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CAN A DEPENDENT REGION BE AN OPTIMUM CURRENCY AREA? : THE CASE OF WEST AFRICA

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ABSTRACT

THE SUCCESSFUL CREATION OF THE WESTERN EUROPEAN ECONOMIC AND MONETARY UNION ALONG WITH THE LAUNCHING OF THE EURO HAS NUDGED THE ECONOMIC COMMUNITY OF WEST AFRICAN STATES INTO AN ACTION PLAN TO FORM A SIMILAR MONETARY UNION. THIS RAISES THE QUESTION WHETHER OR NOT WEST AFRICA IS AN OPTIMUM CURRENCY AREA TO BE ABLE TO ACHIEVE ITS OBJECTIVE GIVEN ITS STATE OF ECONOMIC MORASS, ITS POSITION AS AN ECONOMICALLY DEPENDENT REGION AND THE ACUTE AND PERSISTENT ASYMMETRIC SHOCKS THAT PERMEATE THE ECONOMIES OF THE AREA. THIS PAPER ATTEMPTS TO ADDRESS THIS QUESTION IN THE SIMPLEST FORM POSSIBLE, WITH A CONCLUSION THAT THE MOVE IS NOT ADVISABLE AT THIS TIME.

I. INTRODUCTION

The Economic Community of West African States (ECOWAS) was created on May 28, 1975 in Lagos, Nigeria. Its aim, like other economic integrations around the world, was primarily to create a unified regional market for the member states thereby fully utilizing the region's production capacity to increase intra-regional trade. In 1987, a program of monetary cooperation was launched with the long-term objective of creating a single monetary zone which implied the use of a common currency supported by an anchor currency. The expected benefits from this plan would include the facilitation of intra-regional trade, and intra-industry trade that are expected to lead to economies of scale as the region's market expanded, and greater efficiency in resource allocation.

The officials of the community also saw this move as a way of revitalizing the poorly performing ECOWAS itself. This move raises the question whether or not the idea is realizable given the region's economic and political debacles. The region is plagued with swaths of civil conflicts, corruption and fraud, absence of the rule of law, fiscal indiscipline, inefficient macroeconomic infrastructures, imprudent governance and a host of other problems capable of derailing a well-intentioned program such as the one proposed by the community. Another question is whether or not West Africa is an optimum currency area (OCA) to be able to form a monetary union given these conditions as well as its position as a dependent region and the acute and persistent asymmetric economic shocks that permeate the economies of the area. Being an

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OCA is a precondition for a successful formation of an economic and monetary union. This doubt is succinctly expressed by Masson and Milkiewicz as follows:

> It is sometimes forgotten just how long the road to monetary union in Europe actually was. The transition was fraught with obstacles and missteps, and even in official circles there were doubts until the ultimate day of changeover whether the replacement of national currencies by euro notes and coins in January 2002 would go smoothly. Designing new institutions that were able to deliver stability-oriented monetary policy … was complicated, as was creating the Solidarity and Growth Pact, which provides for regional coordination of fiscal policies. Despite the intense planning process, the institutions are still the object of considerable controversy and contention. If the process was so difficult for a set of rich countries with highly competent bureaucracies which have cooperated for more than 50 years, then realistically, the challenge for African countries must be considered enormous (Masson and Milkiewicz, 2003, pg.3)

The World Bank has, in the following lines, also painted a grim picture of Sub-Saharan Africa's (SSA) economies which adds to the doubts raised by Masson and Milkiewicz:

> Sub-Saharan Africa entered the 20th century a poor, mostly colonized region, and … despite gains in the second half of the 1990s, sub-Saharan Africa enters the 21st century with many of the world's poorest countries. Average income per capita is lower than at the end of the 1960s… And the region contains a growing share of the world's absolute poor, who have little power to influence the allocation of resources. Making matters worse, Africa's place in the global economy has been eroded, with declining export shares in traditional primary products, little diversification into new lines of business, and massive capital flight and loss of skills to other regions. Now the region stands in danger of being excluded from the information revolution. (World Bank, 2000, pg. 1)

To be clearer, SSA's GNP growth rate stood at 2.0 percent between 1975 and 1995 much below its population growth rate at 2.8 percent during the same period; its GNP per capita growth rate between 1975 and 1990 was -0.9, and 0.4 percent between 1990 and 1998.

