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WEBINAR

REGIONAL INTEGRATION IN WEST AFRICA:
IS THERE A ROLE FOR A SINGLE CURRENCY?

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P R O C E E D I N G S

MR. COULIBALY: Good morning. Good afternoon. My name is Brahima Coulibaly. I'm the vice president of the Global Economy and Development program, here at Brookings. It gives me great pleasure to welcome you to this event, launching the new book of my colleagues, Eswar Prasad and Vera Songwe, on the role of a single currency in the West Africa Region's ambition for a regional integration.

For those who have not followed this project closely, the leaders of the Economic Community of West African States, or ECOWAS, consisting of 15 countries, embarked on a project, a few years ago, to create a single currency by 2020. That deadline has now been postponed to 2027, but the aspirations to achieve a single currency remains an important part of the regional integration agenda. And if we take a step back and think of currency unions in historical context, they have always been contentious.

And as Europe's experience, what the euro illustrates, even regions with relatively strong institutions struggle to balance the politics, the public opinion, and the technical aspects of adopting a single currency. And the ECOWAS single currency project is no exception. To the proponents of the currency union, it eliminates the burdens of exchanging currencies, and encourages intra-area trade, leading to a more deeply integrated and prosperous region.

On the other hand, it's not lost on us that there are significant costs related to operational challenges and risk associated with the transition from multiple national currencies and exchange rates to a single currency. Moreover, in the ECOWAS case, it is uncertain whether the benefits of the ECO, which is the name of the future currency, will be spread widely, across the community, given the disparate levels of development and various sizes of the region's economies.

Nigeria, alone, produces two-thirds of the region's goods and services, while the five smallest economies, combined, produce less than two percent. With such a disparity, the optimal monetary policy for the region will likely be greatly influenced by economic developments in Nigeria. This is not a problem if the shocks are similar across the region. But as the book points out, the shocks are different, and there are great risks that the monetary policy of the integrated region would not serve well the interest of the smaller nations, unless additional steps are taken.

Besides these technical considerations, realizing the full benefits of the shared currency would require accompanying set of reforms to achieve a broader economic union, including a banking union, a unified financial regulatory system, a fiscal union, and a more integrated product and labor market. But we know that the decision to create a single currency is very much a political ambition as it is an economic one. It is also true that, in practice, the currency union did not always meet many of the prescribed prerequisites before they are created.

So, when policymakers do proceed with the project, notwithstanding the challenges, the key question then is whether there are conditions under which the benefits of the ECOWAS currency union can be maximized to outweigh the cost. And the answer to that questions begin with a discussion and understanding of the key issues. In this regard, the authors do an excellent job at presenting a rich set of analyses that uniform their recommendations presented in the book.

They also usefully bring to bear the experience of currency union projects elsewhere in the world. The book is very timely, and I'm sure that it will enrich the conversation, and serve as a useful guide to policymakers, as well as anyone interested in this complex subject. I will encourage you to get a copy if you have not already. You'll get a chance to hear from the authors, shortly, and also have opportunities to ask them questions.

The event will be moderated by David Pilling, who is the Africa editor for the Financial Times, and he really doesn't need further introductions. It is always refreshening to read his pieces on Africa. He makes an extra effort to uncover the story behind the headlines, which allows him to bring a more nuanced prospective to the issues of the region and help shift the narrative in a positive way.

Early in the pandemic, he was among the journalists I exchanged with on how Africa will meet its sizeable financial and economic cost, brought about by the pandemic. He understood, before most, that collective action and solidarity with the developing countries is not just the best way to combat this global pandemic, but it is the only way. So, thank you David, for being a positive force for good, and thank you for moderating today's event. You now have the floor.

MR. PILLING: Thank you so much for that very kind introduction and also for the very thoughtful introduction, I think, to the book and to the topic, which has probably saved me some words. I, first of all, just want to introduce the panel. We have Aloysius Ordu, who is director of the Africa Growth Initiative, and a senior fellow of Global Economy and Development for the Brookings Institution.

Vera Songwe, executive secretary of the UN Economic Commission for Africa. She's also a nonresident senior fellow of the Africa Growth Initiative at Brookings. And, of course, here today, mainly, I guess, because she is the co-author of the book, and the topic that we are here to discuss, which brings me to Eswar Prasad, professor of trade policy at Cornell, and senior fellow at the Africa Growth Initiative at Brookings, and somebody who I used to deal with and talk to, frequently, and -- when I was in Asia because probably none too many people in this audience -- Eswar is also an expert, basically, on China and India, and has written, you know, some very interesting things about both those two enormous economies.

And before I just, very briefly, introduce the topic, there will be, obviously, time for questions. Some of you have submitted questions in advance, but those who haven't, we think of questions as we go along, you can tweet at Brookings Global, with the #WestAfricaIntegration, or you can email, directly, to events@brookings.edu. And we invite you to ask questions, at any time, and we'll gather those and ask some of them as we go along.

So, as has already been mentioned, we are here to discuss Regional integration in West Africa: Is there a role for single currency, with a big question mark? One thing, I think, there are few sort of background points that I'd like to make, before I ask, really, the experts to talk about this. One is, as mentioned in the book, on numerous occasions, the limited trade integration that we have, in Africa, generally, and in West Africa, specifically. So, intraregional trade in Africa is about 15 percent of total trade, as far as I remember, which compares with Asia, which is about 50 percent, and Europe, which is about 70 percent.

You know, another important, sort of -- I'm sorry. To add to that, what we know very much from Africa, is that when commodities leave Africa, and go to Europe or the U.S., is very low value added. But when intraregional trade becomes more important, the value added elements of that, and, therefore, you know, ensure, you know, wealth creation, productivity, jobs go along with that, and so, increasing intraregional trade, I think almost everybody agrees, is a kind of -- is a valuable goal because it leads to so many other beneficial factors, you know, perhaps we can discuss that when we come to the panel.

And the other kind of moving piece here, well, two other moving pieces, one is the African Continental Free Trade Area, which got going formally, this year, you know, despite, of course, the difficulties presented by COVID and the pandemic. You know, this is a very ambitious political decision to create what, in terms of a number of countries, and perhaps a number of people even, is the biggest free trade area in the world, in order to facilitate that, the trade, that I was talking about earlier. The other background to this is a move between France and the CFA countries, of which there are eight, who overlap with the 15 countries that we're discussing today, in terms of a currency union that would comprise both francophone and anglophone countries.

This was this was a franc -- well, it is a francophone currency union. But France has, at least symbolically, stepped back, and partly because of pressure coming from some of those countries, themselves, and sort of, in a sense, weakened the link. I mean, some people think this is purely symbolic, and that really nothing particularly profound has happen, but, for example, before this change, the eight countries had to keep 50 percent of their reserves, in Paris, with the central bank of France. There was a French official on the regional central bank, and, of course, maybe most symbolically, but perhaps most importantly, there is now a name change in the works.

And so, the CFA franc will longer be called that. It will be called the ECO, which incidentally, or coincidentally, or not, is the name of the currency that we're now going to be talking about, which comprises a much bigger group of countries, including as has been said before, Nigeria, which is probably quite, quite significant. And that's probably enough from me, but I just wanted to just talk about some of those sort of background points. Let me start with Eswar, and why don't you just talk about the book for five minutes. I think each of you are going to get five minutes, and then I might sort of prod you with a few questions, and then we can go to questions from the audience. Eswar?

MR. PRASAD: Thank you, David. First of all, it was a real honor collaborating on this project with Dr. Songwe, Vera, who's a true intellectual leader and policy visionary in the region, and one of the most dynamic persons I have encountered.

I mean, it's also a privilege to work on Africa, a part of the world that, I think, has enormous dynamism, but which I hadn't had the opportunity to work on so far. And I think, as we envision what the objective of the ECOWAS currency union was, it speaks to broader ambitions of Africa's leaders. There is a sense that this is a continent, despite its promise, has not really stood up on the world stage, with the weight it ought to command, given its potential, given how much of the world's population it contains, given how much of the world's natural resources it contains, and I think there is real desire among the leaders of the continent to bring all of Africa together, through trade and economic integration, to bring the people together, in a variety of ways, both to uplift the people, economically, but also that Africa can speak with one voice, on a variety of issues, and really punch at or above its weight.

And this is something that Africa has not done but remains an aspiration.

So, I think, there are many important lessons to be taken from the ECOWAS currency union project, that I think have much broader elements for Africa, and this is something that Vera and I have tried to bring about, clearly, in the book.

