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Impact of Geoeconomic Fragmentation on Regional Economic Integration in West Africa: A Post-Structuralist Discourse Approach

Hamza Marafa
Monetary Policy Department, Central Bank of Nigeria

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Abstract*: This paper explored the relationship between regional economic integration and geoeconomic fragmentation in the West African Sub-region. It focused on the future of the second West Africa Monetary Zone (WAMZ) within the continuing fragmented system. A post-structuralist discourse approach was used to analyze how geoeconomic and political risks affect the WAMZ convergence process. An assessment of fragility risk of the regional economic cooperation shows how the spillover effect of global geopolitical fragmentation is leading to regional geopolitical fragmentation, which breed cracks in the regional economic integration process among developing and fragile states. It is recommended that the regional economic integration framework should be revisited to strengthen institutional resilience and scale up monetary and financial system surveillance. The focus should be on building momentum towards strong institutional support to pursue a win-win approach towards the evolving regional fragmentation policies. For the member states, competing to attract FDI through friend-shoring and near-shoring is an utmost important, however, a concerted effort should portray the region as a neutral economic bloc and pursue a neutral-shoring as the fourth approach to fragmentation policy.*

KEYWORDS: impact of geoeconomic fragmentation, regional economic integration, West Africa, post-structuralist discourse approach

INTRODUCTION

In recent years, regional economic integration has gained momentum as countries seek to strengthen their economies and increase their competitiveness in the global market. West

Africa, a region characterized by diverse economic and historical antecedents, has also been pursuing integration through various initiatives such as the Economic Community of West African States (ECOWAS), the West African Monetary Union (UEMOA), and the West Africa Monetary Zone (WAMZ). These integrations processes are now contending with the growing risk of fragmentation due to the region's interdependence on external trading and financing relations. Thus, the escalation in geopolitical tension on the international scene has raised concerns about more significant geoeconomic fragmentation, a policy-driven reversal of economic and financial integration, often guided by strategic considerations[1].

The literature on fragmentation is evolving with scenarios estimating the cost of fragmentation using geopolitical and economic variables. In this paper, geopolitical fragmentation is conceptualized as the complete or near complete disintegration of economic relations into regional and ideological blocs characterized by common interests that safeguard both short-term and long-term economic security and geopolitical relevance. When transmitted through various channels, geopolitical fragmentation results in broader economic and financial fragmentation. Petri et al.[2] identified three approaches to geoeconomic fragmentation: friend-shoring, re-shoring and near-shoring. *Friend-shoring* intends to restrict trade that might be subject to political manipulation and deny economic and potentially strategic benefits to political competitors. *Near-shoring* on the other hand, assumes that trade risks rise with distance and incentivizes trade within a regional neighbourhood, while *re-shoring* assumes the role of protecting domestic industries under a new name. However, the motivation behind these policies includes national strategic objectives such as security considerations or enhancing autonomy via reduced reliance on other countries or regions, or it could arise from strategic economic rivalry among nations or groups of nations.[3] Moreover, Catalan[4] Identified two critical channels through which geopolitical tension leads to financial instability or further economic fragmentation. The first is through a financial channel triggered by restrictions placed on capital flows and payments such as capital controls, financial sanctions, and international asset freezing or

[2] Peter, Petri, and Plummer, Michael. Scenarios for a Global New Normal and ASEAN Value Chains. In ASEAN and Global Value Chains: Locking in Resilience and Sustainability, Chapter 6. Manila; Philippines, Asian Development Bank. 2023, https://ssrn.com/abstract=4426334.

[3] Shekhar, Aiyar, Ilyina Anna, Chen Christian, Roberto Garcia-Saltos, Tryggvi Gudmundsson, Anna Ilyina, Alvar Kangur, and others. Geoeconomic Fragmentation and the Future of Multilateralism, 36.

[4] Mario, Catalan. Geopolitics and Financial Fragmentation: Implications for macro-financial Stability. Staff Discussion Note SDN/2023/00. Washington, DC; International Monetary Fund. (2023), 81-101.

through an increase in uncertainty and investors' risk aversion to future restrictions or escalation of conflicts. The second channel is through natural channels triggered by trade restrictions, supply chains and commodity-market disruptions, which affect trade, growth, and inflation. This also affects asset prices, including commodities, stocks, interest rates, and sovereign and credit spreads.