In this paper, sources of asymmetric shocks that hamper a region's prospects for becoming an OCA are identified and discussed with a particular attention to the West Africa's declining terms of trade (TOT) and the factors contributing to them. The theory of dependency and the notion of

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'unequal exchange' are adopted to highlight West Africa's asymmetry of trade relations with the industrial nations. This asymmetry is an important reason for the region's TOT predicament. The conclusion is that West Africa, with its endemic multiplicity of shocks and as a dependent region, is not an OCA and therefore is ill-prepared to create a self-determined, viable economic and monetary union. The starting point for the discussion of these problems is an overview of the structure of the West African Monetary Zones (WAMZ).

WEST AFRICAN MONETARY ZONES

Already in place is one monetary zone in the SSA, namely the CFA Franc Zone including fourteen countries twelve of which are the former French colonies. This zone embodies two monetary areas, namely the Central African Economic and Monetary Community (CAEMC) and West African Economic and Monetary Union (WAEMU). Each has its own currency issued by their respective central banks which receive technical and financial assistance from the French government. The two currencies bear the same acronym, CFA franc (*Communaute Financiere Africaine)*. These two monetary areas along with the Republic of Comoros constitute 'Zone Franc'. Comoros has its own central bank that issues the Comoroan franc. The three currencies exchange at par and were pegged to the French franc at a fixed parity; the French Treasury guaranteed to exchange French franc for CFA franc at a fixed but adjustable exchange rate. This practice began in 1945; adjustment has taken place only one time since this date, and that was in 1994. This is an evidence of the long-term stability of CFA franc. Today, CFA franc along with the Comoroan franc is pegged to the euro.

As figure 1 shows WAEMU nations are members of ECOWAS. Non-WAEMU ECOWAS nations presently have their own independent currencies except Cape Verde and Liberia whose currencies are pegged to the euro and to the US dollar respectively. The non-WAEMU countries proposed a second monetary zone namely WAMZ expected to come into effect in 2005, and to merge with CFA Franc Zone in 2006, followed by the introduction of a common currency for the 15 ECOWAS nations. WAEMU nations and non-CFA franc zone form ECOWAS.

What is the rationale for WAMZ? The idea of WAMZ is to integrate CFA Zone consisting CAEMC and WAEMU and the non-CFA zone and imbue it with the needed political will to manage the region's economic and monetary policies. WAMZ will embody the two zones giving the region a single monetary zone. The overriding objective of WAMZ is to ensure price stability

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as enjoyed by CFA franc zone. It is hoped that the achievement of this objective will lead to the achievement of other higher order objectives as well, namely high employment, rising per capita income, favorable balance of payments, and improving standard of living. To date CFA franc zone has been successful in keeping inflation low and that was as a result of French government advisory role; that role has now shifted to Brussels, the headquarter of the European Economic and Monetary Union. As mentioned above, since its introduction in 1945 it has been devalued only once. It is hoped that the stability-oriented culture of the CFA franc zone will be inherited by WAMZ. The West African Monetary Institute (WAMI) was created to oversee the convergence process, and as a precursor to a regional central bank. Figure 1 below shows the web of connections among the monetary zones of West Africa.

Figure 1: Central and West African Monetary Zones

Africa 'Zone Franc'

? ? ? ? ?

? ?

CFA Franc Zone ?

? ?

CAEMC
Cameroon
Chad
Congo
Central African Republic
Equatorial Guinea
Gabon

WAEMU
Benin
Burkina Faso
Cote d'Ivore
Guinea-Bissau
Mali
Senegal
Togo

Federal Republic of Comoros
- Comoroan franc

? ? ? ? ECOWAS

? ?

Non-Franc Zone and Currencies ?

Cape Verde (escudo)
Gambia (dalasi)
Ghana (cedi)
Guinea (Guinean franc)
Liberia (dollar)
Nigeria (naira)
Sierra Leone (leone)

? ?

WAMZ

Source: Adapted from Xavier Debrun, Paul Mason and Catherine Pattillo, 2003, West African Currency Unions: Rationale and Sustainability. CESifo Economic Studies, 49, pp. 381-413.

