SECTION 1 Macroeconomic Processes and Regional Economies Management

West African Monetary Union and its Implications for Ghanaian Firms

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Abstract

This study sought to find out the expectations of Ghanaian firms and some experts' opinion on the possible implications of a West African monetary union for Ghanaian firms. The study revealed that most of the firms sampled for this study were aware of the intention to create a monetary union in the West African sub-region. With regards to the views of experts, they were very optimistic about the creation of the monetary union and were of the opinion that, synchronizing the economies would lead to a wider market, increased trade, and create opportunities for economies of scale. They however cautioned about the adverse socio-economic effects associated with the creation of such monetary unions.

Key words: West African Monetary Union, Integration, Ghanaian Firms.
JEL Classification: F15.

1. Introduction

The need to create a zone of monetary stability in the sub-region has long been recognized as a necessary step to boost intra-regional trade, catalyze foreign investment and stimulate economic growth. Regional economic integration involves an agreement among neighboring nations to allow for the free flow of ideas, investment funds, technology, goods and services, and free movement of persons within the region in which a single large market subsists with the benefits of comparative advantage and economies of scale. Regional economic cooperation has gained momentum partly as a strategy to cope with global economic problems and partly to enhance domestic economic growth and development (Ebi, 2004).

A number of advantages have been identified with respect to the creation of the common currency for the West African sub-region, including macroeconomic stability, improved inter-regional trade, free labour mobility, better financing, etc. For instance, it is argued that a single monetary policy will require that individuals be able to move funds as freely within the single currency area as they now do within national borders. It is likely that a move to a common currency will lead to banks increasingly operate throughout the region. This will result in healthy competition among banks and subsequently increase firms' access to bank financing at lower cost. Others have argued that the creation of monetary unions will facilitate trade and investment among the countries of the union through reduction of transaction costs and removal of the turbulence associated with flexible exchange rate regime. Also, monetary unions could foster price transparency and could possibly improve policy discipline and credibility for countries within the group and provide access to financial market (Frankel and Rose, 2000; Glick and Rose, 2001; Rose and Wincoop, 2001; Bordo and Flandreau, 2001; Honohan and Lane, 2000; Brooks and Del Negro, 2002, Dupasqier *et al.*, 2005). However, the empirical literature on other monetary unions is not definitive on the issue.

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Some argue that the monetary union will result in adjustment costs, along with loss of monetary and exchange rate policy instrument which is likely to result in instability amongst countries which are incompletely converged (Arestis and Sawyer, 2000; Mongelli, 2002). Sorenson and Nyanteng (2000) argue that the cumbersome procedures of Economic Community of West African States (ECOWAS) Trade Liberalization Scheme and how they are implemented are deterring Ghanaian producers from taking the initiative to export. Some firms are not able to compete with traders who are able to avoid the red tape by informal trading.

The issue is what is the level of awareness of Ghanaians about the potential benefits of the creation of a monetary union for West Africa? Which of these benefits do they consider important for the growth of their businesses? What are the general impressions and expectations of these firms about the monetary union? Previous studies have focused on the implications of monetary union mainly at the macro-level. To the best of our knowledge, no study has looked at the issue from a micro-level perspective. There is the need for empirical investigation to ascertain what the possible ramifications of the monetary union will be for Ghanaian firms. The study seeks to find out the expectations of Ghanaian firms and some experts' opinion on the possible implications of the monetary union on international trade in Ghana. The main motivation for focusing on Ghanaian firms is that, the private sector is considered as the engine of economic growth and is expected to provide employment, expand production, and generate tax revenue for Ghana.

The rest of the paper is organized as follows: Section two discusses the methodology used in the study. Section three includes the discussion of the study results, and finally section four concludes on the study.

2. Research Methodology

This exploratory study sought to investigate the implications of the West African monetary union for Ghanaian firms. The study sought to bring to light the views of exporting firms, non-exporting firms, and trade and finance experts on the likely implications of the monetary union for Ghanaian firms. Accordingly, some experts, exporting, and non-exporting firms were interviewed. The views of exporters were sampled on the possible ramifications of the currency harmonization in terms of export growth. The views of non-exporters' were sought to find out if the currency harmonization would serve as an incentive for them to enter the export market. In all, 200 questionnaires were distributed to exporters, importers, and non-exporters. The selection of the companies for the sample was based on a stratified sampling technique. Companies within and outside the immediate environs of Greater Accra region were divided into the three main categories and randomly picked for the research. Out of the 200 questionnaires distributed, 62 were retrieved, representing a response rate of 31%. We also interviewed 10 experts from Ministry of Trade and Industry, Ghana Export Promotion Council, Federation of Ghanaian Exporters, Ghana Stock Exchange, West African Monetary Institute, Bank of Ghana, 2 Banks and 2 non-bank financial institutions to share their thoughts on likely implications of the creation of the union for firms in Ghana.

