA) talk by ECOWAS. Kwaja (p. 2, 2017) reported that ECOWAS made tremendous achievements in settling the bloody conflict in Liberia in terms of its prominent role in exploring different ways that helped external actors and the United Nations to assist in the stability, security and bringing peace to Liberia, and also it played a visible role in post-conflict rehabilitation[48].

2.3.5.6 The Adoption of the Macroeconomic Convergence Report by the ECOWAS Convergence Council

The ECOWAS macroeconomic convergence report shows a comprehensive account of the activities of ECOWAS member countries. The report examines the key activities implemented by ECOWAS under the ECOWAS Monetary Cooperation programme (EMCP).[49] It also gives an

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[47] The international Center for Transitional Justice "A brief History of Liberia" https://www.ictj.org/sites/default/files/ICTJ-Liberia-Brief-History-2006-English.pdf London Retrieved October 10 2018.

[48] Ibid.

[49] West African Monetary Policy (22 August, 2012) http://amao-wama.org/publications/ecowas-monetary-cooperation-programme-2012-report/ ECOWAS Monetary Cooperation Programme 2012 Report London Retrieved October 10 2018 p. 3.

account of the developments made by ECOWAS countries and the challenges faced. Most of the developments looked at are based on financial and economic developments made by the countries. From 2010 to 2016 ECOWAS has successfully provided annual macroeconomic convergence reports.

2.3.5.7 Establishment of the ECOWAS Monetary Institute (EMI)

In January 2001, ECOWAS successfully established the West African Monetary Institute (WAMI/Institute) in Accra. The main aim of the institute is to undertake all the necessary preparations for the establishment of a bank that will serve as the West African Central Bank and to also prepare the launching of the West African Monetary Zone (WAMZ) for a single currency. Also, this institute is charged with the responsibility of minimizing the effects of asymmetric shocks. Thus, over the operations of this institute has been expanded to take necessary measures that will facilitate integration in trade and the financial sector, statistical harmonization and, payments system development. At present, the institute conducts monthly offsite and bi-annual onsite multilateral surveillance missions to ensure that member nations comply with both the qualitative and quantitative benchmarks.

2.3.5.8 Provision of a Guide to Keep a Track Record of all Government Financial Transactions

In June 2014, the committee of governors of Central Banks of ECOWAS Member States adopted a guide keep a track record of all Government Financial Transactions. This was done by the adoption of government financial operations tables (TOFE), external trade statistics, the balance of payment (BOP) and international investment position (IIP). This methodological guide is in line with the 6th edition of the IMF manual, and it provides a roadmap macroeconomic convergence and statistical harmonization.

2.3.5.9 Implementation of an Action Plan to Boost Regional Security in the Sahel Region

On 20 April 2015, ECOWAS successfully adopted the Regional Action Plan for the Sahel which will last from 2015 to 2020. This action plan serves as an established framework for the European Union's (EU) strategy for the development and security of the Sahel region (which was adopted and revised on 21 March 2017 and 17 March 2014). The Sahel strategy was a reaffirmation of the EU's commitment to humanitarian diplomacy, defense, security, trade and development, and finance[50]. This is to be done through: Security and rule of law, Development, good governance, and conflict resolution, Fight against radicalization and violent extremism, and political and diplomatic action. Through this strategy, the root causes of extreme poverty will be identified, and economic opportunities will be created. Under the Regional Action Plan (RAP)[51] initiatives will be taken whilst coordinating with ECOWAS member states. The RAP is based on four areas which are: Creation of appropriate conditions for the youth, Mobility and border management, the fight against illicit trafficking and transnational organized crime, Creation of appropriate conditions for the youth, and Migration.

Moreover, ECOWAS on another Action Plan called Praia Action Plan designed an operational and regulatory action for member states to tackle Migration and fight against drug trafficking and organized crime.

2.3.5.10 Introduction of a Uniform Trade Development Strategy

ECOWAS successfully formulated a community trade policy is known as the ECOWAS Trade Liberalization Scheme (ETLS)[52]. The goal of the scheme is to have a common Customs Union among ECOWAS member countries for fifteen years effective from 1 January 1990. The ECOWAS Trade Liberalization Scheme (ETLS) is composed of three varieties of products:

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[50] European Union External Action Service Strategy for Security and Development in the Sahel (13 September. 2018) http://www.eeas.europa.eu/archives/docs/africa/docs/sahel_strategy_en.pdf London Retrieved October 10 2019.

[51] Council of the European Union (19 April, 2015). https://www.consilium.europa.eu/media/21522/st07823-en15.pdf Council conclusions on the Sahel Regional Action Plan 2015-2020 London October 10 2018.

[52] ETLS is a trade tool used by ECOWAS to promote trade relations among member states.

industrial products, unprocessed goods, and traditional handicraft products. Among other formulation of an ECOWAS common trade policy is the involvement of private sector involvement, development of Common Investment Code, Policy formation of ECOWAS Common Investment Market, and ECOBIZ World Market Information System.

2.3.5.11 Signing of the Economic Development Document

The main goal of the Economic Partnership is to foster trade negotiation between ECOWAS and EU following Article XXIV of GATT for the removal of trade restrictions between the two trading partners. On August 4, 2004, ECOWAS and EU took off the step of the EPA negotiations, and successfully concluded the negotiations in Ghana in February 2014. This agreement was successfully signed by 13 member states of ECOWAS and all 28 EU member states.

2.3.5.12 Establishing a Common External Tariff

ECOWAS successfully implemented the Common External Tariff (CET). The countries that implemented the Common External Tariff (CET) which became effective in January 2015 are Benin, Burkina Faso, Cote d'Ivoire, Ghana, Guinea-Bissau, Mali, Niger, Nigeria, Senegal, and Togo. It is expected that other members of the ECOWAS which are Cape Verde, Guinea, Liberia, Sierra Leone, and The Gambia, would implement the Common External Tariff (CET).

2.3.5.13 Introducing a Biometric Card to Boost Regional Security and Smooth the Free Movement of ECOWAS citizens

In a move to facilitate mobility in the ECOWAS region, ECOWAS adopted a protocol related to the free movement of goods and persons and adopted ECOWAS biometric cards.

Table 6: Free Movement of Goods and Persons Boosted with the Adoption of the ECOWAS Biometric Identity Card to Facilitate Mobility and Promote Security in the Region

	ECOWAS initiatives: ● Implemented ○ Not yet implemented				
Country *Date of ratification of 1979 Protocol*	Abolition of visa and entry requirements for 90-day stay	Introduction of ECOWAS travel certificate	Harmonized immigration and emigration forms	National committee for monitoring free movement of persons & vehicles	ECOWAS Brown Card scheme
Benin *4 Jan 1981*	●	○	○	●	●
Burkina Faso *6 April 1982*	●	●	○	●	●
Cape Verde *11 June 1984*	●	○	○	○	N/A (Island state)
Côte d'Ivoire *19 Jan 1981*	●	○	○	○	●
The Gambia *30 Oct 1980*	●	●	○	○	●
Ghana *8 April 1980*	●	●	○	○	●
Guinea *17 Oct 1979*	●	●	○	○	●
Guinea Bissau *20 Aug 1979*	●	○	○	○	●
Liberia *1 April 1980*	●	○	○	○	○
Mali *5 June 1980*	●	○	○	●	●
Niger *11 Jan 1980*	●	●	○	●	●
Nigeria *12 Sept 1979*	●	●	○	●	●
Senegal *24 May 1980*	●	○	○	●	●
Sierra Leone *15 Sept 1982*	●	●	○	○	●
Togo *9 Dec 1979*	●	○	○	●	●

Source: UNHCR (20 September, 2007) Date Accessed 26 March, 2019

2.3.5.14 Provision of a Manual to Serve as a Guide in Border Management

In 2013, ECOWAS member countries signed a protocol and drafted a Regional Border Management Manual for use in immigration and security training institutions to boost cross border trade through simplified trade regimes. Also, in its moves to accelerate the customs union agenda, compile trade data across the region and harmonize trade policies, it partnered with the World Bank, the German Development Corporation (GIZ), and UN Industrial Development Organization (UNIDO).

2.3.5.15 Launching of the Regional Link Project called Ecolink

In 2014, ECOWAS successfully initiated ECOLink intending to improve its operation in ECOWAS regions. Among other objectives of ECOLink are: Reduction of paper storage and elimination of lost documents, faster access on information, streamlining time-consuming business processes, integrated applications that access standardized enterprise data for all ECOWAS Institutions, agencies and Offices, integrated applications that access standardized enterprise data for all ECOWAS Institutions, agencies and Offices, reduction of paper handling and manual processes, improve tracking and monitoring, enabling identification and reduction of bottlenecks, improve control over documents and document-oriented processes, online access to information that was formerly available only on paper or other physical media, and reduction of paper handling and manual processes

2.3.5.16 Launching of an Integrated Financial Management System to Keep Record of all Financial Transactions

In February 2015 ECOWAS launched Integrated Management System otherwise known as ECOLink as an attempt to improve the financial management systems in line with the International Public Sector Accounting Standards (IPSAS). The implementation of the Systems Application and Products (SAP) will allow the vetting of documents, electronic, processing of a requisition, Purchase Orders, technical evaluation, and quotations from vendors.

2.3.5.17 Renewed Efforts to Enhance Environmental Governance, General Environmental Protection, Capacity Building as Well as Sustainable Resource Management for Development in the Member States.

To ensure sustainable management for the development of the West African region as well as protect the environment ECOWAS adopted some policies some of which are ECOWAS Agricultural Policy, ECOWAS Environmental Policy, ECOWAS Management Policy, and, among others.

2.3.5.18 Re-Award of the Contract for the Construction of the Sèmè-Kraké Joint Border Post (Benin-Nigeria)

In October 2018, ECOWAS successfully re-awarded the Sèmè-Kraké Joint Border Post (JBP) as a means of facilitating trade between ECOWAS member countries. This contract will ensure trade facilitation between Benin and Nigeria, improve coordination and cooperation controls, and ease the movement of persons and goods.

2.3.5.19 Bemenda Road between Nigeria and Cameroon and the Construction of a Joint Border Post (Jbp) and a Border Bridge at MFUM Border

ECOWAS implemented multimodal transport infrastructure aimed at facilitating the movement of people, goods, and services and to promote physical unity among member nations. In the year 2013 ECOWAS made tremendous progress on the construction of the Noepe Joint Border Post (JBP) between Ghana to Togo, a border bridge at the Mfum border, and the rehabilitation of multinational highway which is between Enugu and Bemenda road and the one between Nigeria and Cameroon.

2.3.5.20 Feasibility Study for the Extension of the West African Gas Pipeline Network Concluded

In 1982, ECOWAS provided a feasibility study for the extension of the West African Gas Pipeline Network (WAGP)[53]. The feasibility study was concluded in August 1998 with a consortium of NNPC, Shell, Chevron, SoToGaz, SoBeGaz and Ghana National Petroleum Corporation (GNPC). To establish a legal framework for the West African Gas Pipeline Network (WAGP) four countries namely Benin, Ghana, Nigeria, and, Togo signed a Memorandum of Understanding in n Cotonou, Benin in August 1999.

[53] ERERA forum "Bridging the gap between electricity demand and sustainable supply in West Africa" (03 October, 2017) https://erera.arrec.org/wp-content/uploads/2016/11/Session-1-2nd-paper-WAGP.pdf December 10 2018.