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IS WEST AFRICA AN OPTIMUM CURRENCY AREA?

Given the foregoing picture the pertinent question is whether or not the conditions necessary for becoming an OCA similar to that of Western Europe present in West Africa. This question is important because the existence of an OCA suggests that all parts of the integrated region exhibit similar macroeconomic characteristics. These conditions are stipulated in the theory of optimum currency areas (OCAs) that provides the conventional starting point for evaluating a region's prospects of becoming an EMU. By definition, an OCA is a group of economically integrated but independent nations or regions whose members optimally share the same monetary policy or use a single currency and bear fiscal similarity. If the area achieves the objectives for which it is formed, it is said to be optimal. The primary objective is usually price stability or a sustained long-term low inflation. A key issue in the theory is adverse asymmetric shocks that may be generated from one part of the integrated region and threaten the viability of the union or prevent it from realizing the central objective of price stability. A mechanism adopted by the fifteen European Union members (EU-15) for resolving this issue and for entry into the European Economic and Monetary Union (EEMU) was the so-called 'fiscal convergence criteria' enshrouded in the 'stability and growth pact'. The purpose of the pact is to bring national fiscal policies of the potential members of the proposed union closely similar and to enforce and monitor fiscal stabilization. Prospective members must meet the set criteria to join the union. Twelve of the EU-15 joined to become the EEMU. The aim of fiscal stabilization is to ensure economic symmetry in the community. The so-called 'Pact for Convergence, Stability, Growth and Solidarity' proposed by the ECOWAS Convergence Council and modeled along the EU-15's 'Stability and Growth Pact' also embodies:

? Budget Deficit: maximum budget deficit of 4 percent of each nation's GDP;

? Inflation Rate: an inflation rate of no more than 3%;

? Official Reserves: gross official reserves covering at least six months of imports;

? Deficit Financing: central bank financing of the budget deficit limited to 5%.

As shown in Table 1, ECOWAS countries are generally faced with budget crisis and this arises from fiscal indiscipline and heavy foreign debts. With regard to inflation containment, general progress is apparent except in the two biggest non-WAEMU economies namely Ghana and Nigeria with inflation rates of 24.4 percent and 14 percent respectively. Guinea and Gambia are also quite high with almost 13 percent and 18 percent respectively as of 2003. Cote d'Ivoire, Togo, Gambia, Guinea and Sierra Leone are problematic because of their huge central bank

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advances. For this and other related reasons, monetary union with Nigeria, as the biggest economy in the region, will not be in the best interests of other ECOWAS countries, unless it is accompanied by effective discipline over its fiscal policies. Any incidence of shock in Nigeria such as its ongoing unrelenting fiscal profligacy, high level of official corruption, capital flights and so on will have destabilizing externalities on other parts of the region.

But efforts are being made to harmonize WAEMU-CFA Franc Zone convergence criteria with those of non-WAEMU countries because there have been wide divergences between them. The reason for this divergence rests in the fact that while the former has for long practiced strict fiscal discipline as a culture of CFA franc blocs enforced by the French Treasury, the latter has not because there has not been any central independent monetary authority enforcing it. Monetary autonomy can sometimes be a source of fiscal profligacy as is quite often the case with non-WAEMU nations in particular and SSA economies in general.

Table 1: Selected ECOWAS Fiscal Indicators

Country	Budget Surplus/Deficit (% of GDP) 2000	Inflation Rate 2003	Import Coverage Reserves (months) 2000	Central Bank Reimbursement 1999
Benin	-1.0	1.5	5	10.0
Burkina-Faso	-3.6	3.0	7	9.0
Cote d'Ivoire	3.9	3.8	2	47.0
Mali	-4.0	0.5	3	9.0
Niger	-0.3	0.7	1	12.0
Senegal	1.2	0.1	3	10.0
Togo	-3.2	0.8	3	22.0
Gambia	3.2	18.0	5	36.0
Ghana	0.8	26.4	1	11.0
Guinea	-1.6	12.9	3	31.0
Nigeria	9.7	14.4	5	59.0
Sierra Leone	-3.5	6.6	2	68.0

Sources: (i) African Development Indicators, 2002; (ii) World Economic Outlook, 2004.