Existing studies in the literature mainly focused on empirical and structural models with little attention to theoretical and institutional foundations. Additionally, little attention is given to how geoeconomic fragmentation affects regional economic integration. This paper attempts to enrich the literature by exploring the theoretical aspects of the implication of geoeconomic fragmentation on regional economic integration using dynamics of monetary cooperation pursued by the Economic Community of West African States (ECOWAS).

THEORETICAL APPROACH

This paper adopted the post-structuralist discourse theory as a theoretical framework, which Ernesto Laclau and Chantal Mouffe[5] pioneered. It contains several insights and propositions that could augment institutional analysis and make it sensitive to ideas and discourse. These propositions are the notion of power[6], it is decentering of the subject, deliberate, willful action[7], its avenues for critique and political thought[8], and its move beyond interest and intentions[9]. Thus, discourse theory has two important implications for research on geoeconomic fragmentation. First, recognizing the discursive nature of fragmentation implies that fragmentation policies such as friend-shoring, near-shoring and re-shoring are not simply responses to external and material threats but constitute them in the first place through discursive practice. Secondly, an analytical perspective based on discourse theory is more interested in more than just which policy options are the most

[5] Ernesto, Laclau, and Mouffe, Chantal. Hegemony and Socialist Strategy: Towards a Radical Democratic Politics. London: Verso. 1985, 217.

[6] Sørensen, E. and Torfing, J. Theoretical approaches to governance network failure. In: E. Sørensen and J. Turing (eds.) Theories of democratic network governance. London: Palgrave Macmillan. 2007, 95-110

[7] Larsson, O. Using post-structuralism to Explore the Full Impact of Ideas on Politics. Critical Review 27(2). 2015, 174-197

[8] Bacchi, C. and M. Rönnblom, Feminist Discursive Institutionalism—A Post structural Alternative. Nordic Journal of Feminist and Gender Research 22(3). 2014, 170-186.

[9] Schmidt, V. Theorizing Ideas and Discourse in Political Science: Intersubjectivity, Neo-Institutionalisms, and the Power of Ideas. Critical Review 29(2). 2017, 248-263.

appropriate but also in how ideas about alternative approaches to fragmentation are articulated and by whom, how they are structured, and what strategic end they pursue. Therefore, analyzing regional economic integration through a post-structuralist approach helps in a more profound understanding of the geoeconomic fragmentation from the perspective of erosion of regional institutional and multilateral power.

ECOWAS Framework of Economic Integration; The Role of the Specialized Institutions

The Economic Community of West African States is a regional economic group that started as a Free Trade Area in 1975. At its inception, ECOWAS was made up of two sub-groups of member countries: *Union Economique et Monetaire Ouest Africane* (UEMOA), majorly for the French-speaking members who adopted the CFA franc as a common currency, and non-UEMO members, which are English-speaking member countries. UEMOA is the first monetary zone among the French-speaking ECOWAS members. Currently, ECOWAS consist of fifteen member countries: Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo. ECOWAS adopted a Monetary Cooperation Programme in 1987 to improve and strengthen the sub-regional payment system under the West African Clearing House (known as West Africana Monetary Agency). The intent was to introduce a single currency to replace eight existing currencies through a single monetary zone. However, in 2000, EUMOA became a customs union, eventually extending to cover all ECOWAS member states. However, the actual implementation of the internal liberalization and the standard external tariff has been very slow, and many member countries still need to comply with their obligation in practice fully[10].

Institutionally, the organization has several institutions, including the Commission, the Community Parliament, the Community Court of Justice, and the Bank for Investment and Development (EBID). ECOWAS also established specialized agencies to conduct its unique economic and financial affairs, such as the West African Monetary Institute (WAMI) and the West African Monetary Authority (WAMA). The West African Monetary Agency (WAMA) is an autonomous and specialized agency which aims to promote the use of national currencies in trade and non-trade transactions within the sub-region. WAMI is responsible for monitoring macroeconomic development in the member states and preparing the groundwork for introducing a single currency and establishing a central

[10]Joseph, Nnanna, O. The West African Monetary Zone (WAMZ) convergence or divergence: which way forward, 23.