2.3.5.21 Development of Regional Power Market with the Setting Up of Regulatory and Economic Environment

To provide regional power connections between ECOWAS member countries, the community set up the West African Power Pool (WAPP) Programme in January 2008. It is stated that this development will ensure rationalization and contribute to the economic development of the region.

2.3.5.22 Promotion of Renewable Energy and Energy Efficiency Technologies and Services

To address renewable energy and energy efficiency technologies and services in the ECOWAS region, in 2009, ECOWAS established the ECOWAS Regional Centre for Renewable Energy and Energy Efficiency (ECREEE). It is expected that this development will promote regional integration, provision of a roadmap on energy exploitation, resource management, implementation of national and regional policies, energy access in rural and Peri-Urban areas in the ECOWAS and UEMOA regions, and the provision of Master Plan of the West African Power Pool (WAPP)[54].

2.3.5.23 An ECOWAS Directive on Energy Efficiency Buildings (EEB) Aimed at Promoting Energy Efficiency in Buildings in the ECOWAS Member States Has Been Developed By Ecreee

The ECOWAS Efficiency Buildings (EEB) was established in 2005 as a step in utilizing the pool of energy that will benefit the citizens of the West African region. For the regulation of the energy, ECOWAS established a regulatory authority called "Regional Regulatory Development Bureau (RRDO)" and a Bureau made up of consultants, electrical and legal experts.

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[54] The WAPP is responsible for providing medium and long term energy to the ECOWAS member nations.

2.3.5.24 Establishment of a Regional Centre for Disease Control

ECOWAS successfully inaugurated the West Africa Regional Centre for Surveillance and Disease Control under the care of The West African Health Organization (WAHO) in February 2018. The main reason for the establishment of the regional center for disease control is for detection, control, and enhancement of the West African region's health systems. The establishment of the regional center for disease control was facilitated by an outbreak of Ebola in West Africa between 2014 and 2015.

2.3.5.25 Provision of an Action Plan to Strengthen Regional Security

To consolidate peace and security in the region, ECOWAS developed a conflict resolution by forming Allied Armed Forces of the Community (AAFC) and The ECOWAS Cease-fire Monitoring Group (ECOMOG).

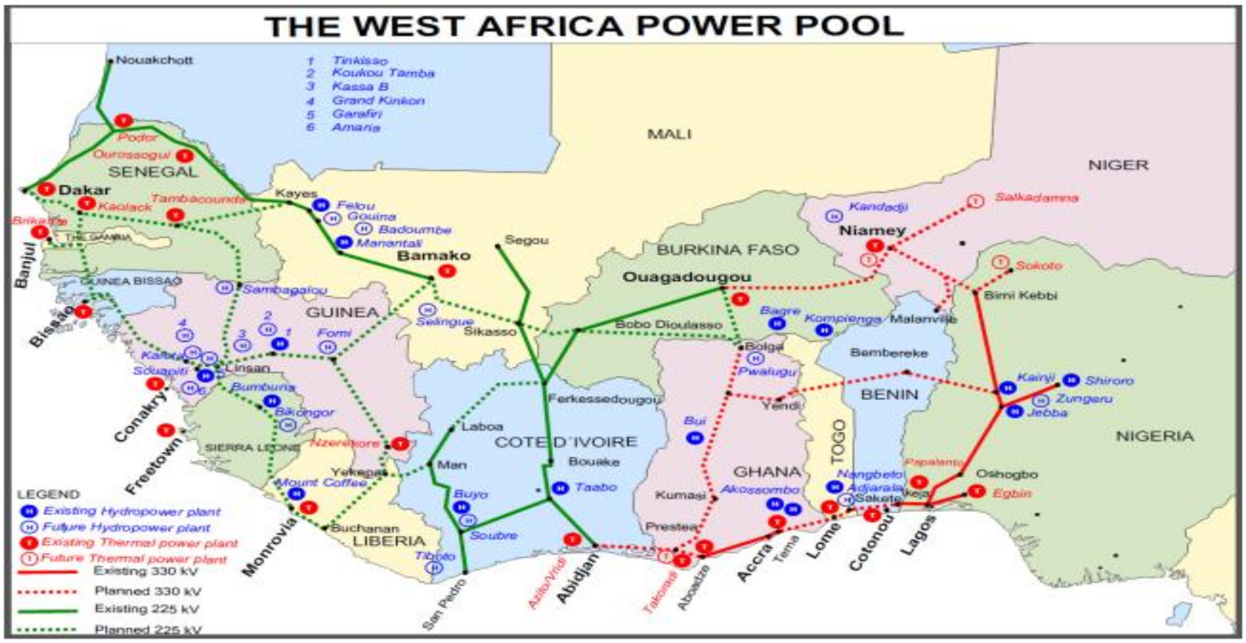
2.3.5.26 Consolidating the Implementation of the Common Market, Trade Liberalization Scheme (TLS) and the Protocol on Free Movement of Persons, Goods, and Services

In an attempt to establish a customs union and to ensure free movement of goods and having a common market, ECOWAS launched Elements of the ECOWAS Trade Liberalization Scheme (ETLS). The ETLS is composed of the establishment of new markets for goods and services for member nations, provision of investment opportunities, minimizing the costs incurred in the transportation of goods from one region to another, and setting up common rules to facilitate the movement of goods.

2.3.5.27 Signing of the Supplementary Act on Dakar-Abidjan Corridor, and Laying of the First Stone for the Regional Electricity Project. The Project Covers Cote D'Ivoire, Guinea, Liberia, and Sierra Leone

In an attempt to boost the regional electricity project in the region, the West Africa Power Pool (WAPP) developed a strong partnership with the World Bank. The development of this project is set to add up to the technical integration of the WAPP, decreasing the cost of electricity supply, increase the national transition grid for Liberia and Sierra Leone, boost the export capability of Cote d'Ivoire, and expansion of regional infrastructure from Nzérékoré in Guinea to Sanankoroba in Mali[55].

Figure 13: Map of WAPP Infrastructure



Source: World Bank (30 December, 2017) Date Accessed 26 March, 2019

2.3.5.28 Implementation Unit of the Abidjan-Lagos Corridor Highway

In February 2019 launched the Project completion Unit (PIU) for the Abidjan-Lagos Corridor Highway Development Project to promote cross-border trade, generate social and economic activities and integrate the economies of countries in the region and help in reducing poverty in the region.

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[55] West African Power Project (03 August, 2017) http://www.ecreee.org/sites/default/files/event-att/wapp_mr._jeremiah_oyewole.pdf Regional Training Workshop on Geographical Information System for Energy Planning -Lessons learnt from the WAPP experience in relation to Collecting and Updating Data for Energy Planning October 10 2018.

2.3.6. CHALLENGES OF ECOWAS

2.3.6.1 The Trade Factor and the Economy of Member States

The nature of the economy of ECOWAS member countries possesses a great challenge to ECOWAS in its pursuit of an integrated market and the adoption of a Common External Tariff (CET). Most of the ECOWAS member countries are ranked among the Highly Indebted Nations or countries that are underdeveloped. The nature of the countries makes the community's market a narrow one which makes ECOWAS to not fare well in intra-regional trade (Gbadebo 2004: 144 - 154). Imohe (p. 4 2007) states that there is no demonopolization of trade in the community and the income generated from the exportation of a single product mineral community or primary commodities increased by a few margins only. It is disclosed that the economies of ECOWAS member states are import driven as they produce homogenous raw material except for the export of mineral resources.

Table 7: Primary Trade Commodities of ECOWAS member countries

Country	Primary Exports
Benin	Cotton, Crude oil, Palm products, Cocoa
Burkina Faso	Cotton, Livestock, Gold
Côte d'Ivoire	Cocoa, Coffee, Timber, Petroleum, Cotton, Bananas, Pineapples,
The Gambia, The	Peanut products, Fish, Cotton lint,
Ghana	Gold, Cocoa, Timber, Tuna, Bauxite, Aluminum, Manganese ore, Diamonds and recently oil (at a small scale)
Guinea	Bauxite, Alumina, Gold, Diamonds, Coffee, Fish, Agricultural products
Mali	Cotton, Gold, Livestock
Niger	Uranium ore, Livestock, Cowpeas, Onions
Nigeria	Petroleum and petroleum products 95%, Cocoa, Rubber
Senegal	Fish, Groundnuts (peanuts), Petroleum products, Phosphates, Cotton
Sierra Leone	Diamonds, Cocoa, Coffee, Fish
Togo	Reexports, Cotton, Phosphates, Coffee, Cocoa

Source: Odularu, G. O. (2009) Date Accessed 26 March, 2019

2.3.6.2 Financial Sector Disparities and Poor Payment System

Essien and Omanukwue (2004: 49) opine that there is a wide disparity in the financial sector of the ECOWAS member countries. For example, a country like Nigeria has banked with a strong capital base more than most of the ECOWAS member countries. In this regard, the financial sector in the community is not uniform, there is an inconvertibility of most currencies of the region, and due to incompatibility in the sector fund transfer and payment system is delayed.

2.3.6.3 Challenges of Infrastructure and Regulatory Regime

The state of infrastructure in the region is at its dilapidated state. The road networks, energy sectors, regional railings, and telecommunication facilities are still at the rudimentary stage. Even though ECOWAS proposed a fused telecom network to link the regions, the project still an optical illusion. Moreover, the proposed West African Gas-pipeline, between Nigeria, Ghana, Benin, and, Togo that has been completed is less productive.

The problem of market integration in the region remains a problem. There are quadrupled of checkpoints at the borders of the member states. Odularu (2009, p. 3) stated:

According to an ECOWAS study, there are seven checkpoints every 100 km on the road between Lagos and Abidjan; two on every 100 km stretch between Accra and Ouagadougou, etc. The implication of this is that it has encouraged the corrupt government law enforcement agents to consistently harass and extort money from regional citizens, thereby undermining regional economic activities.