If you take a look at ECOWAS, as a whole, many of the challenges to putting together a currency union are magnified, in the context of these 15 countries. As both Coul and David have already mentioned, this is a very disparate set of countries, with very different levels of development. You have one massive country, Nigeria, which is an oil exporter, which means that many of the external shocks that hit Nigeria, in terms of changes in the oil price, are in terms of trade, more broadly, hit the other countries in the region, in very different ways.

In addition, there are differences in monetary policy frameworks, in terms of their macroeconomic fundamentals, levels of inflation, levels of GDP growth, levels of productivity. So, this hardly seems like a good candidate for a currency union. So, what is it, that is driving these leaders to aspire towards a currency union? And that, I think, goes back to this integration issue, the need to bring bad years down to the flows of goods, services, people, other factors of production, including money. And that, I think, is the real goal. So, what Vera and I tried to bring about, to talk about in the book, is what it might take for the ECOWAS Currency Union to function, as an effective currency union, in order to accomplish the objectives that the leaders want for it, but also to think a little bit about the alternative approaches.

As David already mentioned, there are moves afoot in Africa, including the African Continental Free Trade Area Project, to increase trade integration within the region. As Coul has already mentioned, there is a need to build a framework, and I think this is the real core issue. What ECOWAS needs, and what Africa needs more broadly, is a much better set of microeconomic fundamentals, that is microeconomic discipline, at the country level, but also a better institutional framework, and this means better central banking frameworks, better regulatory frameworks, both at the national level and also at the cross-border level.

Now, one might argue that the currency union, imposes discipline from the outside, where this discipline is not easily available from within the country. And certainly, if you look at the eurozone, that was one of the ambitions, that perhaps countries within the currency union would be subject to more discipline, in terms of their fiscal policy, and in terms of their other polices. That's not quite how we worked out, as we know well in the context of the eurozone, and that, I think, is a concern that we need to have about ECOWAS in Africa, as well, about whether a currency union might be premature before the macroeconomic and institutional framework is in place.

So, perhaps Asia, where other modes of integration have been undertaken to bring the continent together, both in terms of trade and finance, but without a currency union might be a better model to look at. So, in the book, we go through analysis, not just of what challenges an ECOWAS currency union might have, but also all the benefits that it could bring, if executed well, and in my hope, certainly, is that, eventually, Africa, will come together with the right circumstances and with the right sort of frameworks in place.

MR. PILLING: Thank you very much, Eswar. That was a very clear and opening. You've anticipated some of my questions. It doesn't mean I won't return to them later, in more detail. Vera, perhaps you could tell us, you know, why you thought you wanted to write this book, now. I think your muted.

MS. SONGWE: I'm on mute, yes, yes, this is a dollar --

MR. PILLING: Not all of them. We all -- just not --

MS. SONGWE: No, thank you. Thank you so much, first, to Dr. Coul for, you know, at the AGI, for allowing us to undertake this project, also for Aloysius who is the head of the Africa Growth Initiative at Brookings for being here with us. And then, you know, Eswar is very, very kind, but as you said in the beginning, he's an expert and has written extensively, of course, on monetary policy in India and China, in particular, and, of course, you know, at a time when I started really reading and listening to what he was doing, at the time when China was beginning to become a reserved currency at the IMF, you know, the U.N. was -- and there was all that debate about it.

And then, of course, on our continent, there was a lot of debate about, as you mentioned, the CFA franc, and what should happen. But our leaders had already decided, particularly West Africa, that there was this bigger project, which was to say how do we bring West Africa together, first for integration, with the ECOWAS, and then, you know, a conversation around the exchange, the monetary policy regime that should be adopted. And one of the reasons, I think, that, you know, sort of led us to start thinking about this was, yes, you know, Eswar writes about India and China, but they have one currency, huge countries, and it's easy to talk about, you know, should China have a pegged exchange rate, and should it be fixed? Should it be floating?

It's very difficult to talk about should ECOWAS have one, right? Because, again, we have such disparate countries on the continent, or even that subregion. So, is the -- and then, you know, towards the end of two years ago, it's been so long, you know, there was a huge momentum, led by Africoast, to say, can we really close this? Can we move to the ECO? And so, you know, we started thinking, and this was before COVID, so, it all seemed, you know, Africa was going through, yet a second stretch of growth, and so, we thought, you know, maybe this is the time.

But as we started looking at sort of what kinds of monetary policy regimes exist on the continent, can we actually make this happen? And then, you look at sort of, you know, and Eswar has talked about it, the disparities between our economies and sort of the lack of a strategic anchor, and, you know, if you look at the European Union, you kind of have Germany there, you know, that helps to bring the other countries into, where I would say, disciplined macroeconomic fundamentals, as Eswar said. So, you know, there is somebody who is making sure that we keep our fiscal -- that the targets are met, that the monetary targets are met, the debt targets are met.

And that works well because, even if they are not met, then Germany has some bandwidth to come behind them. But when you look at the continent, and we take, say, for example, Nigeria and Ghana, they have very, very different monetary regimes, you know? And so, how do -- working to see whether you can even break convergence towards those two is very difficult. Nigeria manages monetary aggregates. Ghana is really inflation targeting. They're current account openness is very different. In countries like Guinea and Sierra Leone, actually have total capital current account controls.

And we know why because we saw what East Asia did, right? And, again, Eswar is a specialist on this, you know, we -- before the 1997 financial crisis, East Asia was open, you know, liquidity was going in and out. The crisis happened, and then everybody said, oh, opening capital accounts is not a good idea, let's shut them. So, you had them shut. So, you have this sort of -- just on the monetary policy side, Eswar talked about a lot more on the fiscal policy side. But on the monetary policy side, we have quite a divergence of regimes, on the continent, you know, those who are targeting inflation and those were not.

And so, to begin to talk about a single currency, when we haven't maybe resolved some of those fundamentals was also another question that we thought. By launching the CFTA, this is a huge continental agenda, which we believe is going to take us much faster, much further. But to do that, you know, you have to set opening borders, opening borders, also, on, you know, currencies, opening borders with labor markets, opening borders with -- in markets for goods and services. And we don't even have those markets open yet. So, if you -- you have frictions on sort of the product side, then the product market, and you have frictions on the monetary side, how do you sort of then decide that you're going to create a single currency?

Then, you have such disparities in sort of the weight of the economy, but also the biggest economy on the continent, today, and -- and, you know, the World Bank just came out with some study, and the Nigerians will debate this, but that, you know, Nigeria has lost 10 years abroad, right? So, Nigeria is growing at, you know, negative. So, essentially, Nigeria is the laggard. So, the country that is supposed to be the one --

MR. PILLING: Yeah.

MS. SONGWE: -- if you have a single currency, that was going to pull everybody, or at least assure some stability, is one of the ones that is still sort of needing to ensure that it has sort of adequate macroeconomic fundamentals to carry everybody along.

And so, I think, we thought, can we look at this, and, again, look at some of the examples that exist in East Asia, after the 1997 crisis. There was an attempt to discuss something like a single currency, but then eventually what they did was decide to tighten their fiscal and macroeconomic discipline, and then create, you know, the Chiang Mai Initiative, which essentially says, you know, we can come to each other's aid, in the event that there is a crisis. And so, there is a question for us on the continent, if -- as we stick to the CFTA, which is particularly critical for ensuring that we start opening, you know, our product markets, labor markets, the goods markets, and the services market, which is a precondition for a single currency.

Can we do the CFDA, make sure that that's working, and works even better, and as we do that, begin to create convergence. Maybe as we do that, Nigeria remains one of the largest -- the largest economy on the continent with a very high manufacturing model. They could eventually grow up to become the Germany. I think that is totally possible, but they need to get there first, and so, I think there is that sort of -- what are the conditions that we need to put in place to make sure that happens? What are the conditions that we need to put in place, so that there is monetary alignment?

So, this is, I think, a conversation around monetary policy, in West Africa, that is not just about the CFA, but about, really, what is the effective kind of monetary policy you need in West Africa, should West African countries decide to join a monetary union, or should they keep some monetary independence for a while? Are questions that we wanted to ask, and see whether we could, at least, provide some suggestions about how to go forward on that.

MR. PILLING: Okay, thank you very much, Vera. Again, I would love to actually push you, straight away, but I think protocol dictates that I move on to Aloysius, but I -- but I'll be back. Aloysius, please, what are your reflections, your initial reflections on this project and on this book?

