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Short Review Paper

Single market and single currency: does ECOWAS sub-region stand to gain?

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Abstract

This paper has reviewed experience of the European Monetary Union and Optimal Currency Area Theory with a view to recommending the use of a single currency in ECOWAS sub region. Consequently, the paper submitted that the optimal benefits of free movement of goods, services, people and capital in ECOWAS sub region would be a mirage if the exchange-rate uncertainty and transaction costs of different currencies are not removed via the use of a common currency within the region. However, there is a need for a formidable independent apex bank which would regulate the stability of price in the region. It is not a gainsay that the use of a single currency within ECOWAS sub region would result in a monumental phenomenon by ensuring macroeconomic stability, improving efficiency and resource allocation, eliminating the risk associated with exchange-rate and promotion of the international use of the common currency which will make the economic block to be more resilient to shocks in global capital flows. More importantly, the founding goals of ECOWAS would not be fully realized unless there is an emergency of a single currency alongside the existing single market in the region. ECOWAS should draw some lessons from the experience of European Monetary Union and find the model that would best suit its economic and political ambitions, and that of the citizens in the region.

Keywords: One Market, One Currency, EMU and ECOWAS

Introduction

The success story that follows the achievement of single a market and a single currency in Eurozone led to some debates among scholars and policy makers whether monetary integration should precede or follow the integration of Economic Community of West African States (ECOWAS). Meanwhile, the indispensable roles arrogated to the integration of the world market in propelling economic growth and development in this era has orchestrated the emergency of various economic blocks such as G7, G13, G20, ASEAN, BRICS, EU and AU with a view to facilitating free flow of labour, trade and capital and other resources in achieving economic freedom within the region. Besides, the proliferation of digital technology that characterized this century is another strategic engine of globalization. Recently, the inflows and outflows of foreign capital across the global economy have been a unifying factor among the developing, emerging and developed economies in the global market. Going by memory lane, there have been several attempts to form monetary union in the world in the last three centuries. In 1862-1905, disparate Italian lands merged to Italian monetary union. Similarly, between 1875 and 1917, the Scandinavian Monetary Union, which united Norway, Denmark and Sweden came on board. From 1867 to 1914, the record of Austro-Hugarian Monetary union cannot be wiped off in the literature.

In the recent past, there have been various attempts to form one market and one currency among other sub regions of the world. For instance, North America which is composed of Mexico, Canada, and the United States of America. The Caribbean Islands which constitutes Central America, Australia and New Zealand, the Southern Cone of South America, East Asian countries, the French-Speaking countries of Africa, Latin America and Arab states, South African countries and more importantly, the economic community of west African state which is the focal point of this paper. In spite of the fact that a series of integration projects have been implemented in these groups of countries itemized above, it is worth noting that it was only the European states that registered the highest form of integration both monetarily and economically. This feat took the region over 50 years. However, adoption of a single currency and market is a veritable platform that has distinguished the European Union from the other regional economic blocks in the last few decades. The campaign for the formation of this ever popular economic block finds its historical antecedent in various unification strategies that characterized the latter half of the 20th century. In 1944, Europe embarked on the Bretton Wood Agreement which its focal point is on a fixed exchange rate policy with a view to preventing the continent from the wild market speculations orchestrated by the Great Depression that greeted the world in 1930s.In the same vein, the 1951 Treaty of Paris led to the emergency of the European Steal and Coal

Community (ECSC), which later metamorphosed into European Economic Community (EEC) in 1958. Unfortunately, this unification project was truncated in 1970s due to the global economic hardships of the 1970s until fresh concerted efforts were undertaken to resuscitate the integration in the late 1980s.