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Given these fiscal conditions, the question is whether or not West Africa is an OCA. Studies, for example Masson and Pattillo (2002), and Ogunkola (2002) showed that the region is less likely to be an OCA because it has not satisfied the required conditions. Mundell (1961) in his seminal work, 'A Theory of Optimum Currency Areas' proposed free factor mobility in an economically integrated region as a condition for becoming an OCA The key issue in the theory, as has been mentioned earlier, is the existence of asymmetric shocks that can make an integrated region less optimal and therefore render the objectives of an EMU unachievable. Mundell emphasized the existence of unrestricted factor mobility that could bring about symmetry should an asymmetric shock occurs. The understanding is, for example, if labor moves from a depressed part of the region experiencing high unemployment to the area where unemployment is relatively low, it will help to bring about symmetry and balance in the integrated community. Thus high labor or factor mobility became a major criterion for a full-fledged OCA. Mundell's followers concurred and also proposed other conditions including, for example, intra-regional trade intensity, industrial diversification, fiscal federalism, capital mobility, and complete financial integration (McKinnon 1963, Kenen 1969, Ingram 1969, Krause 1972, de Grauwe 2002) In all of these stipulations United States is cited as a perfect example of a full-fledged OCA. After various expert analysis of Western European economy, it was concluded that the region is closely an OCA or a sub-optimal currency area, despite its astounding economic performance since the end of World War II. Its similarity to the United States is based on the fact that it has satisfied most of these conditions.

Unfortunately West Africa is neither Western Europe nor the United States; it is a peripheral zone dependent on these regions for its economic development. Labor is relatively less mobile in West Africa because there are high rates of unemployment in its constituent countries; hence there is resistance to immigration as each nation officially or unofficially tries to protect the limited job opportunities that exist in their respective territories. The massive repatriation of Ghanaian and other migrant workers in Nigeria in the 1980s is a well-known example of inhibited labor mobility in the area. At the time Nigeria was prosperous with low unemployment while some of its neighboring countries such as Ghana, Cote d'Ivoire, and Liberia were depressed with high unemployment rates. There is however high intra-regional labor mobility in the primary sector particularly in agriculture, but such mobility is only seasonal. In general, migration in West Africa is temporary; the basic aim of the migrants is to raise funds enough to resolve immediate personal needs. With respect to capital, mobility across the region is rare because of lack of

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surplus investment funds in each country. In addition, there is lack of rule of law which puts intra-regional foreign direct investments in jeopardy. For capital to move, there must be laws protecting it; where such laws exist in West Africa, it is rarely enforced. Further, ECOWAS member nations are debtor nations; they are financially dependent. Another factor that prevents West Africa from becoming an OCA is the fact that, intra-regional trade intensity is quite low; exports, usually primary commodities, are heavily extra-regionally directed primarily to the industrial nations. SSA's share of world trade accounts for only 11 percent of its total exports. The region's shares of trade among the identified regions in Table 2 are by far the lowest. Intra-regional trade intensity is important because it would reduce the problem of unequal exchange between the region and the industrial nations, promote intra-regional capital and labor mobility, thereby fostering economic symmetry.

WEST AFRICA AS A DEPENDENT REGION

The nations of West Africa entered the world economy in the 1960s as providers of industrial raw materials to the industrial nations and almost completely relied on it for their national income. The economic relationship that thus developed between them is explained by the theory of dependency (Prebisch 1969, Frank 1969, Emmanuel 1972, Amin 1976, Wallerstein 1974). Dependency denotes an external reliance of a less developed nation for its economic development and growth. It identifies economic distortions that maintain underdevelopment such as the continuing balance-of-payments (BOPs) disequilibrium, primary production orientation and export instability, inelastic demand for primary exports, continuing unfavorable commodity TOT, negative GDP growth rates, high budget deficits, and high rates of inflation and unemployment. These characteristics are quite acute in the SSA. By definition, dependency is

> a situation in which a certain group of countries have their economy conditioned by the development and expansion of another economy to which the former is subject. The relation of interdependence between two or more economies, and between these and world trade assumes the form of dependence when some countries (the dominant) can expand and give impulse to their own development, while other countries (the dependent) can only develop as a reflection of this expansion. (Dos Santos 1970, pg. 231)

Realistically, West Africa is clearly a case in point.