MR. ORDU: Thank you. Thank you very much, David. And welcome to you all. Thank you, Eswar and Vera. You guys have absolutely written a great book on the quest for a single currency in our part of the World. The subject, of course, is not very new, but the authors provide very, very refreshing insights.

Here is what I like, a couple of things I liked about the book. First, it's a major contribution to the academic literature, in my view. The book reminded me very much of Professor Peter Robson's 1983 book on the same issue, integration of West Africa. I believe that Eswar and Vera successfully updated Robson.

The second thing I like about the book is that what stands out is the elegance and methodical thoroughness in the analysis. They outline the critical factors for an optimal currency area, which is, as we know, Robert Mondal, in 1961, was the first person to approach this issue. And so, they compare these factors, and they conclude, basically, that ECOWAS is not equal to an optimal currency area. We learned already from Ashoka Mody, in "Euro Tragedy," that the eurozone also did not meet such ideal conditions, for an optimal currency, and, yet, the Europeans pushed ahead and -- with the euro experiment.

So, Eswar and Vera successfully provide us the hard facts. These are facts that will support, if adopted and implemented, the currency in West Africa. But then, David, history tells us that the issue of monetary union is complicated. The most important factor cannot be found in the realms of economics. The most important factors are the subfactors, people. What do I mean by that? Did the eurozone, Eswar and Vera write, the vision was motivated by the quest for an integrated by Europe, a Europe with no more wars, right?

So, it's visionaries, like German Chancellors Kohl and Schroeder, and Jomini, of France, all these guys, pushed to realize that vision. Germany did whatever it took for the euro experiment to happen and sacrificed the deutschmark, right? And, David, and in the U.K., even though Winston Churchill coined the phrase the United States of Europe, post-war, yet, when push came to shove, Mrs. Thatcher basically thought that the euro idea was a bridge too far. Therefore, Thatcher vehemently opposed sacrificing the almighty British pound sterling, in the order of the euro, right?

The Scandinavians, people again, public opinion, ensure that the Swedes, for example, did not join the eurozone. In West Africa, we have history, as well. President Yakubu Gowon of Nigeria, President Eyadema of Togo, built trust and ensured a successful launch of ECOWAS on May 28, 1975. These are visionary leaders, motivated by a United West Africa. For them, they were not interested in anglophone, francophone, and lusophone. They wanted a united region.

So, do we have such visionary leaders today, that can push this agenda, is one question. And David, and Vera, and Eswar showed, very, very clearly, that you know, Nigeria, as we've just discussed and heard, is very important in the region. And, indeed, Nigerians showed flashes of its own self in January 2021, when President Buhari balked at the bulk --the idea that President Macron and Alassane -- President Ouattara had to replace the CFA, with the ECO, and then that -- the continent, these 15 members they'd had, already, indicated would be the new currency of the region. I think everybody knows that the idea was basically an attempt to muddy the water for an integrated West Africa.

So, the book, basically, rightly highlights the importance of these soft factors, especially when they talk of Nigeria, as the powerhouse anchor in ECOWAS, just like Germany in the eurozone. But in Nigeria, right now, the question is, is there a convergence of views on the ECO, internally? You know, with multiple exchange rate windows, the talk of Nigerians -- no, Nigeria assuming the center stage, as anchor, like the Germans did, it remains the talk, right?

When governments exercise power to enrich a small elite, at the top, is it any surprise that internal disagreements on the ECO abound within Nigeria, today? And finally, as we heard, the lesson from East Asia is not lost on the authors, and it should not be lost on all of us. Because there, at the technical level, Asians address the cost of doing business and integrate their economies to the global economy. The global value chains have boomed, and trade, and commerce, and investment have boomed, intra-areal investments, et cetera.

They don't have a single currency, as the book makes very clear. So, I believe, very strongly, that Eswar and Vera have succeeded in a call to arms, to our leaders in West Africa, and to our people. If they believe that the ECO idea is the promised land for an integrated West Africa, as all of us do, then they must bite the bullet and get on with it. Alternatively, if ECOWAS Leaders want to stop summitting and commit, instead, that their members will take the necessary steps to basically move up the value chain of the World Bank's ease of doing business, then West Africa could transition to a boomtown, especially under the auspices of the African Continental Free Area. So, I like this book a lot, and I think our leaders should all have copies of this book because it calls the attention to what they need to do, beyond the technicalities of economics. Thank you very much.

MR. PILLING: Thanks very much, Aloysius. Very, very interesting and provocative. Eswar, if I could just return to you, to start with, and at the risk of, in a sense, putting the cart before the horse, but is the conclusion of your book, that this is a bridge too far, this is too early, ECOWAS is not ready. To put it another way, or perhaps a slightly different way, is this the right question? You know, when you have economies that don't trade because, you know, perhaps the road network between them is insufficient, the borders are uncrossable, even physically, or because of other, you know, nontariff impediments. When Nigeria's closed its border to Benin because it's worried about smuggling, is it really sensible to ask about, you know, the intricacies of a region-wide currency? Is this a bridge too far?

MR. PRASAD: So, David, that's a highly pertinent and well posed question. Now, we economists have a good sense of what it takes to make a really well functioning currency union, and there is no currency union that meets all of these conditions perfectly. Even a country like the U.S., which is ultimately a currency union of 50 states, has certain flaws. But, overall, many of the conditions that are necessary for a currency union are in place, and with the institutional and governance frameworks that the U.S. has, it all holds together.

So, on purely technical grounds, the assessment that Vera and I arrive at is that it is premature for ECOWAS to move ahead with a currency union. But here again, one can argue that the purpose of a currency union is not just economic, that, ultimately, it serves as a framework for undertaking reforms within countries, and to bring the region together. So, I think the right way to pose this question, and Aloysius and Vera both eluded to this, is whether there is an alternative mechanism that can be put in place to get the region prepared for a currency union, whether the leaders are willing to be bold enough to say we need to do this, whether or not there is a currency union, and without the external impetus of a currency union.

And that, I think, would substantially reduce the risks of moving to a currency union, prematurely, and assuming that that will be the solution to many of the difficult challenges that the region face, and which some of the political leaders don't seem willing to take on frontally. So, the rough answer to your question is, no, ECOWAS is not quite prepared. I understand the aspirations, but I think a lot of preparatory work is essential, whether or not --

MR. PILLING: Yeah.

MR. PRASAD: -- there is a currency union, in order to make the region prosper.

MR. PILLING: And, just a follow up, which I will also pose to Vera, in a second, but is the preparty work good in itself i.e., by holding the goal of the currency union, as kind of the final goal, and everyone has to work towards it, and therefore converge with macroeconomic policy and so forth, to agreed standards, you know, which were the

Maastricht Standards say Europe. And is that a good, in and of itself, and because some would argue this deprives us of flexibility, you know, we may not want too, and cap our debt at 60 percent of GDP, or whatever it is.

We may not want to inflation targeted of two percent. Our economies different. Our political agenda is different. And, you know, in a sense, even aiming for the goal, is to put your hands in shackles to, you know, sort of voluntarily, is it not? Or is that not one way of looking at it? First Eswar, and then I actually like to put basically the same question to Vera.

MR. PRASAD: So, there are two parts to that question, David. First in terms of macroeconomic convergence, certainly the ECOWAS leaders, I think, are along the right track, in terms of realizing that unless, there was more similarity, at least in terms of the basic macroeconomic fundamentals, holding together a currency union, would be much harder. In the book, we argue that perhaps, even those indicators need to be thought of -- retaught because for these smaller open economies, especially without a strong anchor country, there could be very large external shocks.

But as you allude to David, the needs to be a common understanding, and an institutional framework, that is flexible enough to accommodate deviations. What we saw in the eurozone, was that, there, deviations that were permitted, deviations to fiscal targets that were undertaken by the core countries in the eurozone, and then discipline fell apart. So, I think having an institutional mechanism, where the countries can allow some degree of flexibility, but at the same time maintain common discipline, is going to be a major challenge, and I don’t think we’re quite there yet.

MR. PILLING: Yes. So, Vera in a sense, the same question to you, I mean, first of all, you know, do you agree that this is premature, but do you also agree that the mere goal of an integrated single currency, would provide a discipline, a leverage, and external -- it’ll be a self-imposed external force, but would create a kind of, a good in and of itself? Is this the right question?