Table 8: Official Checkpoints on Selected Routes of West African Highways

Highway	Distance (Km)	Number of checkpoints	Number of checkpoints per 100 km
Lagos to Abidjan	992	69	7
Lome to Ouagadougou	989	34	4
Abidjan to Ouagadougou	1122	37	3
Niamey to Ouagadougou	529	20	4
Cotonou to Niamey 1036	1036	34	3

Source: ECOWAS Secretariat 2001, 'ECOWAS 1975 – 2000: Achievements and Prospects,' Abuja, Nigeria Date Accessed 26 March, 2019

2.3.6.4 Lack of Political Will

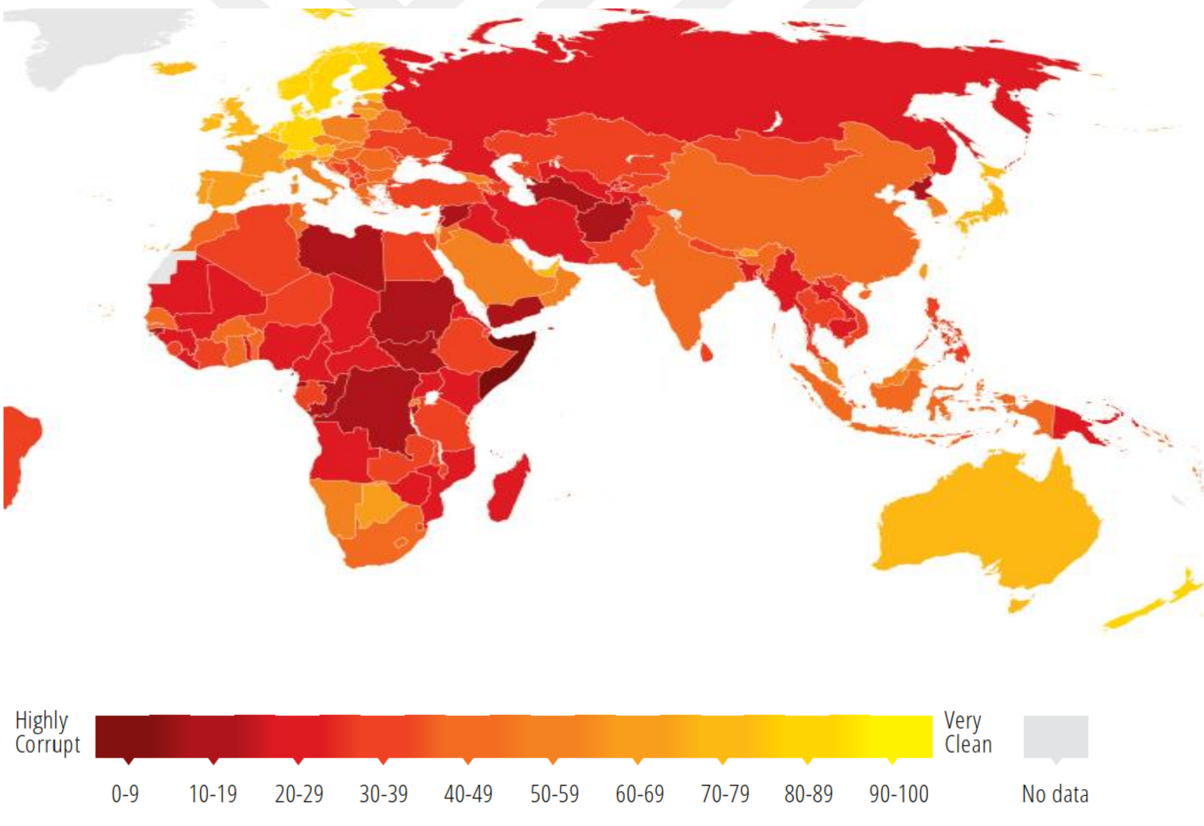
Lack of political will amongst the members of the ECOWAS region makes the attainment of a common market a difficult one. Nwoke (2005: 132) noted that 'the record of the implementation of the numerous community Acts and Decisions is not very encouraging because many member states do not show the necessary political will to follow through to implement the Protocols they have signed'.

Most of the region's leaders find it difficult to implement laws. Most leaders are concerned with their foreign policy objectives rather than regional integration. And in the payment of obligatory duties to the community, the member states do not want to be committed.

2.3.6.5 Corruption and Political Instability

The challenge of personalization of power, election rigging, corruption, and abuse of stewardship is affecting the development of the region. Several countries like Liberia, Guinea-Bissau, and Sierra Leone had been plagued by war. More recently the case of Boko Haram in Nigeria also hinders the progress of the community. Ayittey (1991: 1) asserts that West African leaders see the development of West Africa as a secondary option which is making the region move from one terrible twist to the other.

Figure 14: Transparency Index



Source: https://www.transparency.org/en/cpi (2020) Date Accessed 26 September, 2020

The figure above shows the corruption perception index of different countries in the world in 2019. From the rating, it shows that most of the West African countries fall between corrupt countries and a bit clean countries (Transparency International, 2019).

2.3.6.6 Challenges Emanating from Colonial Hang-Over

The problem of a colonial hangover, lack of integration culture, and suspicion among member states is hampering the development of the region. The Anglophone countries give priorities to their formal colonial masters likewise the Francophone and Portuguese countries. For example, a country like Cote d'Ivoire sells it cocoa in raw form to France in a very cheap price and after packaging France sells it back to Cote d'Ivoire in an expensive price. Also, France always tries to have the largest share of the natural resources of the countries it colonized.

Figure 15: Challenges Emanating from Colonial Hang-Over

Source: National Institute of Population and Social Security Research, Japan (27 Dcember, 2018) from http://www.ipss.go.jp/index-e.asp Date Accessed 26 March, 2019

2.3.7 ECO CURRENCY

The success of the European Union with its common currency in the name of "euro" inspired the Economic Community of West African States (ECOWAS) to propose the idea of launching a common currency in the West African region called "the eco." Initially, the eco currency was introduced in December 2000 in the West African Monetary Zone (WAMZ)[56] but later it was agreed to be expanded to all other ECOWAS member countries. ECOWAS first planned to launch the eco in 2003, but it was later postponed to 2005, 2010, and 2014. In December 2009, ECOWAS planned to merge the Eco and the CFA to have one common currency for the 15 member countries called "the eco" and launch it in 2020. In preparation for the common currency, the West African Monetary Institute (WAMI) was established in Accra, Ghana to act as the monetary institute otherwise the central bank of the WAMZ countries and be responsible for the printing and minting of the eco just like the European Monetary Institute.

The West African Monetary Institute (WAMI) set up 10 convergence criteria that must be met before implementing the eco. The criterion is divided into two: four primary criteria and six seconds.

The criteria are as follows

1. Maintaining single-digit inflation every year
2. Having a deficit of no more than 4% of the GDP
3. Deficit financing of the Central Bank should not be more than 10% of the last year's tax revenues
4. Net external reserves

The other criteria are

- Prohibition of new domestic default payments and liquidation of existing ones.
- Tax revenue should be equal to or greater than 20 percent of the GDP.
- Wage bill to tax revenue equal to or less than 35 percent.
- Public investment to tax revenue equal to or greater than 20 percent.

[56] WAMZ comprises of five countries outside the WAEMU namely The Gambia, Ghana, Guinea, Nigeria and, Sierra Leone.

- A stable real exchange rate.
- A positive real interest rate.

2.3.8 FRANCE VS THE ECO

In an attempt to have a common currency in the ECOWAS, eight French-speaking countries that are using CFA and seven other countries with their independent currencies decided to come up with a single currency in the name of ”eco”, a move which started in the mid-1980s and is projected to be achieved in June 2020.

Having proposed the ECO which is to the new currency of the ECOWAS, France intervened in fear of losing its influence in controlling the monetary union of the Francophone countries and all other control it has in the region. Sylla (2020) reported that in 1970 report by the French Socio-Economic Council[57]CFA is giving France a tremendous advantage over the Francophone countries because it benefits from so many ways such as paying imported goods in its currency without a need to convert it to dollars, France trade surplus, free revenue and capitals transfer without any risks, and economic and political interests in the sense that the French colonized countries pay for keeping their foreign reserves which have contributed massively to the underdevelopment of the WAEMU member countries.

December 21, 2019, marked the day in which both Ivory Coast president, Alassane Ouattara, and the French president, Emmanuel Macron agreed on ending the obligation of depositing 50% of their foreign exchange reserves and withdrawal of a representative the WAEMU member countries' monetary board.

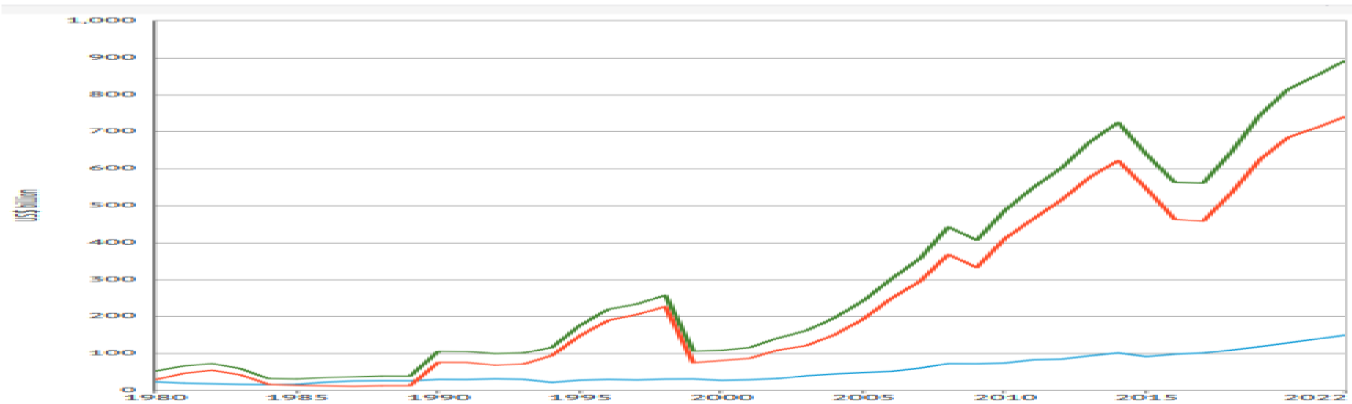
In fear of losing its power in the region and to dominate other West African countries and lessen the power of Nigeria in the establishment of the eco, France made proposed the idea of pegging the eco to the euro just like the CFA which is 1 EUR = 655.96 CFA.

[57] https://www.lecese.fr/travaux-publies/les-problemes-monetaires-de-la-zone-franc (27 October, 2018) Retrieved December 17, 2019.

2.3.9 ECOWAS ECONOMIC OUTLOOK

2.3.9.1. GDP

Figure 16: GDP

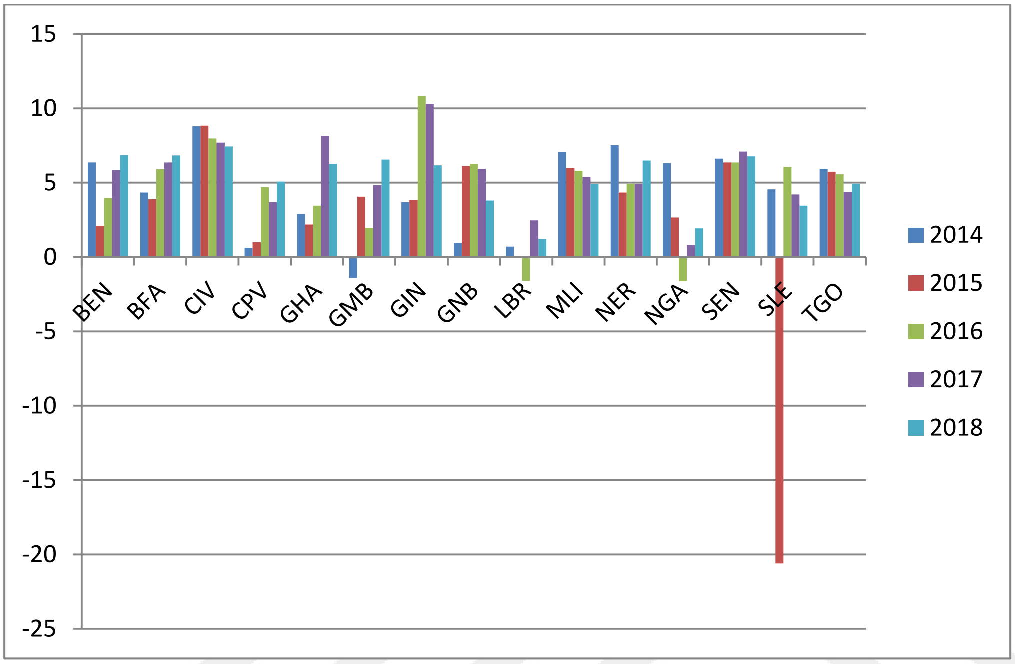


Source: World Economic Outlook (30 January, 2019) Date Accessed 30 March, 2019

The green lines represent the inflation rate in the ECOWAS region, the blue one represents the inflation rate in the WAEMU region, and the red one represents the inflation rate in the WAMZ region. The GDP in the ECOWAS region has increased over the years. From 2000 to 2008 the GDP growth in the community experienced tremendous growth from 108.60 Billion USD to 442.28 Billion USD, but this growth was hampered in 2009 because of the global financial crisis. After 2009, this growth continued and reached over 620 Billion USD in 2014 because many West African countries experienced a tremendous growth rate between 2012 and 2015 (African Economic Outlook, pg. 3, 2018). Between 2016 and 2017 the growth slowed to about 0.5% and the GDP fell to 560 Billion USD in 2017 as a result of the negative economic growth of the Nigerian and Liberian economic even though Cote d'Ivoire experienced a growth of almost 9%. From 2018 the economy of the ECOWAS started to pick up and is projected to grow more than 850 Billion USD in 2022 (IMF, 2017).