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When a nation is dependent, it lacks economic self-determination; its development limits and possibilities are externally determined. Being thus externally oriented, it becomes exposed to various forms of vulnerability and shocks. For example, foreign demand for primary exports of West Africa is very much influenced by the business cycles in the industrial nations. The region's near-total reliance on external markets for its products has consistently produced declining TOT, and this is exacerbated by the lack of diversification in its primary production. The cumulative effect is macroeconomic instability and continuing unfavorable BOPs. The 'conditioning situation' is also worsened by the problem of 'unequal exchange' (Emmanuel 1972) that, on one hand, results from inequality of wages between the developed countries (DCs) and the less developed countries (LDCs), and on the other hand, gives rise to 'transfer of surplus' from the latter to the former. Transfer of surplus occurs because the benefits, in terms of wages and incomes, resulting from productivity in the DCs accrue to their workers, while the productivity in the LDCs is reflected in lower prices, implying lower income for their producers (Singer 1950, Prebisch 1950, Myrdal 1959). This means that productivity benefits in the DCs are retained there while it also reaps the benefits of productivity in the LDCs through lower import prices. Conditions such as business cycles in the former produce instability of prices and foreign-exchange (forex) earnings in the latter, thereby contributing to its economic deterioration.

These situations are empirically evident in West Africa's trade relations with its former colonial powers. All the nations in the region are underdeveloped and lack economic self-determination as has been pointed out. They lack self-determination because conditions in the DCs determine the direction of their economic development which has usually been on the downside. SSA economies in general experienced deterioration beginning from the late 1970s to the early 1980s. Stagnation and decline became worse between 1990 and 1995 when the average GDP growth rate for the region plunged to 0.8 percent.

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Table 2: Intra- and Inter-Regional Trade of Africa

(Billions of US Dollars)

	Destinations and Year				
Region	North America	Western Europe	**Africa**	Asia	Years
North America	370	181	11	197	1999
	421	195	12	229	2000
	382	170	12	204	2002
Western Europe	232	1625	59	176	1999
	263	1654	59	199	2000
	270	1787	66	208	2002
Africa	17	57	**11**	15	1999
	26	72	**11**	25	2000
	24	71	**11**	24	2002
Asia	367	252	21	650	1999
	423	278	22	807	2000
	394	260	26	792	2002

Source: WTO: International Trade Statistics, 2001.

SOURCES OF SHOCKS

A key issue in the theory of OCAs is the problem of asymmetric shocks that may be generated from one part of the integrated region. For the region to qualify as an OCA, none of its parts must exhibit any destabilizing force; but where such a force occurs, a regional policy instrument must be in place to counteract the effects. Unfortunately West Africa is riddled with a constellation of macroeconomic problems that generate adverse shocks and does not have in

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place efficient macroeconomic management policy instruments to deal with them. One major potential source of shock is the region's external debt burden. In general, Africa's external debt burden ballooned from about $11 billion in 1970 to more than $340 billion in 1995 (UN 2004, p. 8-9). A major reason for Africa's debt crisis is its adverse TOT that results from bad farm harvests which in their turn are a consequence of uncontrollable environmental and biological factors such as frequent periods of droughts, pest attacks and so on. This is problematic because the region, except the oil countries, such as Nigeria and Cote d'Ivoire, is heavily commodity-dependent for its forex earnings and there are, again, no appropriate macroeconomic policy tools that can be used to deal with this type of shock when it occurs in order to bring about symmetry. Also lacking is debt management strategies that can enable monetary authorities to borrow only when it is prudent to do so. And where these strategies exist, lack of central bank independence renders them ineffective.