MS. SONGWE: I think -- yes, it is the right question. No, and it has, sort of a two-part answer, which is also what we were trying to show. Essentially within the ECOWAS, you know, expected or anticipated currency union, we already have the CFA union. And I think this is the beauty, and, you know, people may ask why did you use West Africa, or not everybody, but the beauty of it is that you’re talking about the largest economics, the grouping on the continent, but we’re sort of almost two or one sort of block of eight countries with a CFA, and then the rest, you know, Nigeria and Ghana, in particular, you know, practicing and have adopted a totally different policy. And the question is to look at what is happening with both.

Inside the CFA, as we show, there has been some convergency, or there has been some discipline around inflation, and that has worked for a while, right? The question is what has that give -- what would have been the sort of constraints or the tradeoffs in that? And people will argue maybe the tradeoff has been employment. Maybe you have lost a lot of monetary policy flexibility in that union, which Ghana continues to have, and can then quickly adjust to crisis, which is why, you know, the Ghanaian economy has come and superseded some of the CFA economies, for example.

So, I think that is one of the beauties of the book, is that, if you look at the book, it allows you, one, to look at the CFA zone and see whether some discipline happened, and then say if, okay, now, if we go to a larger union, the CFA, of course, has the French certified as a backstop. The replacement of the French central bank, as a backstop, has to be Nigeria, as a backstop, and so, then we have that conversation, and, you know, can we, you know, make Nigeria that backstop, or maybe it could be a combination of Cote d’Ivoire and Ghana, but there has to be a backstop.

MR. PILLING: Yes.

MS. SONGWE: We have seen, when we look at Cote d’Ivoire, for example, the fragility and the sort of yet, you know, to be achieved, and over the last eight years, we have to give credit to Cote d’Ivoire. They have grown, but Cote d’Ivoire’s growth rates and

Cote d'Ivoire's GDP have not reached 1994 levels, which is pre-crisis levels. So, again, I think some of the cyclicality of shocks on the continent beg the question of whether this is the time. However, because we have the CF -- the African Continental Free Trade Area Agreement, which has, as its basic objective, product market flexibility, labor market flexibility, goods market flexibility, services flexibility, a key criteria, and a key underpinning for a currency union, the question is, as we continue to sort of strive to get to the CFTA and ratify the CFTA, we are on our way to whatever currency we want because it's first, you know, some kind, you know, form of market flexibility, factor market flexibility, that we are getting. And I think that's one.

So, the ambition is good, but I think we have to be careful that a single currency is not the end all, right? We are looking for, exactly as what Eswar said, prosperity. We need a continental region that is prosperous and that is growing fast. And I think the question, then, is what is it that is going to make that happen? And it's not necessarily a single currency. It's more openness. It's more, as you said, intraregional trade that should make this happen. And it's more fiscal discipline. It's more, as Aloysius said, better private sector investment environment. So, there are a few things that need to be done to allow us to get to a single currency --

MR. PILLING: Yes.

MS. SONGWE: -- as a path to prosperity, not as a path as an end in itself.

MR. PILLING: Okay. Just to follow up because you've mentioned the CFA franc, so, I wanted to follow up there. I mean, is there a slight contradiction here? Because one of the kind of impulses for this arrangement with France and France, as I say, symbolically or even more deeply, pulling back a bit. Was that -- countries are saying, okay, so, we've got this stability, you know, in terms of inflation, in terms of exchange rates. So, there's a kind of -- there's a visibility and a stability for investors and, you know, and for people that live in those countries. But we've given up a lot in that. You know, we've given up the ability to devalue our currency to cope with external shocks, et cetera. This was one of the sort of arguments for pushing back against France.

Now, it seems true that those eight countries haven't yet given -- you know, they haven't yet gained the right, really, to devalue. They're still pegged to the euro, explicitly, I was going to say implicitly, but, really, explicitly. But, nonetheless, that is the motivation to get a bit more freedom. And yet, at the same time, here we are, the 15 countries are talking about a union where they would converge, again, and presumably give up that space. So, is there a kind of a muddled thinking here, or just a contradiction, or what is going on?

MS. SONGWE: No, I don't think so. And I think there are two things happening. One is -- and this is sort of where politics meets economics, right?

MR. PILLING: Yeah --

MS. SONGWE: One is an intrinsically sort of African proposal, right? It's to say, you know, as we go to the CFTA, do we need a single currency that allows us then to sort of function in a more efficient fashion? Should we manage our exchange rate variability ourselves, as opposed to, you know, managing it externally? You know, should we have exactly as you said, there are some benefits to the CFA, create some policy certainty, but what is -- at what cost do we get that policy certainty? If our objective -- if our sort of, you know, the function we want to maximize is on employment function, does the CFA, in its current form, do that for us? And I think those are the questions where we believe that in an African engineered single currency conversation, one can actually -- just like the euro, you know, that we just saw with the crisis, the debate between Germany and France to give the -- sign $756 billion stimulus. The Germans, you know, were saying that this is going to weaken us, and the French were saying that we need to restore growth. And that's -- those are the big arguments, right? It's a conversation between, you know, a monetary certainty, keeping a strong currency on generating more growth. And I think those conversations, when you are pegged particularly to an external currency, you lose the right to be able to do that.

And I think the thing of -- the ECO, whatever it ends up being called, is not necessarily going to effect one currency, but it will probably follow a basket of currencies, right?

MR. PILLING: Yeah.

MS. SONGWE: It would look at, you know, where is the ECOWAS trading the most, and this is part of what we're talking about. And I think part of what -- you know, one block on the book is as Aloysius said, it's very academic. So, it gives you the numbers. We tell you -- we sort of try to put -- present, in a dispassionate way, what does economics say? What should we do? How should we look at it? Who are your trade partners? Is your currency in the peg now? You know, can you align it with your trade partners, and what would the impact be? How open are you? How many small open economies do you have, and how much, you know, sort of shock absorption do we have to respond to that? And those are measurable things. These are not sort of things that you do with qualitative appreciation.

And I think one of the things we wanted to do with this book was really bring to the West African union, but also to the CFA zones, an intellectual debate on this issue, as opposed to a more sort of passionate political --

MR. PILLING: Yeah.

MS. SONGWE: -- debate on are we part of -- you know, do we belong, or don't we belong? It's -- Africa needs to become prosperous. Africa needs -- and there is a path to prosperity, with the right macroeconomic and fiscal policies worked in the same way we have now with CFTA that allows us that kind of labor market and factor market -- I keep going back to this factor market flexibility and product market flexibility. It is so important because our competitiveness advantages in the region don't get, you know, equal exposure, if we are not open to each other. If Nigeria and Cote d'Ivoire cannot trade and their markets are not open, they're essentially not using the benefit of the weight --

MR. PILLING: Yeah.

MS. SONGWE: -- of dual population. So, so, my sense is the debate is different when you're talking about CFA and being pegged to the euro, as opposed to when you're talking about an ECOWAS single currency, very different debates.

MR. PILLING: Okay. You've squared that circle for us. Thank you. Let me move to Aloysius. And Europe has come up a number of times. Is Europe a -- you know, something that we can hold up as an example of how this can be done, or is Europe a cautionary tale?

MR. ORDU: Very provocative question, David. Ever since time in Amorio (phonetic), we have always looked up, and up is Europe. And the model basically -- the poverty reduction in our continent, we haven't gotten far. And so, the idea that we will always follow the European model, I think what is beginning to happen is that the youth, the young people, businesspeople, all up and down the continent, I mean, you cover Africa, people are realizing that there are other models, elsewhere.

MR. PILLING: Yeah.

MR. ORDU: And so, the European ideal we've always held on the high host, they have -- it won't work for us, and so, this is why, as Vera and Eswar indicate in the book, that the hard facts are clear that when -- they're not in dispute because Europeans, themselves, as we said earlier, they didn't meet the optimal currency union.

MR. PILLING: Sure.

MR. ORDU: And so, then they pushed because of other factors, people, right? And so, for me, that ideal is questionable, in answer to your question, because the Asian alternative is there.

MR. PILLING: Right.

MR. ORDU: And that is this integration with the global economy, but then make sure that all the cost of doing business are removed --

MR. PILLING: Yeah.

MR. ORDU: -- not only announcing them in Summits, that just get on with it and this is where they are.

MR. PILLING: Sorry.

MR. ORDU: Yeah.

MR. PILLING: So, the model is Asian, not the EU, in that sense?

MR. ORDU: In so many ways, I mean, and one of the visions I have, if there are they -- my sister will allow me here, one of the visions I have for Africa is that the African Continental Free Trade Area Leaders sit down with the newly formed RCEP Leaders of Asia --

MR. PILLING: Yeah.