In the WAMZ region, most of the GDP growth is almost the same as the ECOWAS. In the WAEMU region, the case is different.

Figure 17: GDP Growth (Annual %)



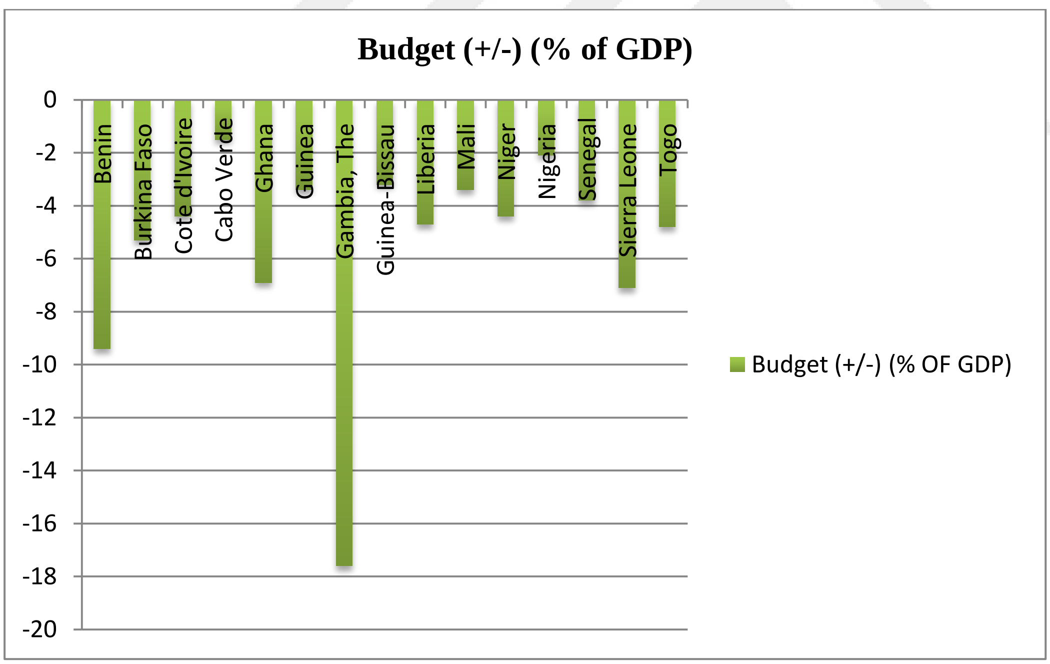
Source: World Bank (30 January, 2019) from https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG Date Accessed 30 January, 2019

In the breakdown of the annual GDP growth of the ECOWAS countries, most of the countries' growth was between 4-6%. In 2014, Benin recorded an annual GDP growth was 6.4% but fell to as low as 2.1% in 2015 but increased up to 6.6% in 2018. Burkina Faso's annual growth was 4.3% in 2014 which increased to 6% in 2016 and up to 6.8% in 2018. Nigeria and Senegal are the other countries who had an annual growth averaging 6% in 2014 but the growth rate of Nigeria fell to as low as -1.6% in 2016 and 1.94% in 2018 while that of Senegal fell to 6.4% in 2016 and rose to 6.77% in the same period. Countries like Cote d'Ivoire, Mali, and Niger had an annual GDP growth between 7-8% in 2014 but in 2016 and 2018 they all experienced a decline in growth to less than 7.8% and 7.4% for Cote d'Ivoire, Mali 5.8% down to 4.9%, and Niger 4.9% but later increased to 6.5%. Cape Verde had 0.6% growth in 2014, 4.7% in 2016 and 5% in 2018. The Gambia had negative growth of -1.4% in 2014 but increased to 1.94 and 6.5% in 2016 and 2018 respectively. Guinea-Bissau like Cape Verde also experienced annual growth of less than

1% in 2014 but increased to 6.3% in 2014 and fell to as low as 3.8% in 2018. Liberia also experienced less than 1% growth in 2014 and in 2016 it recorded negative growth of -1.6% and 1.2% in 2018. Sierra Leone recorded an annual rate of 4.6% in 2014 but after experience a negative growth of up to -21% in 2015 it recorded positive growth in 2016 up to 6.1% in 2016 and 3.4% in 2018. In 2014, annual growth was 5.9% in Togo and in 2016 it was 5.6% and fell to 4.9% in 2018 respectively. In general, most of the ECOWAS member countries had been able to maintain annual growth of not less than 3% except for Gambia, Nigeria, and Sierra Leone.

2.3.9.1.1 ECOWAS Budget Surplus (+) or Deficit (-) (% OF GDP) 2017

Figure 18: ECOWAS Budget Surplus (+) or Deficit (-) (% OF GDP) 2017



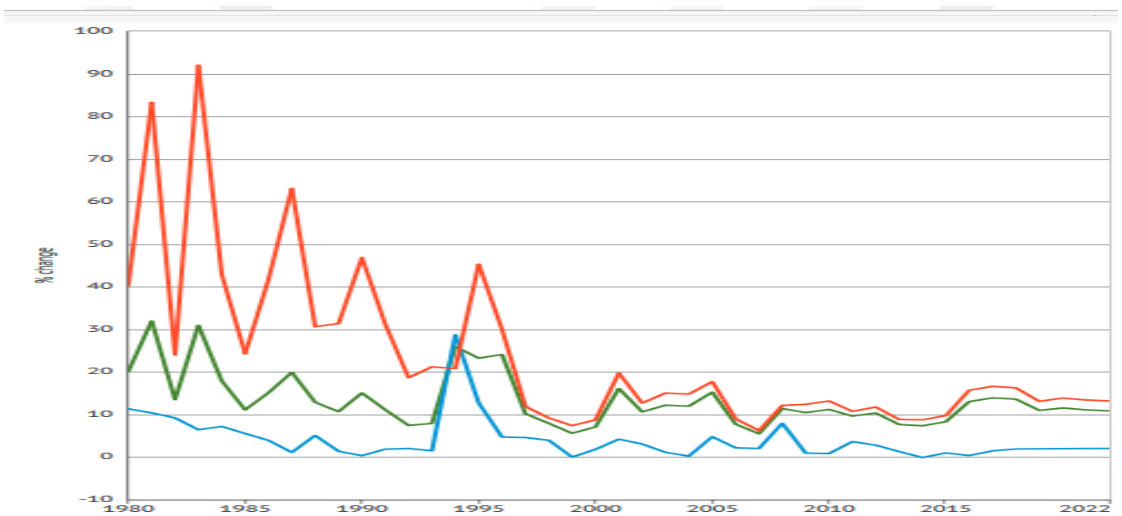
Source: World Fact Book (30 December 2019) Date Accessed 30 January 2020 from https://www.cia.gov/library/publications/the-world-factbook/

In 2017, all the ECOWAS member countries recorded a budget deficit. The Gambia is the country that recorded the highest budget deficit (% of GDP) with -17.6 followed by Benin -9.4, Sierra Leone -7.1, Ghana -6.9, and Burkina Faso -5.3. The countries with budget deficit less -5%

are Togo with -4.8, Liberia -4.7, Niger, and Cote d'Ivoire -4.4. Other countries are Senegal -3.8, Guinea and Mali -3.4, Guinea-Bissau -3.2, Nigeria -2.1, Cabo Verde -1.5 respectively. In general, ECOWAS countries have not been able to have a surplus budget as a percent of GDP.

2.3.9.2 Inflation

Figure 19: Inflation in the ECOWAS region



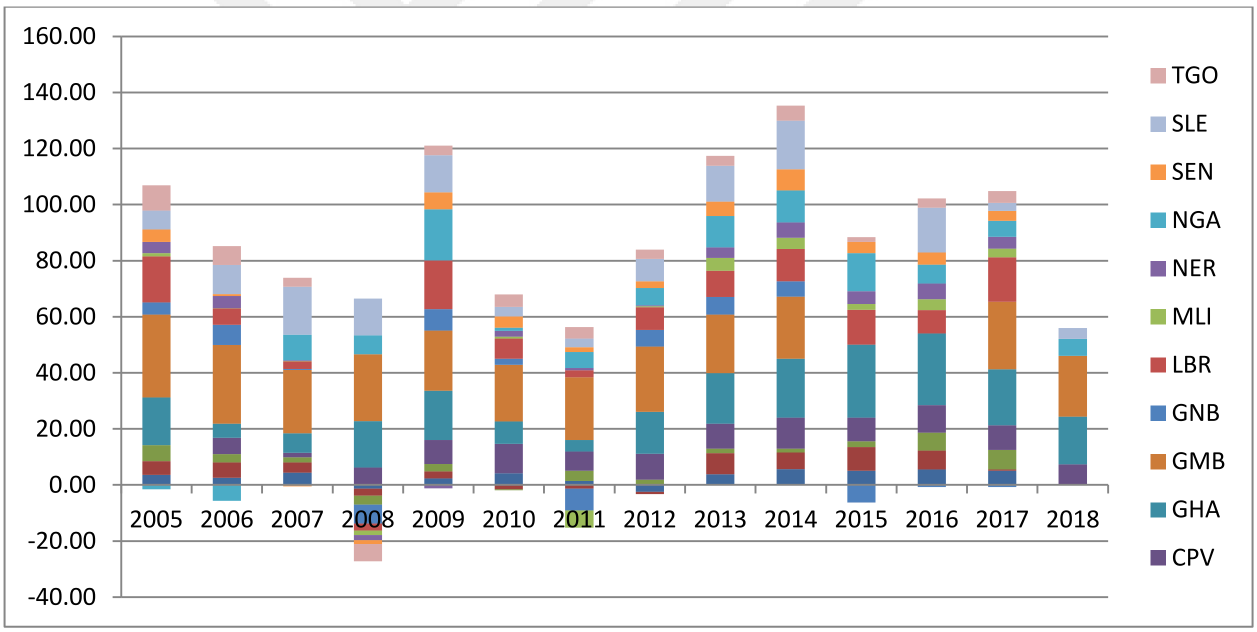
Source: World Economic Outlook (30 January, 2019) Date Accessed 30 March, 2020

The graph above shows the inflation rate of ECOWAS, WAEMU, and WAMZ. The green lines represent the inflation rate in the ECOWAS region, the blue one represents the inflation rate in the WAEMU region, and the red one represents the inflation rate in the WAMZ region. From 1980 to 2019, the inflation rate in the ECOWAS region had been fluctuating. The highest inflation rate was in 1980 with 31.98% and the lowest was in 2014 when the inflation rate stood at 7.35% and this was s a result of the community to maintain a sustainably stable inflation rate that will not affect their growth (ECOWAS Annual Report, p. 37, 2014). As projected by the World Bank in 2017, the inflation rate of the community will increase to 10.85% in 2022. In the WAEMU region, the inflation rate has been declining since 1980 from 11.33% in 1980 to 1.49%

in 1993. In 1994 the rate rose to 28.71% as a result of the devaluation of CFA (Valdovinos & Gerling, p.9, 2010). In 2014, the inflation rate was -0.11% but in 2019 it increased to 1.95% and is projected to increase to 2.04% by 2022. In the WAMZ region, the inflation rate has been high and low over the years. In 1983, the inflation hit a record hit high of 92.08% and the lowest rate was in 2007 which was 6.22% which late increased up to 13.10% in 2019 and project to increase to 13.18% in 2022.