The survey instrument was designed to include both close-ended and open-ended questions. Open-ended questions sought to encourage respondents to share as much information as possible in an unconstrained manner. Close-ended questions on the other hand, required respondents to simply check a box or circle the proper response from a set provided by the researchers. A five point likert-type rating scale ascertaining the level of awareness of both exporters and non-exporters was used. Data obtained from responses were entered into an "SPSS" database application for analysis. Descriptive statistics was used in discussing the problems the firms currently face, the strategies they have adopted to overcome these difficulties in cross-border trade and their expectations of possible benefits of the monetary union. We also discussed the views and perceptions of the trade and finance experts.

3. Discussion of Results

This section provides a discussion of the empirical results. It starts with a discussion on the background information of the firms interviewed and a discussion on the strategies they adopt in dealing with the difficulties of cross-border trade. This is followed by a discussion of the views and expectations of the firms on the potential benefits and problems of the monetary union. The final part of this section looks at the perceptions of experts regarding the likely implications of monetary union for Ghanaian firms.

International Trade

Table 1 shows the characteristics of the sampled firms. In terms of the firms' trade status, 35 of the firms, representing 56.5% of valid responses were into both imports and exports. Nineteen of the firms, representing 30.6% were into imports only. The remaining 8 respondents (12.9%) were neither importing nor exporting their products. They asserted that their products were mainly sold locally. Out of the 27 non-exporting firms (i.e. importers only and those not involved in international trade), 44.5% had the intention of exporting in the near future. About 18.5% had no intention of entering into the export market at all. Their main reasons were: problems of acceptance of their products in other countries and problems in dealing with authorities, especially in the francophone countries. Financial constraint and language barrier even in the sub-region were also identified as reasons why they were not exporting their products. The rest (37%), were undecided regarding plans to enter the export market.

Table 1

Trade Information

Trade Status	Frequency	Percentage
Both Import and Export	35	56.5
Import Only	19	30.6
None	8	12.9
Total	62	100.0
Intention to Export		
Yes	12	44.5
No	5	18.5
Undecided	1 0	37.0
Total	27	100.0
Do you have difficulties in cross board trade?		
Yes	38	70.4
No	16	29.6
Total	54	100
Is regional integration enough incentive?		
Yes	46	85.2
No	8	14.8
Total	54	100.0
Current Strategies		
Establish Agents	5	9.3
Learn Language/Engage Interpreters	4	7.4
Negotiate/Adjust Prices	5	9.3
Bribery	3	5.6
Nothing	5	9.3
Missing	32	59.1
Total	54	100.0

Source: Survey data.

About 70% of the firms engaged in international trade mentioned that they have difficulties in trading across borders. A number of difficulties were identified, including, bureaucracies in obtaining trade documents, high tariffs, difficulty in pricing in foreign currencies, foreign exchange risk, smuggling, restrictions at borders, problems of clearing goods at ports and harbours as well as harassments by border officials. Majority (85.2%) of the firms involved in cross-border trade however believe that, regional integration is important and would provide enough incentive for increased foreign trade as well as curtail the difficulties in international trade. They suggested that it would reduce foreign exchange risk, reduce bottlenecks associated with foreign exchange control, increase price transparency, improve regional marketing, reduce transaction costs and also reduce cost of managing accounting systems because of common currency. This supports Frankel and Rose (2000), and Dupasquier *et al.* (2005) findings, that the most obvious benefit of a currency union is the facilitation of trade and investment among the countries of the union through reduction of transaction costs. In terms of the current strategies they adopt in coping with the problems involved in cross-border trade, most of the firms, as indicated in Table 1, did not have any specific strategy in dealing with the problems. A few (9.3%) of them however mentioned that they establish agents abroad, some (7.4%) said they learn the language or use interpreters and others (9.3%) also said they negotiate or adjust prices. Some (5.6%) of the firms were honest to mention that they bribe customs and security officials.

Awareness about West African Monetary Zone

One objective of this study was to ascertain the firms' awareness of the intention to create a monetary union in West Africa. Table 2 shows that 56, indicating over 90% of valid respondents mentioned that they were aware of the creation of the union. Clearly most of the respondents were aware of the intention to create the West African Monetary Zone (WAMZ).

Table 2

Awareness to create Monetary Union

Response	Frequency	Percentage
Yes	56	90.3
No	6	9.7
Total	62	100.0

Source: Survey data.