Another major source of shock is ethnic incompatibility that leads to swaths of civil conflicts and political instability. Examples include Nigeria's civil war that raged from 1967 to 1970, Liberia 1989, Sierra Leone 1991, and Cote d'Ivoire 2002, just to name a few. Each war has had far-reaching negative externality on its neighboring states in the region. For example, the recent war in Cote d'Ivoire, a major producer of cocoa with a share of 40 percent of the world's supplies, caused an up-surge of regional and even world cocoa prices as production came to a halt. The crisis also disrupted the foreign trade of its neighbors namely Burkina Faso, Mali and Niger because its port was the only port of exit and entry of export-import merchandise of these land-locked countries. Other sources of shocks in the region include persistent high rates of inflation and unemployment, budgetary indiscipline, capital flights, corruption and kleptocracy at the top echelon of government made possible by the absence of the rule of law, and low intra-regional trade intensity. Asymmetric shocks such as these are quite acute, deep and prolonged among West African economies. Their occurrences are usually not in tandem but at different times and they differ widely in their intensities and externalities; they are not correlated. Across the region, while one country wrestles with political violence, another faces massive crop failure as a result of natural disaster, another is burdened with foreign debt, and still another suffers from high rate of inflation, high unemployment or worsening TOT and so on. Fiscal divergences among the economies of the region are also a concern. Inflation rates, budget financing, and BOPs disequilibrium differ significantly. These divergencies are also the real reasons for the so-called convergence pact. Further, West Africa, as has been discussed earlier, is not an OCA

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because factor mobility is quite limited and this is as a result of lack of industrialization and diversification of production. Lack of industrialization is a force behind the redirection of primary exports to the industrial nations, because of the near-absence of local industries that could utilize them.

THE PROBLEM OF DECLINING TERMS OF TRADE

According to trade theories, there is deterioration in the relative TOT of the South *vis-à-vis* the North (Sapford, Sarkar and Singer 1992). Declining commodity TOT is a destabilizing force in economic development especially when it is consistent and prolonged as is evident in West African economies. "For any large commodity exporter, fluctuations in its terms of trade are an important source of shocks, and this is the case for most West African countries." (Debrun *et al* 2003, p. 389) The incidences of shocks differ significantly among them because many of them are dependent on one or two cash crops such as cocoa, groundnuts, coffee, tea, palm products (including kernel and oil) for over 50 percent of their forex earnings. Lack of diversification in primary production and export destinations exposes them to wide short-term fluctuations in prices and forex earnings. Only about 50 percent of the gross national income (GNI) constitutes the region's total non-oil exports. According to Debrun and others, there is also lack of correlation in the shocks to the TOT reflecting differences in commodity export patterns and imperfect movements in the world prices. 'Unequal exchange' (Emmanuel 1972) is also a reason for the deterioration of the commodity TOT of West Africa as is also the case with other LDCs. This rests in the fact that price elasticity, and income elasticity of demand for agricultural products are less than 1 respectively in the DCs as various research results have consistently shown, whereas the agricultural exporters have increasing marginal propensity to import manufactures from the DCs. This imposes a drain on the BOPs balances of each country in the region; a drain in the forex reserves may trigger rising national price level which differs significantly among them. It requires a competent monetary authority and unflagging political will to forge a sustainable regional fiscal convergence to minimize any incidence of inflation. But such authority is unavailable in the region. Consistent BOPs disequilibrium triggers more and more external borrowing. West African countries are heavily indebted nations. Large proportions of their GNI go to the payment of external debt as Table 5 may indicate. Poor TOT reinforces foreign debt which in its turn also reinforces financial and economic dependence, thereby

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producing sustained vicious circles of shocks. Also it is a common knowledge that technological advances have made it possible for the DCs to develop substitutes for industrial raw materials such as synthetic rubber and nylon that replace such primary imports as natural rubber and cotton respectively. This not only reduces the primary-import dependence of the DCs but also improves their BOPs positions *vis-a-avis* the LDCs. Demand for agricultural products such as cocoa, tea, coffee and sugar that are some of the primary productions of the West African economies are generally price inelastic in the DCs where changes in the prices of these commodities do not trigger significant changes in the expenditures of the consumers there. The supply of these products is also price inelastic; the quantity supplied is not as a response to price changes but as a result of uncontrollable non-price factors such as natural inflexibilities involving long gestation periods of tree crops, weather variations, pest attacks and infestations, and other types of farm hazards. In good seasons when harvests are plentiful, supply rises faster than demand resulting in large inventory accumulation which drags prices downward. But demand in the DCs does not change with price changes in primary commodities. Short-term, short-fall production resulting from bad harvests should cause prices to escalate, but again the change may not produce any significant change in demand. More importantly, farming systems in the region continue to be tradition-bound; they are seasonal and resource- (land fertility and rain fall) dependent which exacerbates the problem of unsustainable production.