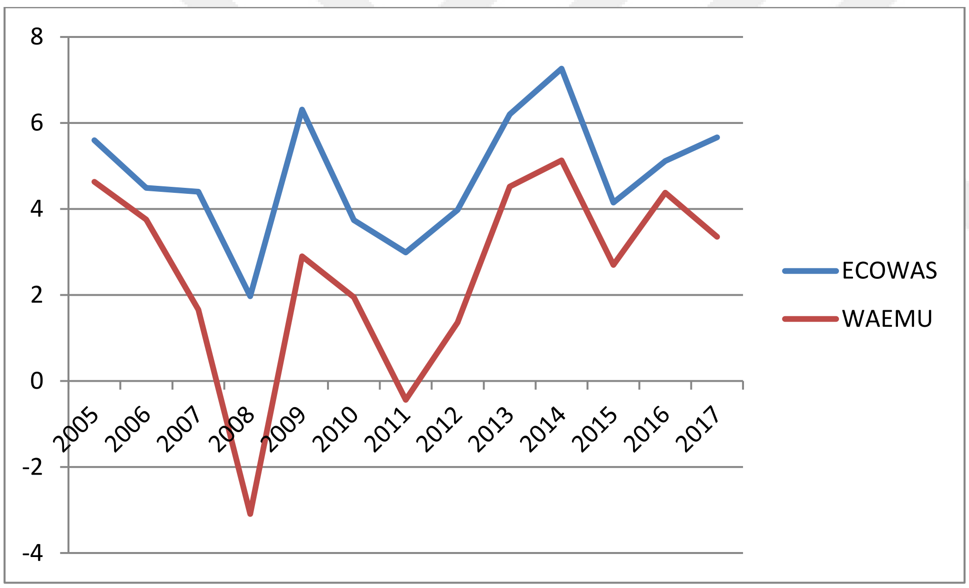
2.3.9.3 Nominal Interest Rate

Figure 19: Nominal Interest Rate in the ECOWAS region



Source: World Bank, Source, Bank of Ghana, Trading Economics (30 January, 2020) **https://data.worldbank.org/indicator/FR.INR.RINR and** **https://tradingeconomics.com/ghana/interest-rate Date Accessed 06 February, 2019**

The graph illustrates the nominal interest rate of 14 ECOWAS member countries except for Guinea because there is no data available from 2005 to 2018. Among the ECOWAS member countries, The Gambia is the country with the highest rate interest rate. In 2005 the nominal interest rate in The Gambia was nearly 30% which fell to 22.31% in 2007. Since then the interest rate has been risen and fallen and in 2018 it stood at 21.67%. Other countries that have the highest interest rate is Liberia with 16.46% in 2005, 7.26% in 2010, 12.43% in 2015 and 15.78% in 2017 followed by with an interest rate of 17% in 2005 then 8% in 2010, 26% in 2015 and 17% in 2018. On the other hand, there are countries like Benin, Burkina Faso, Mali, and Nigeria that had an interest rate of less than 5% in 2005, and Nigeria had -1.59%. In 2010 and 2018, most of the countries except for Ghana and Cabo Verde had an interest rate of less than 10%. Generally, most of the countries in the community have an interest rate of less than 10%.



Source: World Economic Indicators (30 January, 2019) https://data.worldbank.org/indicator/FR.INR.RINR Date Accessed 06 February, 2019

The line graph above illustrates the nominal interest rate of ECOWAS and WAEMU for more than a decade. As shown above, the differences in the interest rate in both communities are not much. In 2005, the interest rate of ECOWAS was 5.60% while that of WAEMU was 4.63%. In 2008 and 2011, WAEMU had -3.09 and -0.44 while ECOWAS had 1.97 and 2.47 respectively. In 2014, both economic integrations experienced a rise in the interest rate with ECOWAS having 7.62% and WAEMU with 5.13% which later fell to 5.61% and 3.35% respectively.

2.3.9.4. Exchange Rates

Table 9: Exchange Rates (Dollar $)

Country/Currency	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Benin (CFA franc)	446	470.293	494.794	471.249	510.556	493.9	493.757	591.212	592.606	580.657	555.446	584.4
Burkina Faso (CFA franc)	447.805	472.186	495.277	471.866	510.527	494.04	494.415	591.45	593.008	582.095	555.718	584.4
Cote d'Ivoire (CFA franc)	447.805	472.186	495.277	471.866	510.527	494.04	494.415	591.45	593.008	582.095	555.718	584.4
Cabo Verde (Cape Verdean escudo)	75.336	80.0354	83.2787	79.2769	86.319	83.0725	83.0345	99.3857	99.6881	97.8069	93.4136	98.65
Ghana (Ghanaian cedi)	1.05786	1.4088	1.43103	1.51185	1.79582	1.95405	2.89978	3.66803	3.9098	4.35074	4.58682	5.67755
Guinea (Guinean francs (GNF)	4601.69	4801.08	5726.07	6658.03	6985.83	6907.88	7014.12	7485.52	8959.72	9088.32	9011.13	9562
Gambia, The (Dalasi)	22.1924	26.6444	28.012	29.4615	32.0771	35.9576	41.733	42.5062	43.8846	46.6075	48.1513	51.25
Guinea-Bissau (Communaute Financiere Africaine francs (XOF))	447.805	472.186	495.277	471.866	510.527	494.04	494.415	591.45	593.008	582.095	555.718	584.4
Liberia (Liberian dollar)	63.2075	68.2867	71.4033	72.2267	73.5148	77.52	83.8925	86.1884	94.4272	112.707	144.056	186.93
Mali (CFA franc)	447.805	472.186	495.277	471.866	510.527	494.04	494.415	591.45	593.008	582.095	555.718	584.4
Niger (CFA franc)	447.805	472.186	495.277	471.866	510.527	494.04	494.415	591.45	593.008	582.095	555.718	584.4
Nigeria (Nigeria)	118.546	148.902	150.298	153.862	157.499	157.311	158.553	192.44	253.492	305.79	306.084	360
Senegal (CFA franc)	447.805	472.186	495.277	471.866	510.527	494.04	494.415	591.45	593.008	582.095	555.718	584.4
Sierra Leone (CFA franc)	2981.51	3385.65	3978.09	4349.16	4344.04	4332.5	4524.16	5080.75	6289.94	7384.43	7931.63	584.4
Togo (CFA franc)	447.805	472.186	495.277	471.866	510.527	494.04	494.415	591.45	593.008	582.095	555.718	584.4

Source: Author's compilation (2020)

The table above depicts the exchange rate of ECOWAS countries in dollars showing clearly how each country exchange its money with dollars between 2008 and 2018. An examination of the table shows that among the community members, in figurative terms shows that the French-speaking countries under the West African Economic and Monetary Union (WAEMU) except for Guinea have a uniform exchange rate against the dollar. Other countries like Nigeria, Ghana, the Gambia, and Liberia all have their currencies that are exchanged for a dollar. Having a non-uniform exchange rate makes it hard for citizens when they travel to a member country.

In line with other exchange rates, the eight Francophone countries namely Benin, Burkina Faso, Guinea-Bissau, Ivory Coast, Mali, Niger, Senegal, and Togo have their currency pegged to euro which initially started with the pegging of the CFA to French franc a moved that started in 1945 but after the admission of France into the Eurozone, the French franc was subsumed with the euro. The saddest thing is that despite the independence of these countries, France still controls them and pegged CFA to the euro is still under the supervision of France. Additionally, the French-speaking countries are required to keep 50% of their foreign exchange reserves with the French treasury, and French representative in the Francophone countries' monetary union board. Doing this is not benefiting the countries but place them in a highly disadvantaged position. On the positive side, the countries benefited from a stable currency and very low inflation which other ECOWAS member countries have not benefited from it.

2.3.9.5. Intra Trade

Table 10: ECOWAS Intra Trade Exports in millions of US Dollar

Country	2013	2014	2015	2016	2017	Ave (2013-2017)	Share %
Benin	158.8	193.4	137.6	91.5	136.6	143.6	1.3
Burkina Faso	275.4	458.2	288.0	245.8	319.7	317.4	2.8
Cape Verde	5.8	1.0	8.2	8.1	26.5	9.9	0.1
Cote d'Ivoire	4,633.4	3,114.1	2,575.2	2,329.0	2,258.7	2,982.1	26.7
Gambia	94.1	87.5	63.1	69.9	8.7	64.6	0.6
Ghana	1,119.4	1,328.8	1,318.0	1,353.7	1,013.0	1,226.6	11.0
Guinea	62.2	457.0	398.1	357.8	431.8	341.4	3.1
Guinea-Bissau	0.0	0.0	0.0	4.7	2.0	1.4	0.0
Liberia	28.5	15.1	54.7	46.8	10.7	31.2	0.3
Mali	367.1	309.0	427.8	406.1	295.7	361.2	3.2
Niger	540.8	456.9	265.6	239.2	295.3	359.6	3.2
Nigeria	4,831.4	5,206.6	3,116.6	2,274.6	2,568.0	3,599.4	32.2
Senegal	1,026.6	1,076.1	987.6	986.4	1,119.8	1,039.3	9.3
Sierra Leone	97.8	72.1	141.3	175.2	127.5	122.8	1.1
Togo	763.0	538.2	446.9	577.5	539.8	573.1	5.1
Total ECOWAS	**14,004.3**	**13,314.1**	**10,228.6**	**9,166.3**	**9,154.0**	**11,173.4**	**100.0**
Ecowas intra in %	**11.8**	**10.1**	**13.0**	**14.9**	**11.5**	**12.2**	

Source: ECOWAS (01 January, 2019) https://www.ecowas.int/ecowas-sectors/trade/ Date Accessed 23 February, 2019

The overall exports of ECOWAS Intra trade exports in millions of US Dollars averaged $11,173.4 million which was 12.2% between 2013 and 2017. Over the years the intra trade exports of ECOWAS fell fluctuated for some time. In 2014 the intra trade exports fell to as low as 10.1% and later on rose to 14.9% in 2016 but again fell to 11.5% in 2017. Considering all other ECOWAS member countries, Nigeria is the country that has the highest number of exports between 2013 and 2017 averaging 32.2%. Besides Nigeria, the country that exports the most is Cote d'Ivoire which averaged 26.7% between the same periods. Among the community member states, the country with the lowest export is Guinea-Bissau. The main reason why Nigeria is the leading exporter in the community is because of its complementarities in production structure and economic development (UNCTAD Economic Development Report in Africa, p.22, 2019).