MR. ORDU: -- so we can start talking about how do we really collaborate? Because this North-South thing hasn't served us too well. And on the CFA, you know, it's not demonstrably clear that the member states of the CFA have done better than their neighbors.

MR. PILLING: Okay.

MR. ORDU: So, what are we looking at?

MR. PILLING: Yeah. Eswar, let me go back to something, again, that keeps coming up, which is a country called Nigeria, something like 70 percent of the GDP of the, you know, the whole collection of 15 countries that we're talking about, two-thirds to 70 percent. You know, Vera mentioned the role of Germany, which is clearly a very strong economy in Europe, but, you know, there are other strong economies. There's Germany. There's Italy. There was the U.K., while it was still in Europe, and so, sadly, not anymore, but that's another cryptic story for another day.

I suppose the question and perhaps the fear is that, you know, that this would just become a kind of a Nigeria show and that everything would be tailored to what Nigeria needed, which, at the moment, you know, is the price of oil and, you know, it -- there are sort of fairly big and simple factors that determine, you know, Nigeria's economic health, certainly, you know, in terms of externally. And, you know, do -- would the other countries really stand a chance against a giant like Nigeria, with its, you know, quite specific needs for, you know, monetary policy, you know, inflation, what fiscal policy, whatever policies are going to be set or would be set at a regional level. Wouldn't they all really be Nigerian policies in disguise?

MR. PRASAD: David, your question very nicely brings together the ambitions, as well as the contradictions that would underlie an ECOWAS currency assault. So, picking up on an earlier question of yours about the CFA franc zone, you know, if you're a small country or a small group of countries, this is a very hostile world out there, you know? There is an enormous amount of capital flow and exchange rate volatility, which is very difficult for small countries to deal with, especially countries that are very buffeted by the results of external shocks.

So, in that context, you know, having an anchor for monetary stability, in particular, becomes quite important. And for all the floss of the CFA franc zone, there is one thing that the CFA franc zone certainly got, through the connection to the eurozone. Now, it may not have served this group of countries very well, in terms of growth, in terms of employment productivity, but, at least, it took away one element of instability. So, one might argue that they are looking for a different anchor and a big country. A neighboring country can certainly provide that anchor.

So, Nigeria is a big country. It has a lot of foreign exchange reserves. But the problem here, as we've alluded to, is that Nigeria has enormous structural and macroeconomic problems of its own. So, linking of fortunes to a large country which dominates the region, in terms of GDP, a little less so in terms of population but is still dominant, and, most importantly, which looks very different, in terms of economic structure from the other countries is, in the zone, is a real problem. So, I think, for this ECOWAS currency zone to work well, certainly, Nigeria being in better shape and being more resilient is going to be important, but it will create a lot of tensions. As I alluded to earlier, a positive oil price shock is good for Nigeria and not good for the other countries in the zone, by and large. So, how do you come up with the monetary policy that is not dominated by Nigeria's interests? That, I think, is a pressing concern.

ECOWAS Leaders seem to think that they work it out, but as Vera and I show in the book, and again, we try to do this as dispassionately as possible, it's going to be very challenging coming up with a common monetary policy that works for all countries in the zone, even if you set aside the structural problems that I referred to.

MR. PILLING: Yes. Vera, and perhaps we've talked about this, but -- already, and forgive me if we have, but given all these, you know, technical difficulties that we've discussed, what do you think is the kind of political driving force for this? Oh, and I suppose, more specifically, I mean, who is driving this? Which of the countries, which of the leaders are pressing for this hardest? You know, we've heard that the 2020 date has been abandoned, but there was a new date, which is not that far over the horizon. You know --

MS. SONGWE: 2027 is the new date. My sense is I think we should -- that's a good question, but my sense is we should look at it as an aspiration, and I think focus more on the things that need to be done to get there.

MR. PILLING: Yeah.

MS. SONGWE: And if we do some of those things that need to be done, irrespective of whether when we get there and, you know, you mentioned in the beginning, or I think it was Aloysius who mentioned, you know, the different countries that voted against joining the EU. When we get there, we should probably get our populations to vote, and we may --

MR. PILLING: Right.

MS. SONGWE: -- and we may never get to a single currency. But I think if we can get to a place where there was more monetary policy predictability, where there was more open product market arrangement --

MR. PILLING: Yeah.

MS. SONGWE: -- and maybe where we began to say we were trading even a lot more with ourselves because we should also remember one of the strengths of the euro was that by the time we came together, as the Europeans came together, around a single currency, we had a strong manufacturing sector, we had, you know, economies whose sort of basic underpinnings were quite robust. So, even if, afterwards, we saw the shocks in Italy, and Greece, and Spain, and Portugal, you know, they could still come back, and they could rebound, and we had a strong central bank that was working to that credit.

Today, if we decide to create a monetary currency, a single currency, we immediately also have to create a new, as we talk about it in the book, a monetary institution that will not have had the experience, even though we're sort of working together and seeing how this would work. And I think we would have a different kind of tension, as I said, and as we say in the book, and as Eswar just said. Are we going to decide that we want to do inflation targeting, which some will argue, you know, can hold back a little bit of growth? Are we going to decide that we want to target someone different, and employment, and wages, and how does that work?

We already have a big project in the works, which is called the CFTA. And the CFTA has a lot of the preconditions of taking us towards more integration. If the objective of a single currency was more integration, we have something in place, right now, that has less macroeconomic requirements that we could actually start working on. And so, I think what we are also saying, in the book, is let's keep working on the CFTA project. It's already quite ambitious in itself, but it is a project that could lead us, eventually, to, you know, a space where we will be better prepared for a single currency, if that's what we decided to have.

MR. PILLING: Okay. I'm going to go to questions from the audience in a minute, but let me just do one follow up, Vera, which is the ability to devalue, if you want to, to face an external shock or to make your exports more competitive. Is that a valuable tool to have, and is it one that's worth giving up, as it were, for a greater kind of collective aspiration?

MS. SONGWE: Well, I mean, that's a good question, and sort of -- because, you see -- and that's -- I think we talk a lot about the evaluation and this is good, that we talk about devaluation, when we are in a fixed exchange rate setting, right, and that this is true for the CFA zone. If we went, hopefully, to a single currency, we will not be in a fixed exchange rate --

MR. PILLING: Right.

MS. SONGWE: -- dynamic. We will be in a flexible exchange rate dynamic. We will no longer be talking about devaluation. We will talk about depreciation. And then it will then. And that is why the CFCA is important. Because if we can trade more, we get a stronger currency, whatever it is that that single currency becomes, right?

MR. PILLING: Yes.

MS. SONGWE: So, again, if those are the fundamentals, because depreciation, then, happens because of the strength of your currency, the robustness and solidity of your macroeconomic underpinnings.

MR. PILLING: Yeah.

MS. SONGWE: And so, the minute we move from, you know, CFA and peg to the euro into a single currency, then the whole conversation on devaluation becomes mute.

MR. PILLING: Yeah, absolutely, okay. And I'm sorry, I just did want to push you slightly because you said the -- you know, this wasn't a goal. It was a -- you used the phrase aspiration because I said sort of the -- who's pushing this project? And you said, well, it -- we should look at it as more of an aspiration. But, I mean, I could rephrase the question, I guess. Then, whose aspiration is it? I mean, is this the aspiration of President Buhari? Is it the aspiration of President Macky Sell or President Wa Tahajjhud (phonetic)? Who is sort of driving this, or has it taken on a life of its own? Maybe that's the answer.

MS. SONGWE: I think what has taken on the life of its own is the need to integrate the continent.

MR. PILLING: Yeah.

MS. SONGWE: And then, what we have, then, is questions around what is the fastest way? What's the easiest way? There is, I think, a strong group that says the fastest way to integrate the continent, if we can start trading together, if we can make labor market flexibility better, if we can make product market flexibility much easier, right, and so, that is where we are. Then, there is a group of people that says, to do that, a single currency is even, you know, more important. So, so, it is, again, a secondary objective. It's -- let's integrate the continent, let's trade, and let's create prosperity. And a tool for that is what kind of currency we trade it.

MR. PILLING: Right.

MS. SONGWE: And so, essentially, you know, again, for me, the end goal is prosperity, a continent that's growing faster, a continent that's producing job services, labor markets, that are integrated. And then, you know, the currency just becomes a means to an end.