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bank[11]. Generally, creating a common currency among a group of countries is proceeded by economic conditions, harmonization of macro policies (fiscal, monetary, and exchange rate policy), and institutional arrangement involving financial and payment systems, collectively called the convergence criteria. The convergence criteria are divided into primary and secondary criteria for the second monetary zone, with various targets set for the convergence. The WAMZ's primary criteria consist of four pillars: single-digit inflation, budget deficit to GDP (5 percent), Central bank financing of budget deficit (10 percent), and foreign reserve (at least three months covers). The second criteria consist of six pillars: zero domestic arrears, the ratio of tax revenue to GDP (>20 percent), exchange rate stability (15 percent of quoted central rate as of April 2002), public investment/tax revenue ration (>20 percent). The parameters were agreed upon in 1999 and revised in 2005 to address the need for more progress in the implementation among member states.

Making Sense of Fragmentation Risks in the Monetary Cooperation Process

Achieving the WAMZ convergence targets has been problematic in recent years, with some studies describing the performance as disappointing.[12] Majority of the member countries are struggling with high inflation and depletion of foreign reserves, which result in the depreciation of their national currencies. On average, inflation in the region was projected to reach 9.5 per cent in 2021, with members like Sierra Leone and Nigeria having inflation reaching 15.5 per cent and 12.7 per cent, respectively, while Coted'Ivore has the lowest inflation of 1.4 per cent[13]. In 2023, the escalating geopolitical tensions resulted in high food and energy prices with disruption of supply chains; inflation in Nigeria and Sierra Leone has reached a record high of 29.90 and 52.2 per cent, respectively. Thus, the inflationary pressure and subsequent gaps between the WAEMU and WAMZ from the year 2000 to 2020 risk the convergence objective of the ECOWAS and the chances of creating a single monetary zone[14].

There is also wide disparity and depreciation in the position of foreign exchange. The performance of the WUA against the franc CF (XOF), the Cape Verdean escudo (CVE), the Ghanaian cedi (GHC), the Gambian dalasi (GMD), the Guinean franc (GNF), the

[11] Joseph, Nnanna, O. The West African Monetary Zone (WAMZ) convergence or divergence: which way forward. Economic and Financial Review, 40(4). 2002, 109.

[12] Ibid., 25.

[14] Ndiaye, A. (2021) Exchange Rates and Inflation Rates Convergence in ECOWAS. Modern Economy, 12, 1726-1747. doi: 10.4236/me.2021.1212088.

Liberian dollar (LRD), the Nigerian naira (NGN) and the Sierra Leonean leone (SLL) have poor performance against the US dollar in recent years. Most of these currencies depreciated against the US dollar. Moreover, with rising fragmentation, there is a risk of higher import prices and exchange rate depreciation, which could further threaten the convergence process.

Moreover, almost all member countries have exceeded the convergence criterion for the fiscal deficit; as of 2020, only Gambia and Liberia have remained within this category. This is connected with the weak domestic revenue and dependence on a single revenue source, mainly the export of primary commodities. Nigeria, Ghana, Senegal and Cote d'Ivoire were the largest borrowers in the region and contributed to the regional debt-to-GDP ratio of 36.7 per cent during the year 2020[15].

However, despite these setbacks, there are promising domestic economic policies and reforms among member states. There is a broad appreciation of the Inflation-Targeting (IT) framework for monetary policy which is vital for convergence. Ghana has already implemented IT as a monetary policy framework, while Nigeria is transitioning to adopt the IT as the monetary policy framework. Other member states have shown readiness for transition to the framework, which could enhance commitment, transparency and accountability in the monetary integration process. Therefore, the specialized institutions of ECOWAS should facilitate the integration of IT into the member states economic management tools while ensuring that exogenous adverse shocks have little or no effect on the convergence targets for monetary union in the region. It is also of utmost importance to scale up monetary and financial surveillance to strengthen economic viability for a stronger monetary integration.

Trade Restriction and Institutional Resilience

The current phase of globalization has seen restrictions more than ever in the history of trading relations among nations. A study by Aiyar et al.[16] noted that the financial effect of a rise in geopolitical tensions may not be uniform across countries, this is because countries will likely be more affected if tensions escalate with their significant economic and financial partners. Additionally, data from the United States Office of Trade

[15] Nigerian Economic Summit. "Analysis of public debt position in the ECOWAS", special Policy Brief, 2021 https://nesgroup.org/.