Table 11: ECOWAS Intra Trade Imports in millions of US Dollar

Country	2013	2014	2015	2016	2017	Ave (2013-2017)	Share %
Benin	481.7	437.1	393.1	284.9	325.1	384.4	4.2
Burkina Faso	986.5	894.9	574.1	721.9	804.4	796.4	8.6
Cape Verde	9.0	19.8	30.3	89.0	157.4	61.1	0.7
Cote d'Ivoire	3,257.0	2,709.3	2,122.5	1,261.5	1,328.1	2,135.7	23.2
Gambia	102.2	100.3	131.6	79.4	265.7	135.8	1.5
Ghana	1,025.1	433.3	456.5	300.3	405.6	524.1	5.7
Guinea	58.2	77.5	160.3	194.1	767.6	251.5	2.7
Guinea-Bissau	22.6	31.4	23.8	18.6	14.6	22.2	0.2
Liberia	280.0	387.7	442.0	414.8	301.8	365.3	4.0
Mali	1,509.8	1,506.6	1,393.0	1,359.1	1,330.2	1,419.7	15.4
Niger	354.0	388.2	359.8	293.8	299.8	339.1	3.7
Nigeria	2,205.5	292.6	1,110.8	401.9	254.7	853.1	9.3
Senegal	898.1	742.4	606.6	602.2	715.1	712.9	7.7
Sierra Leone	1,303.4	2,190.3	1,120.3	311.3	137.0	1,012.5	11.0
Togo	268.9	217.3	179.5	182.6	173.7	204.4	2.2
Total ECOWAS	**12,762.1**	**10,428.8**	**9,104.1**	**6,515.3**	**7,280.8**	**9,218.2**	100.0
Ecowas intra in %	13.8	10.7	11.1	8.0	9.6	10.7	

Source: ECOWAS (01 January, 2019) https://www.ecowas.int/ecowas-sectors/trade/ Date Accessed 23 February, 2019

As illustrated in the ECOWAS Intra trade Imports statistics, on average between 2013 and 2017 the intra trade import was 10.7%. The highest intra trade import between the community members was recorded in 2013. Between 2013 and 2017 Cote d'Ivoire recorded the highest intra import which was 23.2% of the total intra imports. Guinea-Bissau just like in the case on intra trade exports recorded the lowest intra trade import which was 0.2%. Based on the statistical table, Cote d'Ivoire is the country with the highest intra trade imports.

The statistical data is based on formal trade recorded and does not include the trade carried out without registration. However, even though the intraregional trade between the ECOWAS countries is still low, there is an increase in trade relations within the community.

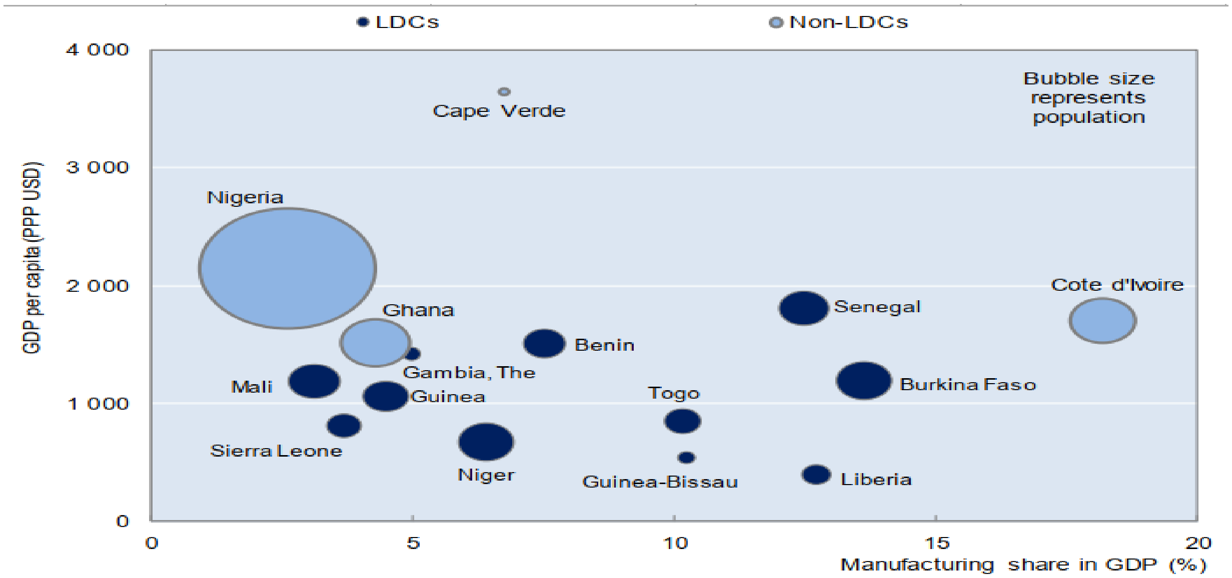
Table 12: Evolution of Intra Regional Trade-in Value (millions of US Dollar) and in Percentage (%)

Flows \ Years	2013	2014	2015	2016	2017	Average
Intra Exports	14,004	13,314	10,229	9,166	9,154	11,173
Intra Imports	12,762	10,429	9,104	6,515	7,281	9,218
Total Intra Trade	26,766	23,743	19,333	15,682	16,435	20,392
Share Intra Exports in %	**11.8**	**10.1**	**13.0**	**14.9**	**11.5**	**12.2**
Share Intra Imports in %	**13.8**	**10.7**	**11.1**	**8.0**	**9.6**	**10.7**
Share Total Intra Trade in %	**12.7**	**10.4**	**12.0**	**11.0**	**10.6**	**11.3**
Variation Exports Intra %		-4.9	-23.2	-10.4	-0.1	-9.7
Variation Imports Intra %		-18.3	-12.7	-28.4	11.8	-11.9

Source: ECOWAS (01 January, 2019) https://www.ecowas.int/ecowas-sectors/trade/ Date Accessed 23 February, 2019

The total intraregional exports and imports of ECOWAS averaged 11.3% between 2013 and 2017. The intra trade got a tremendous hit especially in 2014 where it recorded a very low intraregional trade of 8.0% but got a boost in 2015 and recorded 12.0%. In terms of variation, the average variation in intra exports between 2013 and 2017 was -9.7% and that of import were -11.9. From the statistical data, over the years ECOWAS regional trade remained low and at an almost constant level.

Figure 21: Size and the Economic Structure of ECOWAS Member Countries



Source: Policy Priorities for International Trade and Jobs OECD (30 December, 2012) oecd.org Date Accessed 23 February, 2019

The chart describes the size and the economic structure of ECOWAS member countries which is categorized as Least Developed Countries which comprise of Benin, Burkina Faso, Gambia, Guinea, Guinea-Bissau, Liberia, Niger, Sierra Leone, Togo and Senegal, and Non-Least Developed Countries that comprise Cape Verde, Cote d'Ivoire, Ghana, and Nigeria. The size of the member countries' population and the economic weight play a major role in exporting goods among member countries. The small sizeable size of the manufacturing industries in some countries and poor infrastructure contribute to the fewer exports by other countries except for Cape Verde is regarded as a small island economy.

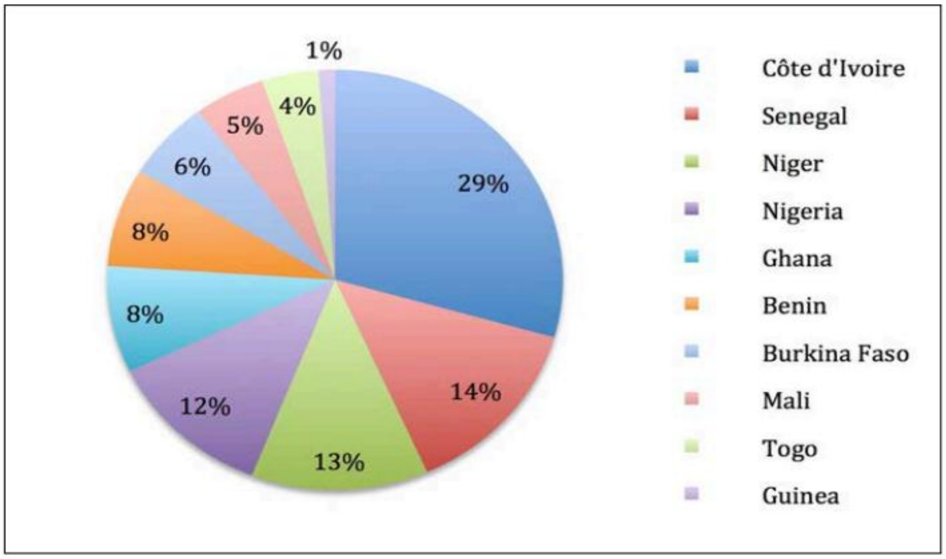
Table 13: Top 10 Intra-Regional Exports and Imports in ECOWAS (in Value, Average 2010-2014)

Top 10 intra-regional EXPORTS		**Top 10 intra-regional IMPORTS**	
Petroleum (crude)	35%	Petroleum (crude)	38%
Petroleum (70% oil)	19%	Petroleum (70% oil)	18%
Cement and other construction materials	4%	Cement and other construction materials	4%
Ships and floating structures	3%	Ships and floating structures	3%
Perfumery and other hygiene articles	2%	**Tobacco**	2%
Live animals	2%	**Fixed vegetables fats and oils**	2%
Tobacco	2%	Perfumery and other hygiene articles	2%
Fixed vegetables fats and oils	2%	**Edible products and preparations**	1%
Articles of plastic	2%	Liquid propane and butane	1%
Liquid propane and butane	1%	Articles of plastic	1%

Source: UNCTAD, European Centre for Development Policy Management (30 Decmber, 2016) unctad.org/ Key_Statistics_and_Trends_in_Regional_Trade_in Africa pdf Date Accessed 23 February, 2019

The table shows the top 10 intra-regional exports and imports in ECOWAS (in value, average 2010-2014). Between these periods, there are only three food products namely live animals, tobacco, and fixed vegetable fats and oils that are among the top 10 intra-regional exports. On the other hand, tobacco, fixed vegetable fats and oils, and edible products and preparations are the other food products that are among the top 10 intra-regional imports.