MR. PILLING: Okay. So, I want to ask a question from the audience. Let me start with Aloysius, but I'm going to ask you all of it, all of you, the same question, and it sort of throws an interesting, maybe, spanner, or not spanner, but just an interesting element into this conversation. It's from John Gregg, of the AAHF USA Foundation. He says, can a single cryptocurrency serve the same purpose, the purpose of a single currency? Is there a role for a cryptocurrency here?

MR. ORDU: Well, luckily, David, we have the expert on cryptocurrency amongst us.

MR. PILLING: Okay.

MR. ORDU: Eswar has focused his -- devoted his research to this area. So, I think I'll defer to him. But I just wanted to say very quickly --

MR. PILLING: Very wise, I'm sure, very wise.

MR. ORDU: And I wanted to say a quick thing about the aspiration because

Vera is right. You know, the -- everybody is talking up Nigeria as the anchor and all that. You know, there is no unanimity in Nigeria, as far as I'm aware, as regards the aspiration for the subregion. I mean, the civil society has a completely different view. The business community is not united on the single currency idea. Farmers have a completely different view. Truck pushers, you know, Nigerians, we are very vocal. So, people -- there is no shortage of views in Nigeria and certainly the political elite.

So, when we talk of aspiration, it's important that, in the country, itself, which we are saying the impetus has to come from within, there is no unanimity, as regards aspiration. This is part of what will make it very, very challenging, as Eswar and Vera have articulated in their book.

MR. PILLING: Right. Eswar, cryptocurrency, is this the right --?

MR. PRASAD: So, Bitcoin is not the answer, definitely, but what I can tell you is that Nigeria is already talking about piloting a central bank digital currency, and it speaks to some things that need to be improved in the region. Financial inclusion, that is the ability of the masses to have access to digital payments, to basic financial products and services. That is a real necessity. You need better cross-border payments because, after all, you have economic migrants across the region, for whom the cost and tardiness of payments is a real problem.

So, I think those are the problems that really need to resolved, and, certainly, thinking about Central Bank digital currencies as a way to make financial inclusion easier, to improve access to digital payments, domestically, and for cross-border payments. Those are all good aspirations, and that could certainly help in what we've been talking about, which is increasing economic integration within the region.

MR. PILLING: Okay. Another question. This is, sorry, this is from Otidoli Onuegbu (phonetic), from Citibank, Cote d'Ivoire. And I'll ask the question because I think it's interesting that it's being asked. It says, what do you have to say about critics who feel that the echo is only an attempt at the extension of France's domination over West African economies? And is there anything in this, or is this a misunderstanding of what the ECO Project is about? Vera?

MS. SONGWE: My sense is that it will be. And I think, again, this is -- Aloysius made reference to it before, depending on whether she's asking about the ECO as a replacement of the CFA in the eight countries, or she's asking about the ECO as a replacement and bringing together the 15 countries. If it's in the eight countries, it's a different response from the 15 countries.

MR. PILLING: Yes, well, why don't you have a go at both, so, so, we've got --

MS. SONGWE: And so, I'm going to have a go at the 15 countries, and, of course, the minute we talk about the 15 countries, that link, and I think what is important is Africa and West Africa. As we show in the book, Europe is still a big trading partner, Europe, at large, and so, we're going to continue trading, so.

So, this is a serious -- on a serious note now. And so, I think what we need to look at is what are the trade relationships that we have with the European Union, and then how do we -- okay, so, so, I think the minute we move from the CFA into the ECO, it becomes a different kind of, you know, economic conversation. It's what does the CFTA allow us to do, and how can we, then, trade better? How can we ensure that we are competitive? And then it goes to issues, like, you know, agriculture and European, you know, single agriculture policy, and how it's sort of hurting, you know, West Africa, and could West Africa do better?

Now, if West Africa has a flexible exchange rate regime, which is pegged to the euro, and the dollar, and the yuan, which makes West Africa's agriculture commodities much more competitive in the European market, that is the conversation we will be having. It will not be about domination. It will be about how much of Africa's goods can now get into a European market because we have the ability to adjust our currencies to market demand and competitiveness exigencies. So, I think that's the question.

And the reason why we wanted to write this book was precisely for people, like the questionnaire from Cote d'Ivoire, was to dissociate this sort of do we want to be under the French umbrella or not. It's just to say, what is the economic fundamentals?

MR. PILLING: Yeah.

MS. SONGWE: What will happen, if, today, it was cheaper to produce butter in Cote d'Ivoire and sell it to the U.K. left, to friends, right, and just look at, you know, what are the conditions that will be needed for that, and how can we ensure that there are no market distortions and no monetary policy distortions? Because, today, particularly the CFA zone, of course, when there is an appreciation of the CFA, of the euro, it affects negatively the African countries and competitiveness.

MR. PILLING: Sure.

MS. SONGWE: And so, you know, it puts us out of business, and so, the bananas in Colombia become immediately more competitive, and so, we lose market share. Those kinds of things with an African, you know, flexible currency will be easier to manage, in the event that we have an anchor country, of course.

MR. PILLING: Yes. So, you may feel as though you've answered this question already, but given that we're talking on these lines, I'm going to -- I'll ask you, and I could always move to Eswar, as well. The question is what impact would this have? I think you could also say what impact could this have, good or bad, on the -- on poverty level subsistence farmer or the herder? That question comes from Jeff Drumtra (phonetic), who is independent, an independent consultant. Vera?

MS. SONGWE: Oh, oh, you're coming back to me? Oh, no, clearly, again, I think with flexible exchange rates, and this is the argument that we make in the book --

MR. PILLING: Yeah.

MS. SONGWE: -- is what are some of the advantages and benefits of flexible exchange rates, also depending on what monetary policy targets you have set. Is it inflation targeting or is it employment and wages that you can then adjust, right, depending on -- you know, so, we've just had a shock in our economies, and we see the big argument around -- you know, this is part of the issue. If we bring a single currency onto the continent, we can manage some of the shocks with monetary policy on the continent, to the particular CFA zone, Nigeria and Ghana and the rest are doing it because they have a flexible exchange rate, and they can manage sort of the impact of prices --

MR. PILLING: Yeah.

MS. SONGWE: -- on their poor segments of their populations. This is something that is easy, and so, essentially, I'm not sure whether this is, but if we had a single African -- West African currency --

MR. PILLING: Yeah.

MS. SONGWE: -- that was managed internally, one could then manage the shocks. But I think, again, as Eswar said, because we have this sort of divergence of impact, so, if we had an oil shock, Nigeria will be happy and maybe the rest will not be, so, what are we managing? Are we managing employment and poverty reduction in Nigeria? Are we managing it in the rest of the economies? And I think those kinds of conversations should happen.

However, if we had a Nigeria which was able to be a strong anchor and we had flexible and open-label market policies, where people could go in and out, and working in Nigeria, it becomes easier because, as Nigeria manages its employment, it's actually managing because it is still more than 50 percent of the population of that subregion. It begins to manage the whole economy in a more effective way. And so, I think, again, what the -- our readers, we hope, will look at is look at one -- the CFA currencies, and that sub-currency, and what it's doing, and what a larger currency, if we achieved it, could do.

MR. PILLING: Yes.

MS. SONGWE: And then essentially saying, you know, what is it that we could -- what is it that we want to get to, and how do we get to that, which is essentially more integration, more trade, and, overall, more prosperous and more robust --

MR. PILLING: Yes.

MS. SONGWE: -- macroeconomic subregion.

MR. PILLING: Yeah. So, if I could sort of put that question to you but expand on it just very slightly, I mean, as opposed -- you know, I mean, your book is sort of quite technical, quite academic, in a sense. I mean, in the background, as you say, Vera, is this idea of, you know, what needs to be put in place to get to greater prosperity, so that people live better. But here is a concrete example about farmers and herders, but you could extend that, you know, the urban poor. How, if this were properly managed, how would you see it improving the lives of, you know, ordinary people living in the region?

MR. PRASAD: So, one thinks, one hopes, that, ultimately, the fundamental aspiration here, as Vera alluded to already, is, really, to make the lives of the people in the ECOWAS region, and Africa, more broadly, better, especially the economically disadvantaged, the economically vulnerable, and that poses a lot of challenges. If you think about what a currency union might provide, it provides, at least one hopes, some degree of monetary stability, which, one hopes, translates into low inflation, and inflation has particularly pernicious effects on the poor. So, one could argue that this is well intentioned in that way.