With respect to the level of the firms' awareness, Table 3 shows that out of the 56 firms that were aware of the monetary union, 16 had a very high level of awareness, while 9 had a very low level of awareness. A mean value of 3.2 suggests that respondents were fairly aware of the intention to create a monetary union in West Africa. Majority of the respondents claimed that they understood the implications of the creation of the monetary union. Out of those who were aware of the creation of the monetary union, 39, representing about 70%, were aware of the implications of the monetary union in West Africa.

Table 3

Degree of Awareness

Response	Frequency	Percentage	Mean
1	9	16.1	
2	7	12.5	
3	20	35.7	
4	4	7.1	
5	16	28.6	
Total	56	100.0	3.2

Source: Survey data.

As shown in Table 4, only 17, representing 30.4%, said they were not aware of the implications. Majority of the respondents claimed that they understood the implications of the creation of the monetary union.

Table 4

Full understanding of the implications of the Monetary Union

Response	Frequency	Percentage
Yes	39	69.6
No	17	30.4
Total	62	100.0

Source: Survey data.

In terms of how respondents knew about the WAMZ, Table 5 shows that most of them heard about it through the radio (73.2%), newspapers (67.9%) and television (64.3%). Just a few said they knew about it through friends/relatives (33.9%) and the internet (19.6%). Clearly, the traditional media have been the main source in creating the awareness of the monetary union for West Africa. The internet has not really been effective in the campaign for the creation of the monetary union in the sub-region. However, respondents believe that the awareness created was inadequate. They believe that publicity has not been widespread and that the West African Monetary Institute has not been very proactive in its campaign in sending the message across.

Table 5

Medium of Awareness

Medium	Frequency	Percentage
Newspaper		
Yes	38	67
No	18	32.1
Total	56	100.0
Radio		
Yes	41	73.2
No	15	26.8
Total	56	100.0
Television		
Yes	36	64.3
No	20	35.7
Total	56	100.0
Internet		
Yes	11	19.6
No	45	80.4
Total	56	100.0
Friends/Relatives		
Yes	19	33.9
No	37	66.1
Total	56	100.0
Other	5	5.9

Source: Survey data.

From Table 6 it is clear that majority (71%) of the respondents were not satisfied with the education and publicity with respect to the creation of WAMZ. Respondents admitted that there was the need to step up the promotional campaign in that respect. Suggestions included adopting a more aggressive public education programme through electronic, print media, local assemblies, symposia, lectures and other outdoor programmes. Others included, organizing industry specific seminars to improve awareness of the monetary union across the various sectors.

Table 6

Is the Awareness created sufficient?

Response	Frequency	Percentage
Yes	16	25.8
No	44	71.0
Not sure	2	3.2
Total	62	100.0

Source: Survey data.

Benefits of Integration

In terms of whether the firms believe that the integration would be beneficial to their business, a greater percentage of the firms interviewed were affirmative that the integration would be beneficial to them as exporters/importers. Table 7 below indicates that about 89% claimed integration would be beneficial to their business. Only 6 firms, accounting for 10.7% were not sure of the importance of the creation of monetary union to their business.

Table 7

Will integration be beneficial to you as an exporter/importer?

Response	Frequency	Percentage
Yes	50	89.3
No	6	10.7
Total	56	100.0

Source: Survey data.

This study also sought to ascertain which of the theoretical benefits of the creation of monetary union respondents considered as most important. They were asked to indicate on a scale of "1-5", the importance of each of the benefits. Table 8 shows that "Increased Trade" is considered the most important benefit of the creation of the monetary union with a mean score of 3.96. This is followed by "Price Transparency" with a mean value of 3.57. According to Honohan and Lane (2000), "Price Transparency" could lead to improvement in policy discipline which may reduce currency risk premium and increase investment and welfare. "Reduced Foreign Exchange Risk", with a mean value of 3.31 ranks as the third important benefit. Others include "Improved Payment System" (2.87), and "Ability to Borrow from a Bigger Market" (2.51). It has been shown by Brooks and Del Negro (2002) that between 1999 and 2003 the volume of funds raised directly on the financial markets by firms issuing shares, bonds and other instruments grew from €31 billion to €65 billion. "Diversification of Credit Risk" (2.20) was considered as the least important benefit of the creation of the monetary union. With the exception of the last benefit, all the benefits have mean score of above 2.5, confirming the fact that respondents are optimistic in terms of the benefits that the creation of the monetary union would accrue to their operations.