Figure 22: Top ECOWAS Intra-Regional Food Exporters (% of Total Intra-Regional Food Exports in Value, Average 2010-2014)



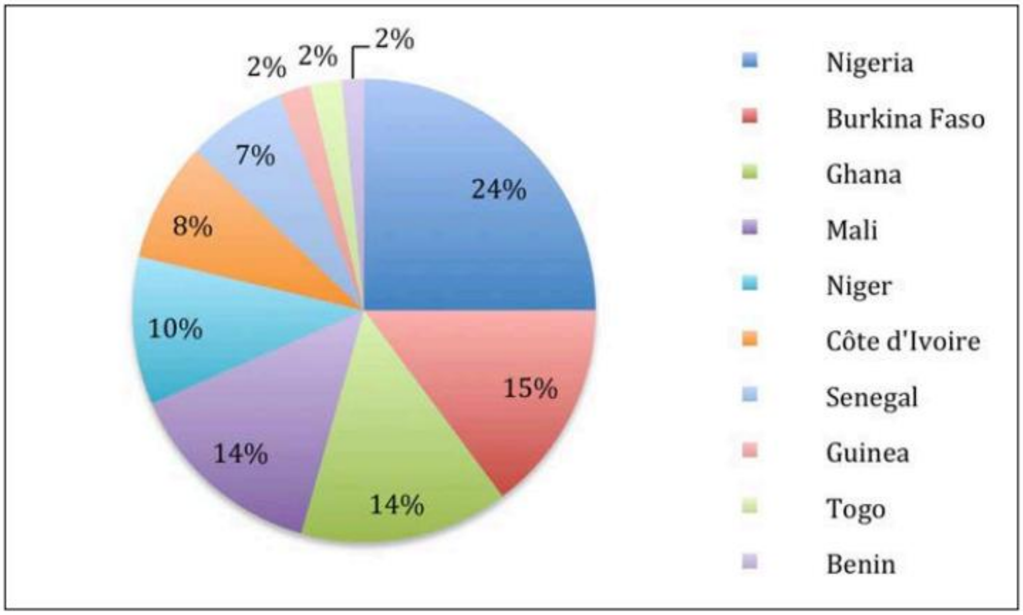
Source: European Centre for Development Policy Management (30 Decmber, 2016) from unctad.org/ Key_Statistics_and_Trends_in_Regional_Trade_in Africa pdf Date Accessed 23 February, 2019

Top 5 intraregional food exporters are Côte d'Ivoire, Senegal, Niger, Nigeria, and Ghana, which provide 76% of intra-regional food exports.

Out of all the ECOWAS member countries, five countries are regarded as the major food exporters in the region namely Côte d'Ivoire, Ghana, Niger, Nigeria, and Senegal. The 5 intra-regional food exporters which are also regarded as the largest economies except for Senegal comprise 76% of the intra-regional of the community. One of the countries that export most processed food products in Nigeria[58].

[58] UNCTAD 2016 reported that Nigeria exports processed food products like edible products and preparations, milk and milk products non-alcoholic beverages, and sugar) given its strong food industry performance in the community.

Figure 23: Top ECOWAS Intra-Regional Food Importers (% of Total Intra-Regional Food Imports in Value, Average 2010-2014)



Source: European Centre for Development Policy Management (30 December, 2016) unctad.org/ Key_Statistics_and_Trends_in_Regional_Trade_in Africa pdf Date Accessed 23 February, 2019

Top 5 intraregional food importers are Nigeria, Burkina Faso, Ghana, Mali and Niger, which absorbs 77% of intra-regional food imports in the region

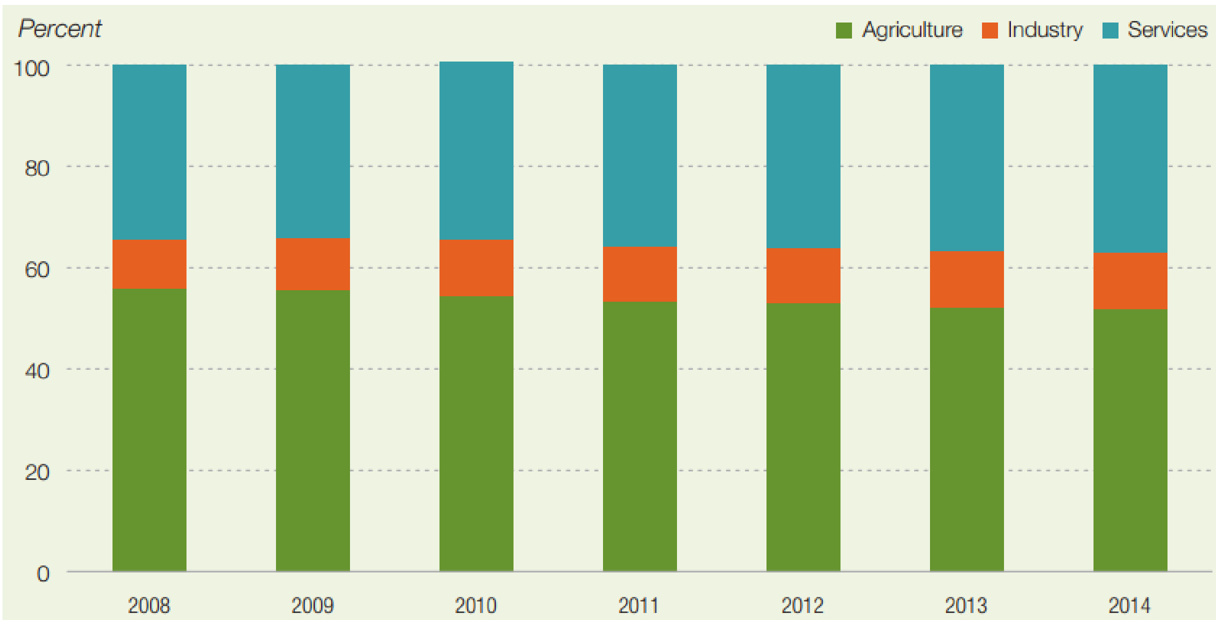
Among the top economies in the region, Nigeria is the major importer in the region as shown above. Nigeria imports 24% of the total food imports[59]. Other countries that follow suit are Ghana which is another largest economy after Nigeria and Burkina Faso, Mali, and Niger which are referred to as land-locked countries[60].

[59] The main products Nigeria imports are fish, fruit and nuts, livestock, and vegetable fats and oil
[60] Land-locked countries import processed food and cereals, and vegetable fats and oils

2.3.9.6 ECOWAS Employment Status

2.3.9.6.1 Employment

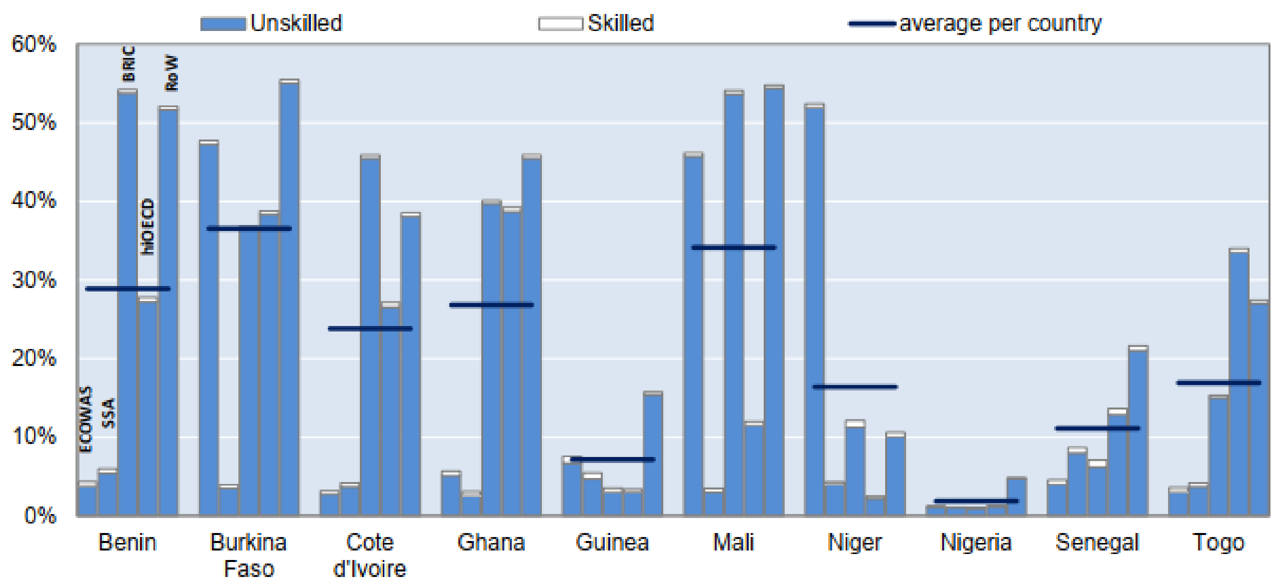
Figure 24: West African employment by sector, 2008–2014



Source: African Development Bank Annual Report (2018)

West Africa witnessed a structural transformation that is said to increase productivity and provide employment opportunities. Between 2008 and 2014, the contribution of agriculture to employment declined by 4%. However, the service sector received a boost more than industry and provided more job opportunities, it is unclear that is playing a vital role in providing employment opportunities because of the heterogeneity. Agriculture remains the primary sector that provides employment opportunities and most people do not require being skilled-labor intensive which signifies that the growth elasticity in the West African region is weak.

Figure 25: Average Share of Skilled and Unskilled Labor Cost in Exports by Destination Region



Source: Uexkull (04 April, 2016), COMTRADE and GTAP Regional Trade and Employment in ECOWAS **https://trade.ec.europa.eu/doclib/docs/2016/april/tradoc_154422.pdf Date Accessed 25 February, 2019**

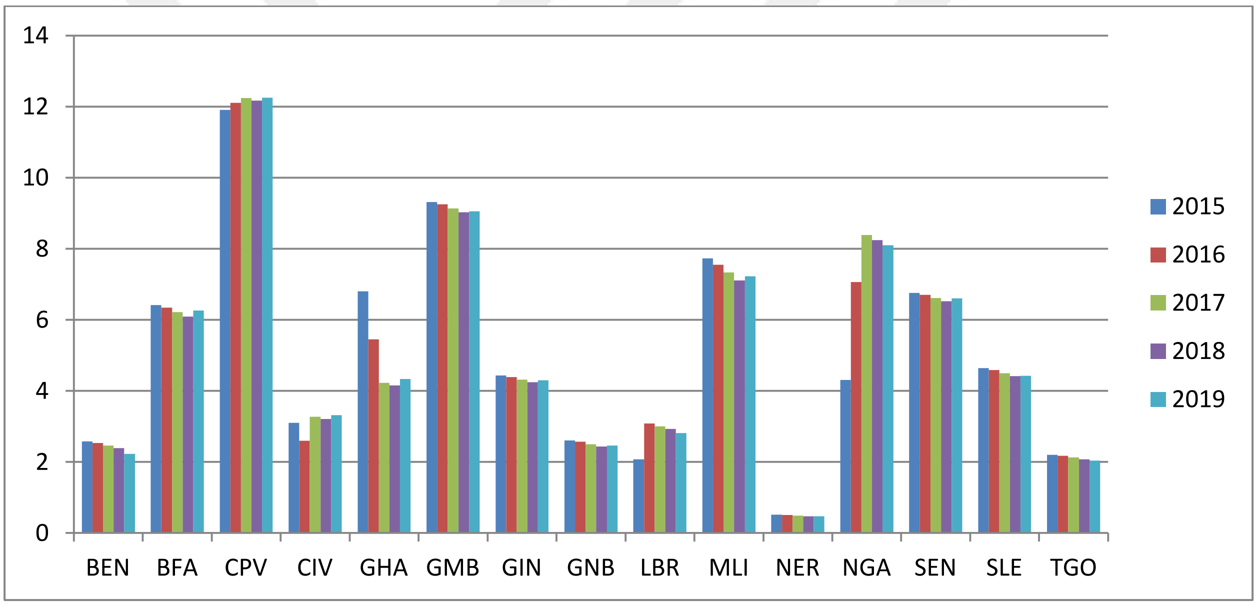
The graph above illustrates the heterogeneity of that exists across ECOWAS countries in terms of their labor cost for shared exports in the region. Out of the 10 countries shown in the graph, only 7 countries[61] have both skilled and unskilled labor cost share of exports to ECOWAS of not more than 10% while the other 3 countries[62] have more than 40% respectively. The result shows that there is a variation in the direct employment offered to both skilled and unskilled workers in carrying out the regional trade. Moreover, the exporters of agricultural products are likely to experience immediate employment in comparison with other sectors because of the regional comparative advantage. According to Uexkul (p. 9. 2012) in the short-run countries such as Benin, Cote d'Ivoire, Ghana, Senegal and Togo play a role in the creation of fewer jobs because

[61] Benin, Cote d'Ivoire, Ghana, Guinea, Nigeria, Senegal, and Togo have a labor cost share for exports to ECOWAS which is has low exports to other countries in the community.
[62] Burkina Faso, Mali, and Niger are the countries with a large share of both skilled and unskilled labor cost for exports to all regions which is far beyond average.

of the exportation of manufacturing products in the region. However, countries like Nigeria and Guinea have very low shares of exports as they export very low minerals and do not contribute immensely to the labor intensity in the community. In general, regional comparative advantage is needed to promote regional integration in the community which will help in employment creation.