But at the same time, as we point out in the book, if monetary policy ends up being straightjacketed, so that a small country that is an open economy, that is subject to various shocks, including the agricultural prices, cannot respond well, and that is going to end up hurting people a lot more. So, one could turn this question around and ask, and I think Vera already did this earlier, to ask what is it that is really necessary to improve the lives of the people in these countries, and what can be done even without a currency union, and perhaps what can be done to strengthen the currency union? Because if you view the currency union, itself, as the solution to all these problems, without doing the hard work to prepare the ground for a currency union or see it as a substitute for taking challenges at the country level -- meeting challenges at country level, that’s a problem. Then, you might end up with a situation, where, actually, rather than make things better, you make things worse, and this is --

MR. PILLING: Yes.

MR. PRASAD: -- what we try to, with our academic focus, try to subtly make that point in the book.

MR. PILLING: Okay, I mean, here -- there may be a broader question here, which is to do with, you know, more integrated trade. I was speaking to an Ambassador in, I'm just trying to remember which country, I think in Ghana. She was saying that she thought that this is not just West Africa, but across Africa, there was a sort of a wish to believe that the more integrated trade was, everybody would be a winner. The problem, she said, is that, you know, by its nature, some people will lose, some sectors will lose, and so, you know, and some will gain. The idea is that is to the ultimate optimal benefit of everybody in aggregate. But within that, you have to manage, you know, one sector that is outcompeted by another sector in a bigger economy, or a more specialized economy, or what have you.

Politically, you know, do you sense that that -- countries are ready for this, to see a textile industry wiped out because textiles moved to one particular hub that's very good at textiles and can perhaps, now, compete better with China, but, you know, one hopes they become, you know, you know, a bread basket for three or four countries around them, you know, these sort of tradeoffs? Does that sort of flexibility, both political, institutional, exist? Eswar?

MS. SONGWE: Was I --?

MR. PRASAD: Oh, it's for me.

MR. PILLING: Go ahead. Can you --?

MR. PRASAD: So, it's a challenge. I mean, even in the U.S., we are seeing these challenges show up --

MR. PILLING: Yes.

MR. PRASAD: -- in terms of the political dimension, where trade does bring broad benefits, but ends up hurting a lot of people. So, the focus in the book and I think in much of the debate is really about integration in the African continent, so Africa, as a whole, can compete better with the rest of the world. But even in terms of African integration, certainly, there will be some disruptive effects within economies. So, I think there is really no alternative to putting in place the, you know, the foundations that are necessary for this to work well. So, you do need -- we talked about financial inclusion. We've talked about better fiscal policy, which does not necessarily mean just keeping deficits in check, but making public expenditures better targeted, making sure that public expenditures don't have distortionary effects in economies.

So, this is all part of the underlying, you know, institutional interest structure, very broadly defined, that I think needs to be put in place, and there is certainly a risk to moving forward too aggressively with trade integration or especially monetary integration, before you have the fundamentals in place. With African trade integration, I think the hope is that there is going to be so much economic opportunity that is unleashed that this will offset some of these deceptive effects, but, certainly, at the economy specific level, I think a great deal of attention has to be paid to those who could end up becoming even more marginalized than being made better off, at least in the short run.

MR. PILLING: Yes. And, Vera, I mean, one of the ways of coping with these shocks, you know, in the kind of academic literature would be, you know, for example, labor mobility. Labor mobility is pretty decent, I think, in much of Africa. But how do you, you know, see that? And another factor would be, you know, in Europe, you have fiscal transfers. You know, we've seen, you know, economies that come into Europe, where they're originally the southern economies, Portugal and Spain, and then, more recently, you know, former communist countries in Eastern Europe. And there is a kind of -- there is a fiscal transfer that takes place, that, in a sense, drags those countries up to, you know, with, you know, near or at the level of Germany or, you know, some of the --

MS. SONGWE: Right.

MR. PILLING: -- some of the wealthier countries, yes. Is that something that's on the cards, or is that something that is -- because, I mean, in this 15 country scenario, presumably, that would be mainly transfers from Nigeria to other countries, maybe not, I don't know, but you've mentioned, many times, it's the biggest and richest of the economies.

MS. SONGWE: And I think this is where, again, this is sort of not singing praises for the African Continental Free Trade Area Agreement, but I think I'm on record saying that it is Africa's blueprint for transformation. And essentially, what we are saying in -- well, you know, the very fundamentals of the AFCTA are essentially saying that, you know, if it went right and if it worked well, not all the countries will need to be doing textiles at a suboptimal level --

MR. PILLING: Yup.

MS. SONGWE: -- right? We will be able to then pool our resources and have one competitiveness -- one competitive center, with the others then providing the rest of the services. So, today, you know, if we take the agriculture sector, you know, 40 percent of the produce gets lost in transportation because we don't have a logistics sector that works well. If you, you know, if you look at the textile sector, you know, that we have cotton in Burkina Faso and Mali, but we send it all the way to China for it to be initially processed, we will begin to create, I think, those missing links because the whole idea of the CFTA is essentially to build continental value chains.

MR. PILLING: Yeah.

MS. SONGWE: So, you have sort of countries become sort of specialists in a particular area, and that is where labor market flexibility comes -- becomes important because then those who know how to do, let's say, artificial intelligence will all congregate in Sierra Leone and do just that. And, you know, the gold mining in Sierra Leone will happen there, but the processing will then move to Nigeria because Nigeria has the processing factories and the engineering wherewithal to be able to do that. I think what you will start seeing is this kind of sort of selective -- and, you know, in some sense, I'm a believer in the sort of the constructive destruction. And what we hope will happen with the CFTA is that we begin to sort of constructively destruct, you know, some legacy industries that are no longer competitive where they are and find new avenues, and we have the whole sort of technology field.

If Ngozi was here, she would talk about Nollywood, and we didn't know about Nollywood before. Nollywood, now, is generating almost 15 percent of Nigeria's GDP, right, and if we continue to produce in it, we may no longer be talking about oil. So, my sense is we need these economies to be able to sort of organically develop where you have, you know, strong competitive advantage. And so, the fright should not be are we going to lose, you know, a suboptimal industry. The aspiration should be do we create an industry that is globally competitive, and, you know, get into a continental value chain that makes it even better for the citizens of the subregion.

MR. PILLING: Yes. I -- oh, sorry, Eswar. Well, did someone want to come in? Sorry. No, oh, sorry, I thought I heard someone wanting to come in. I mean, I suppose, you know, in Asia, where, as we said earlier, you know, you have much more sort of trade integration, I think people don't necessarily realize, I mean, a pair of jeans, let alone a mobile phone, can bounce across borders, many, many times, as a zipper, thread, buttons. You know, one thinks of a pair of trousers as something that would, you know, have to be made in one place, but that's not necessarily the case, at all, and they can be -- you know, and then there's the packaging, and the box, and the glue, and what have you. Things can come from all sorts of countries that can specialize. I mean, of course, it doesn't always work out in practice, but it can.

I'm right, am I, that when we're talking about, you know, a currency union, we're also talking about these issues. I mean, this is what we're really talking about, in a sense. This is the substantive stuff that underlays -- that underlies the sort of the formal goal of a single currency. Is that right, Vera?

MS. SONGWE: Yes. No, no, I -- sorry, what was the -- I --

MR. PILLING: Well, I mean, in other words, what underlies? Because I've, in a sense, shifted the conversation to trade, and I just wanted you to reassure me that that's correct. I mean, the --

MS. SONGWE: Yes, it is. It is trade and prosperity, right? We still believe that, you know, trading your way out of poverty is the best way, you know, after education, of course, and so, you know, the -- on the human capital side, you have to educate yourself out of poverty. And on the sort of economic -- macroeconomic side, you have to trade your way out of poverty, and that is the conversation we are having, is what is the most efficient and the most effective way of doing that, and we are saying that, then, the monetary policy regime that you pick, you know, has to be an instrument or a tool in your toolbox to get there and not be sort of the end goal.

And then that monetary policy instrument, as we show in the book, has to then decide whether you want to do inflation targeting or you want to do employment generation, wage creation, and the different decisions or roles that you pick will also influence how you -- the economy then unfolds and develops, and part of what we show in the book is, you know, today, in these 15 economies, they have very different sort of monetary policy regimes --

MR. PILLING: Yeah.

MS. SONGWE: -- which will need to be aligned, and that even the ones that now have stated monetary policy regimes are not necessarily always meeting their targets. So, there is already a challenge on their own sort of single individual stated challenges. If we create a monetary union, some of those targets may become even more stringent.

MR. PILLING: Yeah.