Table 8

Potential Benefits of Monetary Union

Benefits	Mean
Increased Trade	3.96
Price Transparency	3.57
Reduced Foreign Exchange Risk	3.31
Improved Payment System	2.87
Borrow from Bigger Market	2.51
Diversification of Credit Risks	2.20

Experts' Opinion

We interviewed some experts from Ministry of Trade and Industry, Ghana Export Promotion Council, Federation of Ghanaian Exporters, Ghana Stock Exchange, West African Monetary Institute, Bank of Ghana, Banks and non-bank financial institutions. With respect to the Experts' opinion, all those interviewed mentioned that they were aware of the intention to create a monetary union. However, they were of the opinion that public education was not adequate and suggested that government invest more resources into public education programmes. They suggested that there was a need for widespread and continuous sensitization by member states. Also, the state of preparedness of Ghana to the integration process must be highlighted in the Annual Budget and other planning documents. The policy implication of macroeconomic policies vis-à-vis the integration process should also be highlighted on media reports and discussions.

The respondents were very optimistic about the creation of the monetary union. They were of the opinion that synchronizing the economies would lead to a wider market and increased demand and trade. The opening up of larger size markets would create opportunities for economies of scale. Their expectation about the monetary union is its potential to lead to improved and better payment system and a sustainable monetary policy and stability of currency. A bigger market in the sub-region would also allow financial institutions like banks to maximize returns.

In spite of the high expectations these experts have about the potential large regional market and fluid cross-border transactions in facilitating trade within the West African sub-region, they cautioned that measures need to be put in place now to check possible adverse social implications of an economic and monetary union. They pointed to the problems of increased armed robbery and fraud as possible adverse social effects of a monetary union. All the respondents mentioned competition as a likely problem or disadvantage of the creation of the union. They suggested that the free movement into the country could have serious and adverse consequences on the young or infant Ghanaian industries.

In terms of how the introduction of the monetary union will reduce informal trading across the sub-region, the experts were of the view that it would lead to reduction in transaction costs (no exchange rate loss) that would be brought about by a single currency, an efficient payment system across sub-region (which will enable easy and prompt payment), removal of tariff and non-tariff barriers. These would greatly minimize cost of doing formal business and so would reduce the attraction to engage in informal trade across the sub-region. The increased cross-border trading and harmonization of monetary policy of countries in the union would therefore force traders to regularize their trade.

They believe that the Central Bank of Ghana would not loose its role rather it would serve as a branch of the Central Bank of the WAMZ responsible for ensuring price stability through maintaining a stable exchange rate of the "eco" which would be fully independent. Also, it would be involved in the issuance and management of the currency. The Bank would basically be in charge of monetary policy of the WAMZ. They believe that this new position of the Bank of Ghana would not in any way hurt export trade.

4. Conclusions

This study sought to investigate the implications of the West African monetary union. The study revealed that firms engaged in international trade currently, have difficulties in trading across borders. The difficulties identified by these firms, include, bureaucracies in obtaining trade documents, high tariffs, difficulty in pricing in foreign currencies, foreign exchange risk, smuggling, restrictions at borders and problems of clearing goods at ports and harbours, unfair competition from informal traders and harassments by border officials. These difficulties, the firms believe, would be reduced if not entirely removed by regional integration. Consequently, regional integration could provide enough incentive for increased participation in foreign trade and investment. In order of importance, the firms considered that the creation of a monetary union would lead to increased trade, price transparency, reduced foreign exchange risk, transparent payment systems, increased ability to borrow from a bigger market, and diversification of credit risk. The study revealed that most of the firms sampled were aware of the intention to create a monetary union in the West African sub-region. Although they were also aware to a large extent of the implication of such a union to their trade, they however believe that the public education on the subject has not been widespread.

With regards to the views of the experts, they mentioned that they were aware of the intention to create a monetary union. However, they were also of the view that public education was not adequate. They were very optimistic about the creation of the monetary union and were of the opinion that synchronizing the economies would lead to a wider market and increased demand and trade. The opening up of larger sized markets would create opportunities for economies of scale. Their expectation about the monetary union hinges on its potential to lead to improved and better payment system and a sustainable monetary policy and stability of currency. In terms of how the introduction of the monetary union will reduce informal trading across the sub-region, the experts were of the view that it would lead to reduction in transaction costs (low exchange rate loss) that would be brought about by a single currency, an efficient payment system across the sub-region (which will enable easy and prompt payment), removal of tariff and non-tariff barriers. These would greatly minimize cost of doing formal business and so would reduce the attraction to engage in informal trade across the sub-region. The increased cross-border trading and harmonization of monetary policy of countries in the union would therefore force traders to regularize their trade. They complained however about the adverse socio-economic effects of monetary unions such as increase in cross-border crimes.

Clearly the findings of this study have shown that Ghanaian firms are largely aware of the creations of a monetary union for the sub-region and its implications for firm growth. However, it is still important to intensify the public education on the issue. There is the need to also consider measures of minimizing the adverse socio-economic effects associated with monetary unions.

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