2.3.9.6.2 Unemployment in ECOWAS

Figure 26: Unemployment in the ECOWAS Region



Source: World Bank (30 January, 2019)

https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS Date Accessed 24 February, 2019

The unemployment rate in most of the community members had been either stable or experienced a little bit rise or fall. Out of all the ECOWAS member countries, Cape Verde is the country with the highest number of unemployment over the years. In 2015, the country had an 11.9% unemployment rate which changed to 12.24% and 12.24% in 2017 and 2019. The other countries with highest unemployment rate within the same period are the Gambia with 9.3%, 9.1 and also 9.1%, Nigeria 4.3%, 8.4%, and 8.1% so also Mali 7.7%, 7.3%, and 7.2% followed by Senegal, 6.8%, 6.6% and 6.6% and Burkina Faso with 6.4%, 6.2%, and 6.3% respectively. Countries with low unemployment over the same period are Benin 2.6% in 2015, 2.5% in 2017, and 2.2% in 2019 then Cote d'Ivoire 3.1%, 3.3%, and 3.3% as well. Other countries that follow suit are Guinea with 4.4% in 2015, and 4.3% in both 2017 and 2019 respectively. Also, Ghana had 6.8% unemployment in 2015 and then fell to 4.2 the rose to 4.3. Guinea-Bissau recorded 2.6% in 2015 which fell to 2.5% in both 2017 and 2019. Liberia is another country with a low unemployment rate. In 2015, the country's annual was 2.1%, in 2017, it was 3% and in 2019 it was 2.8%. Sierra Leon also had 4.6% in 2015, and in 2017 it was 4.5% and in 2019 it was 4.3%. Togo also had 2.2% in 2015, 2.1% in 2017, and in 2019 it was 2%. Niger is the country with the least unemployment rate of 0.5% in 2015 and in 2017 and 2019 it was 0.5% respectively. Most of the countries in the community have an unemployment rate averaging 2-6% except for Cape Verde, Gambia, and Nigeria.

2.3.10 ECO AND THE OPTIMUM CURRENCY AREA

The theory of Optimum Currency Area as developed by Mundell (1961), McKinnon (1963), Kenan (1969), and defined it as "areas within each of which there is factor mobility, but between which there is factor immobility" and while Ishiyama (1975) argues that OCA is based on cost-benefit analysis which ensures transparency and credibility. ECOWAS is composed of countries that speak different languages and this causes institutional barriers especially to people seeking employment opportunities in other member countries. Among other criteria of the OCA is the free movement of people, goods and services, trade openness, low inflation, economic diversification, and wage stability. In comparison with the Maastricht Treaty, the emphasis was placed on nominal convergence[63] to ensure financial stability among EU member states. The main motive behind choosing nominal convergence criteria over real convergence criteria is that achieving macroeconomic stability as argued by the neoclassical growth theory will eventually lead to real convergence. In connection with the features of the OCA, developing EU member countries, after achieving real convergence criteria will catch-up with the developed countries (Nkwatoh, p. 63, 2018).

[63] namely nominal variables such as exchange rates, government deficits and debts, inflation and interest rates.

In 1964, Balassa and Samuelson established a convergence relationship between nominal and real convergence criteria by taken into account the neoclassical economic growth theory, and in their findings, they stated that a tradeable sector economy with faster productivity growth will play a vital role in reducing wage differentials in all other sectors of a country.

The OCA, in contrast, does not emphasize nominal convergence criteria in establishing an optimum currency area and some of its proponents focused on micro criteria rather than macro conditions in establishing a monetary union. In justifying this argument, Nkwatoh (p.63, 2018) opined that in transitioning to a monetary union, countries do not have to meet any convergence criteria just like the dollar zone, a zone regarded as the most stable union with a political consent of countries in the area. In similar arguments, there is a notion that no country has ever met all convergence or optimum currency criteria before the formation of a monetary union. This was the case during the formation of the European Union where not all the 12 European Countries met all the Maastricht criteria before joining the Eurozone (Haug, MacKinnon, & Michelis, 2000).

ECOWAS just like Europe has the intention of forming a monetary union in the year 2020 with a focus on achieving primary and secondary convergence criteria which include maintaining an inflation rate of less than 5%, a budget deficit of less than 10%, public debt ration of less than 70%, and among others.

In the ECOWAS region, the inflation rate was recorded at 13.22% with an interest rate of -3.09 and -0.44, in the WAEMU region, and 1.97 and 2.47 in the ECOWAS region between 2008 and 2011. As for trade openness, even though the intraregional trade between the ECOWAS countries is still low, there is an increase in trade relations within the community.

It is a known fact that as of now launching the eco possesses so many challenges especially with the high inflation rate in WAMZ and high-interest rate. However, the EU experience has shown that a currency union can take a different dimension without necessarily fulfilling all the Mundell's and other optimum currency criteria.

CHAPTER 3

3 CONCLUSION AND RECOMMENDATIONS

The proposed West African currency union called “eco” is a currency that has long been touted as a way of moving the region forward. Scholars argue that having a currency union will promote economic growth and solve the problems that are bedeviling the West African countries.

Having a currency union has its advantages and disadvantages. Evidenced by the euro, establishing a currency area with a common currency leads to diverse macroeconomic benefits, exchange rate stability, and economic growth. It also opened the door for EU citizens to benefit from the freedom of movement of goods, freedom of movement of people, freedom of movement of services, and freedom of movement of capital. Despite these developments, some countries are placed in a disadvantaged position.

Conceivably, adopting the above theories and Paul Krugman's approach so many questions are raised about Europe being an optimum currency area. EU on its own has been able to maintain an inflation rate as set up during the Maastricht Treaty.

According to Robert Mundell's theory (1961), one of the basic criteria of optimum currency area is the mobility of production factors. If the internal factor mobility is not sufficient, there will be the persistence of unemployment and inflation in an economy and will lead to economic destabilization. High factor mobility between potential members of a currency union can reduce alteration of real factor prices and the nominal exchange rate in response to disturbances. However, high factor mobility of labor and capital can solve the problem of asymmetry shocks and even though absolute mobility is not possible because of migration it can be desirable in trade: “the human race tends to be rather immobile, and prefers to trade rather than migrate” (Mundell p.116, 1973). Generally, countries are susceptible to asymmetry shocks, but the stability of the exchange rate between them and the mobility of production factors such as labor and capital can deal with asymmetric shocks.

The literature reviewed and currency union convergence criteria show the in theory Europe to some extent is an optimum currency area. Theoretically, when there is a shock in a region that affects workers, and devaluation is no longer an option, labor mobility could reinstate any exchange rate adjustment. In the study carried out by OECD[64] in 2014, the result showed that the European Union experienced labor mobility crisis and goods produced in different countries led to indirect mobility of labor. The financial crisis of 2008 also proved that the European Union is not an optimum currency area because the theory did not serve as a reliable exchange rate adjustment mechanism for the EU economy. The crisis showed that the real economy is regulated by markets for financial assets, a concept completely ignored by an optimal currency area.

The differences in costs of production and inflation show that the divergence criteria are not favorable to all countries. For example, countries like Bulgaria, Estonia, Latvia, and Lithuania have higher inflation while countries like Cyprus, Ireland, and Italy have lower inflation.

Despite these problems and differences, the European Union was designed to not consider all the optimal currency criteria but to achieve cooperation between European countries, political integration, exchange rate stability, and coordinated monetary policy. Harvey (p. 38, 2018) stated that Europeans were aware of the flaws they will encounter in establishing an optimal currency area that is why they outlined three different policies during the Maastricht Treaty which are synchronizing national economic policies; forming strong labor and financial markets to have strong economic integration and allow flexible adjustment mechanisms as a system of regulations in case of a shock and finally, bearing in mind that there are poorest regions the leaders set up cohesion policy to facilitate fiscal transfers

GDP is one of the major criteria to measure an optimal currency area giving its importance in the measurement of convergence and quality of life. The GDP growth of ECOWAS countries combined (WAEMU countries included) is projected to grow to more than 850 Billion USD in 2022. However, on an individual level, WAEMU countries have been able to maintain an annual GDP growth of 4% and WAMZ around almost the same figure.

[64] http://www.oecd.org/eu/Adjustment-mechanism.pdf

Moreover, there are variations on the inflation and exchange rate of the ECOWAS member countries. The nominal inflation rate of WAEMU has been declining over the years compared to the WAMZ region. The WAEMU region has been able to maintain single digit inflation while the WAMZ region has been experiencing otherwise. Moreover, there is a variation of exchange rate. The WAEMU region has its currency pegged to the euro which makes it a favorable currency to be used in carrying out transactions but only in the region while the countries in the WAMZ region do not have their currencies pegged to any currency and makes it difficult to carry out transactions without first changing their currencies to dollars.

The success made by CFA in the WAEMU countries that a single currency can work perfectly well in the West African region. WAEMU countries have benefited from a single currency. They benefited from a stable currency and very low inflation but on the negative side, France exploited and is still exploiting them and is trying to hijack the new currency "eco" by pegging the currency with the euro.

Inter-regional trade is another criterion of joining an optimal currency area and if the countries in the area are closely linked, the union's economy will grow. In ECOWAS, the inter-regional trade is low and the most dominant countries in both imports and exports are Cote d'Ivoire, Ghana, and Nigeria. In comparison to the EU, in 1991, the EU inter-trade was lower than expected which justified the reason that there is no necessity to fulfill all the optimum currency area criteria at once.

Additionally, the unemployment rate among ECOWAS member countries is relatively high. Addressing unemployment is needed in the community to promote economic growth especially owing to that having a single currency is said to harmonize economic growth and promote trade among member countries.

In light of the above, seeing how France is trying to hijack the monetary sovereignty of the ECO like the way it did with the CFA, if ECOWAS will refocus the institutional management framework and maintain a flexible exchange rate system that can easily be adjusted with any other foreign currency it can achieve its goals of promoting economic growth in line with the single currency.

European Union started with some countries whose economies were stronger, therefore, Cape Verde, Ghana, Cote d'Ivoire, and Nigeria should focus on real convergence and set an inflation target framework or in the meantime allow countries to maintain a minimum fluctuation range.

The West African Monetary Institute (WAMI) demands countries meet the convergence criteria to join the currency union, and at present only Togo has is on track on meeting the requirements, which makes it harder to be launched in June 2020 as it was proposed, therefore, if ECOWAS will give other countries that have fulfilled all other criteria to adopt the currency, lessons will be learned. While on the said that, launching the eco may not be realistic, countries that cannot meet the convergence criteria could consider the exchange rate and trade development to remove the imbalances that exist.

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