Consequently, the modern European Economic and Monetary Union came into existence by the signing of the 1992 Maastricht Treaty. For further monetary integration of the continent, the European Central Bank (ECB) was established in 1998, with a mandate to maintain a fixed conversion and exchange rates in member states. The bank introduced euro as a single currency in the region in 2002 with the implementation in 12 member countries of the regional block. From 2002 to 2018, 19 countries use euro as the official currency among the 28 member countries in the Eurozone. It is worth of note that euro is the second most dominated currency in the forex market after the U.S. dollar. Similarly, it is ranked second most widely held foreign exchange reserve used by central banks. In the second quarter of 2018, 2.1 trillion euros is held by foreign governments relative to 6.5 trillion US dollars[1].

The theoretical foundation of the notion behind the adoption of a single market and a single currency emerged from the debates of relative benefit of fixed exchange rate and flexible exchange rate. In view of the above, Friedman[2] submitted that a country that is bewildered with rigidities in wage and price should not embark on fixed exchange rates so as to ensure the balance of both internal and external accounts. Friedman's advocacy for flexible exchange rates brought about general impression among the monetarist that any country could embark on flexible exchange rates despite its economic structures[3]. Conversely, in reality countries differ in several ways, coming from this argument, Mundell[4] put forward that an optimum currency area is a platform for countries that would ensure either one currency or, different currencies which have rigidly fixed exchange rates among themselves and full convertibility.

The initial problem with the applicability of single currency among countries according to Mundell, lies in the reconciliation of conflict between determination of a currency area`s appropriate domain and achievement of low inflation, low unemployment and sustainable balance of payments position in the member states. This is the one of the critical issues behind the emergency of BREXIT in the recent times. Therefore, Mundell identified mobility of factor as the major property of an optimum currency area, there would be less need for exchange rate variation to correct external imbalances where such mobility exists.

This paper has been organized in the following ways. Apart from the introductory aspect of this paper, Section 2 critically assesses the OCA theory and how its features support the emergence of one currency usage. Meanwhile, the concluding part accounts for the principal benefits of a single currency in ECOWAS sub region.

Table-1: The European Union Member States and Currencies.

Countries	Date Joined EU	Currency
Austria	1st Jan. 1995	Euro
Belgium	25th March 1957	Euro
Cyprus	1st May 2004	Euro
Estonia	1st May 2004	Euro
Finland	1st Jan. 1995	Euro
France	25th March 1957	Euro
Germany	25th March 1957	Euro
Greece	1st Jan. 1981	Euro
Ireland	1st Jan. 1973	Euro
Italy	25th March 1957	Euro
Bulgaria	1st Jan. 2007	Bulgarian lev
Czech Republic	1st May 2004	Czech koruna
Denmark	1st Jan. 1973	Danish koruna
Hungary	1st May 2004	Hungarian forint
Lithuania	1st May 2004	Lithuanian litas
Latvia	1st May 2004	Euro
Lithuania	1st May 2004	Euro
Luxembourg	25th March 1957	Euro
Malta	1st March 2004	Euro
The Netherlands	25th March 1957	Euro
Portugal	1st Jan. 1986	Euro
Slovakia	1st May 2004	Euro
Slovenia	1st May 2004	Euro
Spain	1st Jan. 1986	Euro
Poland	1st May 2004	Polish ztoty
Romania	1st Jan. 2007	Romanian new leu
Sweden	1st Jan. 1995	Swedish krona
The United Kingdom	1st Jan. 1973	Pound sterling

An overview of optimum currency area heory Vis-à-vis single currency adoption

The concept of optimum currency area (OCA) could be described as the geographical area which is optimum for one currency, or more currencies as the case may be. The exchange rates in this region are irrevocably pegged. As such, the single currency, or the pegged currencies therefore fluctuate jointly vis-à-vis other currencies. What defines the borders of an OCA is the sovereignty of participating countries in the currency area. The Optimality of the area is conceptualized in terms of various characteristic features, such as price and wage flexibility, financial integration, etc that characterized the area.

The OCA properties: Factors of production are mobile including labour: integrating factor market within a group of countries forming economic block can reduce the alteration of real factor prices and the nominal exchange rate between the partner countries in response to any disturbances[4]. The mobility of factors input facilitates both efficiency and welfare among the countries in the OCA area. However, it is possible for such mobility to show modest in the short run and later displays its effect as time goes on. What brings limitation to mobility of factors of production is the pace at which one country can absorb the direct investment generated by the other in region. In the short run, mobility of labour is likely to be lowas a result of huge costs that migration and retraining could involve. But, in the long run mobility increases causing adjustment to permanent shocks.