MS. SONGWE: So, if you take a country like Sierra Leone or a country like

Liberia, that have their own targets but have not met them --

MR. PILLING: Yeah.

MS. SONGWE: -- and you put them in a union, where, you know, the target is even more stringent, are they really going to get there, you know, Guinea Bissau, in the inflation targeting and, you know, even --

MR. PILLING: Yes.

MS. SONGWE: -- in deficits. So, I think those are the things we're talking about in saying the countries need to, first of all, ensure that some of the fundamentals are right. And as Eswar said, and we show in the book, you don't have to meet all of them, and we actually provide some suggestions of saying, okay, maybe, you know, if you meet 75 percent of this combination, we can say that, you know, you're ready for a currency union. But we haven't, in any of the scenarios that we've proposed, because we actually do propose in the book, saying, okay, well, maybe, you know, if you look at the optimal suggestion, it's too difficult, nobody will meet it, and we've seen it in the EU, as well, let's come to sort of a less stringent, you know, deficit target and debt targets. But, still, we don't have 75 percent of the countries meeting it.

MR. PILLING: Yes.

MS. SONGWE: And so, there is still a lot of work that needs to be done to get there.

MR. PILLING: Yes, okay. Someone was asking, I was just trying to find out who, but I'll ask the question anyway, what this could mean for foreign investors? I mean, I guess this would be either the achievement of a single currency, meeting all the criteria, and overcoming all the obstacles that you've discussed, or perhaps merely the 15 countries moving, clearly, in the direction of a -- you know, so that they could then enact a single currency, if they, then chose to do so. What would that mean, Eswar, do you think, for foreign investors, or what could it mean for foreign investors into the region?

MR. PRASAD: If executed well, one could think about a currency union as, you know, providing a very big and very dynamic market that would create a lot of opportunities for foreign investors, and I think that will be one of the hopes, that if you have a currency union that is functioning well, that is providing macroeconomic stability and where barriers have broken down to trade and other factor flows across the region, then this is a fantastically exciting place to be investing in.

If the currency union also met some of the conditions we talk about in the book, like better institutional frameworks, that will also increase the confidence of international investors, that their money is going to be well protected, through better regulatory frameworks in the region. So, if done properly, I think this could really transform the way foreign investors look at the region and perhaps serve as a template for broader investment in Africa, as well.

MR. PILLING: Right. Aloysius, would you like to add to that?

MR. ORDU: Absolutely. In fact, Eswar, basically, when you were speaking, you just -- you reminded me of Arthur Lewis's acceptance of his Nobel Prize speech, and he dwelt on this question, and that is why are we doing all this, right? And so, the reason we are doing it is basically prosperity and foreign direct investment, in that enlarged market, as Eswar said, that's the whole purpose of it. Okay, so, I 100 percent concur with what you have to say.

MR. PILLING: Okay, we've got five minutes left, and I want to ask one question to each of you, which is possibly a slightly mischievous question. I mean, in a sense, what you've said is that, you know, we're not ready, yet, for this currency. It's premature. You used that very word, Eswar. But to turn it on its head, could you argue that we're not being ambitious enough? Why aim for a single currency in a subregion of Africa, given that we have the Continental Free Trade Area? Why aren't we talking about a single currency for all of Africa? Maybe I could start with you, Vera.

MS. SONGWE: Well, I think we are arguing that we should not be talking about a single currency, yet, because --

MR. PILLING: Right.

MS. SONGWE: -- the fundamentals are not really even in the --

MR. PILLING: Right.

MS. SONGWE: -- in, and I think that's the beauty of it, right, in the region, where we have eight of the countries already in a single currency --

MR. PILLING: Yes.

MS. SONGWE: -- union and saying that's not possible, but saying that they're positive, and I think that's what you're looking for, is -- you know, what is the continental program, and, again, it's the CFTA. I think what the -- the continent could have decided our big push this year was, you know, single currency union for the whole continent. But, you know, East Africa is thinking about it. They're trying it in different ways. East Africa is growing at eight, nine percent, and they're each managing, you know, to sort of readjust their economies in the right ways, is that what they need, now, with Kenya, and Tanzania, and Uganda, you know, coming together in one point probably, you know, a little more -- a little bit more integration, a little bit more --

MR. PILLING: Yeah.

MS. SONGWE: -- factor market flexibility will, I think, be what we are trying to get at. And so, essentially, what we are trying to show, using, in a way, and in interesting coincidence because, in the West Africa Region, we have the CFA, and eight countries with a single currency --

MR. PILLING: Yeah.

MS. SONGWE: -- and then we have a larger union with one of the largest countries on the continent. And we demonstrate that in either case, it's not as effective as it could be, and it's not delivering --

MR. PILLING: Yes.

MS. SONGWE: -- most importantly, on the objective of prosperity, of better trade, and of full employment. And so --

MR. PILLING: So, in essence, that isn't a crazy question. I mean, if you can't do it in 15 countries, you, obviously, can't do it in 54.

MS. SONGWE: Eventually, maybe.

MR. ORDU: Potentially, yeah.

MR. PILLING: Potentially, maybe. And, Aloysius, and then I'll come to Eswar. Aloysius, do you have anything to say on that topic or you -- or, I mean, if that is a ridiculous question, which it may be. Maybe you could --

MR. ORDU: Yeah. It's absolutely a fair question. It's not a ridiculous question, at all. And I think the elephant in the room, in many of the things we've all said, is that trust matters, and there is trust deficit in West African leaders, in leadership. The institutions matter. Even when institutions are as robust as the EU ones, they didn't meet the criteria that Eswar and Vera enlightened us on. It took the sort of leadership or visionaries to push through. And so, we need trust, we need solid institutions, and we need committed leadership. With this iron triangle cast around these three things, I think, channeled towards the African Continental Free Trade Area, which is, by far, the most visible evidence of solidarity amongst Africans, so far, I think that's where we should be pushing our agenda towards, for a much more prosperous continent.

MR. PILLING: Okay.

MS. SONGWE: And if I may, even before Eswar comes in, if we look at the United States, right, which, essentially, is 50 states, so --

MR. PILLING: Yeah.

MS. SONGWE: -- you know, Africa is over 50 countries, one could argue, but even before that, you know, you have, you know, the Sherman Clauses, and you have, you know, the antitrust policies. So, you have a series of regulations and regulatory policy that takes away some of these rigidities that we still have on the continent. So, you know, this is to say that, eventually, you know, a single currency for the continent is not an impossibility. We have 50 states in the United States that's considered in doing it, and so, maybe one could work on it. But the institutions that you need and, you know, the debate on sort of the currency union, including in the United States, still continues at the Federal Reserve, in Minnesota, where it used to be, still a lot of conversation, you know, on the trade openness of the different states and how easy, you know, factor market flexibility is impacting on the two imperatives of inflation and employment in different states. And that's really what we should be focusing on, employment. We have a youthful continent that, eventually, needs to be absorbed into the job market. And so, factor market flexibility is more important.

MR. PILLING: Okay. Eswar, could I give the final word to you? I'm not going to attempt to sum up, but, I mean, you know, I mean, just have the final word, if you like, but, also, I'm interested in this question about, you know, this subregional question, the 15 countries, you know, within the context of a continent that has now made this political decision to move to a continental-wide free trade area and how these two things fit together.

MR. PRASAD: So, David, I will answer your question with two simple scenarios. Scenario A, Africa's leaders say we are going to have a currency union by year X, no matter what. I would worry about that. If Africa's leaders say we will do everything that is necessary, everything that Prasad and Songwe say we should do in order to strengthen our economies and put in place a good framework, and then we will have a currency union by year X, then I would worry a lot less because all those things that are intermediate steps along the way are, I think, going to make Africa a much more resilient, much more productive continent. And that, really, should be the focus. So, at the end of that process, if the leaders say forget it, we did everything that's necessary, we don't really need a currency union, that will be fine with me, as well, because what is really important are those steps along the way, rather than the objective of a currency union.

MR. PILLING: It's like the best travel trips. They say it's the journey, not the destination. So, I think that's the strong message that I'm getting here. So, I'm going to end. Thank you so much to all the panelists for what I think was a fascinating discussion about what appears to be a very technical question but is, in fact, something that underlies, you know, very important points that touch on everybody's life, not only in the region but in the continent, as a whole. So, thank you. Thank you so much. Thank you for, the audience, for your questions. And thank you for, Brookings, for organizing this event.

MR. ORDU: Thank you, David. Thanks. Thanks, Eswar and Vera. Thank you very much.

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