[16] , Shekhar, Aiyar, Ilyina Anna, Chen Christian, Roberto Garcia-Saltos, Tryggvi Gudmundsson, Anna Ilyina, Alvar Kangur, and others. Geoeconomic Fragmentation and the Future of Multilateralism. Staff Discussion Note SDN/2023/001. Washington, DC; International Monetary Fund. 2023, 42.

Representative[17] shows that US exports to the ECOWAS area in 2022 were $6.7 billion, while US imports from ECOWAS member countries totalled $9.4 billion in 2022, an increase of 38.8% ($2.6 billion) from 2021. However, regarding trade balance with ECOWAS, it shifted from a good trade surplus of $153 million in 2021 to a good trade deficit of $2.7 billion in 2022. While FDI flows into ECOWAS was $6.8 billion in 2022, a 16.5 per cent decrease from 2021, ECOWAS FDI into the US was $0.8 billion in 2022, unchanged from 2021. Comparatively, the trade volume between China and ECOWAS member countries stood at $33.29 billion in 2022, reflecting a year-on-year increase of 16.8 per cent. China's exports to ECOWAS were $26.69 billion, an increase of 15.3 %, while imports from ECOWAS to China were 6.32 billion at 36.1 per cent[18]. This trend confirmed the findings by Goldberg.[19] that while trade restrictions curbed trade between the US and China, trade in products most affected by tariffs grew among the rest of the world, as such trade is reallocated, not reduced.

However, what is troubling from the regional economic perspective is the spillover effect of geopolitical fragmentation into regional geopolitical fragmentation. This could be conceptualized as the disintegration of regional integration policies into politically aligned priorities that reflect member countries' global geopolitical alliances. It indicates the prevalence of shaky integration blocks incapable of absorbing shocks from global geoeconomic fragmentation. Theoritically, this breed cracks in the economic integration process among the developing and fragile states. It is therefore, indicative of a more profound threat of geoeconomic fragmentation among such states.

From a policy perspective, it is recommended that economic integration framework should be revisited to strengthen institutional resilience and scale up monetary and financial system surveillance. The focus should be on building momentum towards strong institutional support to pursue a win-win approach towards the evolving regional fragmentation policies. Competing to attract FDI through friend-shoring and near-shoring is an utmost important, however, a concerted effort should portray the region as a neutral economic bloc and pursue a neutral-shoring as the fourth approach to fragmentation policy.

[17]Office of United States Trade Representatives "Economic Community of West African States (ECOWAS)". https://ustr.gov/countries-regions/africa/regional-economic-communities-rec/.

[18]____ "China-Nigeria trade at $13.66bn in 2020 is largest in Africa" The Vanguard Newspaper. 24/11/2020. https://www.vanguardngr.com/2020/11/china-nigeria-trade-at-13-66bn.

[19]Pinelopi, K. Goldberg and Tristan Reed. "Growing Threats to Global Trade". Finance and Development, Washington DC; International Monetary Fund. 2022. https://www.imf.org/en/Publications/fandd/issues/2023/06/growing-threats-to-global-trade-goldberg-reed

This could boost trade and further cement regional integration into a vibrant monetary zone.

CONCLUSION

This paper adopted a post-structuralist discourse approach to analyze the implication of geoeconomic fragmentation on regional economic integration using the dynamics of regional monetary cooperation in West Africa. It demonstrated how current economic and geopolitical realities complicate efforts towards establishing the second monetary union in the region. It also shows how the spillover effect of geoeconomic fragmentation is breeding a regional geopolitical fragmentation, which threatens monetary and economic cooperation. It is concluded that divergent economic performance among member countries coupled with increased threats of geoeconomic fragmentation necessitates a renewed commitment and framework of action to strengthen institutional resilience for vibrant monetary zone in the region. This call for the specialized institutions of ECOWAS to facilitate the integration of IT into the member states economic management tools while ensuring that exogenous adverse shocks have little or no effect on the convergence targets for monetary union. It is also recommended that the regional economic integration framework should be revisited to strengthen and pursue a win-win approach towards the evolving regional fragmentation policies. The region should portray virtues of a neutral economic bloc and pursue a neutral-shoring as the fourth approach to fragmentation policy. This motivates further research on how other regional economic projects are building institutional resilience to adapt to the fragmented global policies.

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Declarations

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