The degree of economic openness: this determines how international prices of tradables change in which its transmission could be felt in the cost of living domestically. As a result of this, the value of money or exchange rate illusion of workers could be declined in turn[5]. Consequently, the achievement of intended effect might be negative because aftermath effect of devaluation could be easily felt on the cost of living and tradable prices. Therefore, the use of nominal exchange rate as an adjustment instrument would be less effective.

Price and wage flexibility: in a set of countries contemplating a single currency, whenever there is flexibility in nominal prices and wages within these economies, the transition towards adjustment following a shock is less likely to be associated with sustained unemployment in one country and/or inflation in another. This will further decrease the necessity for the adjustments of nominal exchange rate[2]. In another perspective, in a situation where nominal prices and wages are downward rigid, exchange rate adjustment could be used to achieve some level of real flexibility. Meanwhile, there is a cost attributable to the inability to exercise a direct control on the nominal exchange rate instrument[6].

Financial market integration: Financial integration has the power to decline how exchange rate could be adjusted[7].

The diversification in production and consumption: The higher the level of diversification in production and consumption, the higher the expansion of the economy to create variety of jobs, and insulates any aftermath effect of shocks specific to any particular sector. If production is highly diversified, it would reduce the necessity to vary the terms of trade through the nominal exchange rate so that it can serve a cushion against various set of disturbances[8]. Therefore, the highly diversified partner countries have high tendency to have their costs reduced by putting aside nominal exchange rate changes between them. Hence, a single currency would be beneficial to them.

Identical inflation rates: Countries adopting a single currency should have an integrated socio-economic policies. A significant difference in these variables can pose a danger of persistent differences in national inflation rates which could eventually result in external imbalances in each of the countries within the block. This is further reinforced by the proposition of Fleming[9] who argued that the similarity in inflation rates between countries over time ensures the stability of terms of trade. As a result of this, more equilibrated current account transactions and trade would be fostered thereby leading to the reduction in the need for the adjustment of nominal exchange rate.

Fiscal and Political integration: Political will of member countries to ensure fiscal integration and wiliness to share risk among themselves cannot be undermined. It has been recognized as the most important factor for these countries to share a single currency[10]. This fosters compliance and cooperation to sustain different economic policies with a view to ensuring more institutional linkages among the OCA countries. A comity of countries can be turned into a successful OCA if the concerned countries embark on similar policy attitudes. And the policy makers in such countries are ready to trade-off between objectives[11,12].

Main Benefits of Single currency in ECOWAS Sub Region

Monetary integration and economic integration are inseparable entities. The optimal benefits of free movement of goods, services, people and capital in ECOWAS sub region would be a mirage if the exchange-rate uncertainty and transaction costs of different currencies are not eliminated through the use of single currency within the region. As a matter of fact, the region requires fully-fledged economic and monetary integrations concurrently to ensure a substantial degree of policy coordination in macro and microeconomic policies. However, apart from the introduction of a single monetary and exchange-rate policy in the region, restrictions on the size of Member States' public deficits and debts should not be overemphasized. This will counter the unnecessary negative spillover son other countries. In the same vein, the achievement of successful free trade zone requires a single policy or strong forms of coordination in the region.

Conclusion

Consequently, there is a need for a formidable independent apex bank which would regulate the stability of price in the region. It is not a gainsay that the use of a single currency within ECOWAS sub region would result in a monumental phenomenon by ensuring macroeconomic stability, improving efficiency and resource allocation, elimination of risk in exchange rate and promotion of the international use of the common currency which will make the economic block to be more resilient to shocks in global capital flows. More importantly, the founding goals of ECOWAS would not be fully

realized unless there is an emergency of a single currency alongside the existing single market in the region.

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