Sub-Saharan Africa's TOT deterioration became more pronounced since the 1980s after the non-oil commodity price booms of the 1970s. The early 1990s saw a short-lived upward surge which contributed to the region's economic recovery in the late 1990s. "A significant part of the decline in the share of SSA in world exports in the past two decades can be explained by declines in the prices of African exports relative to those of the rest of the world." (UNCTAD 2001: 35) Table 3 shows the downward trends in Africa's share of world trade in most of its core export crops. The average percentage changes for most of the identified crops show negative growth and paint grim picture of a region dependent on a limited production for most of its forex earnings. The cumulative effect of these problems is declining TOT, an important reason for the marginalization of the region in world trade.

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Table 3: Africa's Share of World Trade for Its Core Export Crops: 1970-97

(%)

	Share			Annual Change
Crop	1970-79	1980-89	1990-97	1970-97
Bananas	6	3	4	-3.3
Cocoa	59	45	40	-2.0
Coffee	28	22	14	-3.1
Cotton	13	11	12	-0.2
Groundnuts	40	8	5	-10.2
Rubber	6	6	5	-0.5
Sugar	6	6	8	-0.2
Tea	15	15	19	1.3
Tobacco	8	9	12	1.7

Source: World Bank, 2000, 192.

THE CONSEQUENCES OF DECLINING TERMS OF TRADE

It is generally agreed that short-term export instability as well as frequent commodity price fluctuations constrains economic development efforts in developing countries (McBean 1966, IMF/WB 2001, UNCTAD 2001). In addition export instability is directly linked to the instability of the national incomes of the producers of primary commodities, and that instability of forex earnings is a consequence of these short-term variations in primary exports of non-industrial economies. Since export earnings from the primary sector are the most important sources of government revenues (tariffs and other taxes), it imposes BOPs constraints on the economies and makes it difficult for them to accumulate the needed forex reserves to import capital goods necessary for the development of the industrial sector that in its turn would absorb local industrial inputs from the primary sector; the development of the industrial sector is, as well, expected to induce the development of the primary sector itself. The alternative open to he government is deficit financing which means borrowing from the central banks with the consequence of monetizing the deficit thereby producing high inflation, which in its turn could also result in price

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distortions. This is detrimental to sustainable economic development and growth because it also reduces private investments; uncertainty about future earnings and high rate of inflation discourage private investments which slow down the rate of economic growth and employment. The spillover effects of all these are social and political unrest. The fact that this vicious circle produced by declining TOT as empirical evidence shows in the SSA defeats the hypothesis, from African perspective, that trade is an 'engine of growth' working through the 'multiplier-accelerator' process. (Nurkse 1970) The contention is that the export sector is the leading sector that propels development and growth as benefits from the growing exports spread to the rest of the economy. Therefore between the industrial and the primary sectors, stability and rising national income can result as 'backward-forward linkage' process takes place.

According to Cashin and Pattillo, "A characteristic common to the commodity-exporting developing countries of SSA is that movement in their terms of trade is a key determinant of macroeconomic performance and has an important impact on real national incomes." (2000:1) As I have already stated, the economies of West Africa are not only dependent on primary products but also on one or two products as the major forex earners. This dependency exposes the region to downward trend in its commodity TOT. Downward trend in the relative prices of primary exports *vis-à-vis* manufactured imports is often accompanied by a high degree of volatility. "Sub-Saharan exports experienced roughly twice the volatility in terms of trade that East Asia's exports did in the 1970s, 1980s and 1990s, and nearly four times the volatility ... that the industrial countries experienced." (IMF/WB, 2001, 3) This predicament generates negative impact for the rest of the economy by creating uncertainties which discouraged private investment. The continuing, and worsening TOT has been a major source of annual income losses for SSA especially the non-oil exporters. Cumulative TOT losses from 1970 to 1997 represented about 120 percent of GDP. Evidently this caused a major BOPs problem for the region, giving rise to financial dependence or aid-fostered development. In the 1990s total transfers to the region amounted to 178 percent of GDP (WB, 2000, 21). The extent of transfer of surplus and the gravity of the declining TOT of SSA is depicted as follows:

> "... between 1970 and 1997, cumulative terms of trade losses for non-oil exporting countries in SSA amounted to 119 percent of the regional GDP in 1997 and 51 and 68 percent of the cumulative net resource flows and net resource transfers to the region respectively. If these numbers are combined with leakages from capital inflows into outflows and accumulation of reserves, it turns out that

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> in the past two decades SSA has not received any net transfer of real resources from the rest of the world. It can be estimated that for each dollar of net capital inflow to SSA from the rest of the world, some 25 cents went back as interest payments and profit remittance abroad, more than 30 cents leaked into capital outflows and reserve build-up, while 51 cents made up for terms of trade losses. These figures indeed imply a net transfer of real resources from SSA to the rest of the world.
>
> "Resource losses due to terms of trade declines have certainly been a major factor in the poor economic performance of the region in the past two decades. If such resources had been available for domestic uses and invested productively, African growth during the past two decades could have been much faster and its current level of income much greater." (UNCTAD, 2001, pg. 36)

This picture does not sit well for a region proposing a Western-European style monetary union. Table 4 shows the extent of the TOT deterioration since the 1970s.

Table 4: Terms of Trade for West African Nations, 1975-2000

	Average Annual Percent Change		
Country	1975-84	1985-89	1990-99
Benin	-0.3	-3.6	0.7
Burkina Faso	-0.7	-7.7	-0.4
Cape Verde	7.6	0.0	0.0
Cote d'Iviore	-0.5	-7.0	0.7
Gambia, The	-3.9	4.2	0.0
Ghana	-1.1	-3.0	0.9
Guinea	...	-5.0	-4.2
Guinea-Bissau	-5.3	-10.7	-4.8
Liberia	...	...	...
Mali	1.8	1.5	-2.6
Niger	10.1	-3.0	-6.5
Nigeria	6.1	-16.2	-1.1
Senegal	-1.2	1.1	-0.8
Sierra Leone	2.1	5.1	1.7
Togo	-2.1	-1.0	-2.0

Source: African Development Indicators, 2002.

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Further, external debt represents a high proportion of the GNI of West African nations, and does not seem to decline. Table 5 shows the proportions of debts of the GNI of the identified countries.

Table 5: External Debt of Selected West African Nations

(% of GNI)

Country	Year			
	1997	1998	1999	2000
Benin	46	46	40	34
Burkina Faso	30	32	25	31
Cote d'Ivoire	141	122	117	117
Ghana	57	55	66	81
Guinea	21	69	72	80
Nigeria	72	74	90	74
Senegal	56	58	55	56
Sierra Leone	89	126	136	132
Togo	59	68	82	85

Source: The World Bank: World Development Reports, 1999, 2000, 2002, and 2003.

With the region thus caught in the quagmire of persistent TOT and indebtedness, it is hard to imagine it becoming an OCA, not to mention an independent EMU. Dependent EMU implies a loss of monetary autonomy which means that all monetary decisions will be made in Brussels, the head-quarter of the European Central Bank, with the euro being the anchor currency.

CONCLUSION

Neither the existing WAEMU nor the non-WAEMU is an OCA in the true meaning of the term because West Africa as a whole does not meet the basic criteria for becoming one; and it is unlikely to meet the requirements in the fore-seeable future because of the endemic and acute nature of the asymmetric economic shocks the region experiences. Declining TOT of the region seems to be a continuing phenomenon; it produces vicious circles that maintain economic and financial dependence and poverty. Lack of industrialization along with the law of comparative has relegated all the member-countries of ECOWAS to specialization in primary exports

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production and caused them to become almost totally dependent on it for their forex earnings. The fact that ECOWAS is one of the weakest performing regional trade arrangements in the world leaves much room for doubt that the formation of a monetary union along the lines of European Economic and Monetary Union at this time is realizable because a monetary union of this nature that does not emerge from a competent and independent trade arrangement such as European Union is likely to fail.

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