Progress in Development Studies (2019) pp. 1–21

Regional integration and growth: New empirical evidence from WAEMU

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Abstract: This study provides a pioneer analysis of the growth effect of WAEMU integration at the econometric level, unlike the extant literature that relied on descriptive analysis of the sub-region's trade statistics. The study used robust instrumental variables system GMM regression in the framework of a cross-country growth model and annual panel data for the period 2000 to 2015. Contrary to the widely held view that regional economic integration fosters economic growth of the participating countries, we did not find any empirical support for a positive growth impact of WAEMU integration in West Africa, which may be due to a variety of factors that mainly point to the characteristics of the WAEMU economies. However, the results indicate that foreign direct investment (FDI), institutional quality, capital, labour and the initial real per capita GDP are important drivers of growth in the sub-region. Interestingly, the results further indicate that FDI and institutional quality are the channels through which WAEMU integration may impact on growth in West Africa. The study therefore concludes that policy reforms towards improved institutions and increased FDIs will enhance economic growth in West Africa.

Key words: Economic integration, economic growth, GMM regression, West Africa

10.1177/1464993418822883

I Introduction

The West African Economic and Monetary Union (WAEMU) was established by seven founding members that signed a treaty in Dakar, Senegal, on 10 January 1994, namely Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal and Togo. Guinea-Bissau, a former Portuguese colony and the only non-francophone member, joined the Union on 2 May 1997. WAEMU member states use the West African CFA Franc as a common currency, which was initially pegged against the French Franc at a fixed rate. However, the West African CFA Franc is now pegged after the Euro, following the adoption of the latter by France. The Central Bank of West African States is the central bank serving the eight WAEMU member states. Other countries in West Africa which are non-WAEMU member states include Cape Verde, Gambia, Ghana, Guinea, Liberia, Mauritania, Nigeria and Sierra Leone (Combey, 2017; International Monetary Fund [IMF], 2018).

Historically, the idea to establish WAEMU can be traced to the desire of the member states to expand the goals of the West African Monetary Association (WAMA), a monetary cooperation established in 1963. WAEMU was therefore established not only to integrate monetary cooperation but also to achieve overall economic integration. Accordingly, the Dakar Treaty of 10 January 1994 identified the main goals of WAEMU, namely: to create a common market of member countries to ease the free movement of persons, goods, services and capital; to strengthen the economic and financial competitiveness of member countries through an open and competitive market along with the rationalization and harmonization of the legal environment; the convergence of macroeconomic policies and indicators by instituting multilateral monitoring procedures; coordination of sectoral policies; and harmonization of fiscal policies through establishment of a common external tariff and a common trade policy (Ndiaye and Xu, 2016).

The above goals of WAEMU indicate that policymakers and leaders across the region view regional integration as an essential development strategy, which is vital not only in achieving economic growth and development but also in promoting shared prosperity and regional stability. According to Olomola (2000), the basic motivation has been the desire to offset the seeming political, social and economic weakness of individual countries. Specifically, the thinness of the economy of individual countries in the region is seen as growth retarding, while a well-designed and managed regional integration could bring opportunities for greater economic growth and development (Fielding et al., 2012). The opportunities that integration could offer include spillover of technological innovations and specialization, which in turn could foster productivity growth; economies of scale in production and trade, which could generate lower costs of production and enable the region to compete favourably in globalized markets; and integration of the region into the world economy (Diop et al., 2008; Salisu and Ademuyiwa, 2013; UNCTAD, 2007).

Indeed, economic justifications for regional integration such as WAEMU are well established in the literature. Such integration opens the region and increases intra-regional trade by eliminating national trade barriers (Danquah et al., 2013; Mohanty and Pohit, 2007; Salisu and Ademuyiwa, 2013; Umulisa, 2016). The adoption of common economic policies and ultimately a customs union serves as a catalyst for the expansion of trade within the region and with other countries outside the region (Agbodji, 2008). According to Shuaibu (2015), the intra-regional trade benefits of integration, amongst others, include enlarged regional markets, high capital flows and increased growth. Overall, it is seen that trade and economic integration can drive economic diversification, structural transformation, economies of scale, improved competitiveness of the region, sharing of new technologies and products among cooperating countries and effective integration and participation in the global economy (Salisu and Ademuyiwa, 2013;