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UNSHACKLING THE PRIVATE SECTOR IN WEST AFRICA: REGIONAL INTEGRATION AND MACROECONOMIC PERSPECTIVES

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A Review By Ojibara, Raliat A.

INTRODUCTION

The private sector is noted to be more efficient than the public sector in terms of ownership, allocative and productive efficiencies based on empirical and theoretical studies and thus the objective of the paper centred on the need to explain the problems of the private sector in West Africa and how regional monetary integration could alleviate some of them. The paper is structured into five sections namely; Section one looks at the theoretical perspective of the efficiency of the private sector, Section two traced the evolution of macroeconomic policies viz-a-viz economic development in the West African Monetary Zone (WAMZ), Section three discussed the role of monetary integration in facilitating private sector development in the WAMZ, while Section four outlined the macroeconomic constraints that inhibit private sector development in the region. The paper ended with a conclusion and some recommendations.

Highlights

- The paper recognized that although the private sector was more efficient, it was however negatively affected by certain unfavorable macroeconomic policies that led to high interest rates and thus, high cost of production. Others include lack of adequate socio-economic infrastructure, unfavorable exchange rate, weak regulatory framework and general policy uncertainty.
- It reviewed Africa's economic performance reiterating relatively its slow development pace, especially given a growth rate of 3.5 per cent compared to 6.7 per cent recorded by Asia in year 2000. To underscore the dismal economic performance also in that year, five member countries of the Second Monetary Zone of ECOWAS suffered adverse terms of trade.

- It affirmed that the Economic Community of West African States (ECOWAS) and the West African Monetary Zone (WAMZ) were established to achieve the benefits of closer economic and monetary integration through the issue of a common currency and the adoption of a single monetary policy to be implemented by a common central bank. It further stated that the essence of regional monetary integration was to ease the process for the achievement of macroeconomic stability through effective implementation of monetary cooperation schemes and peer pressure that would have a focus on attaining regional objectives.

- The author stated that no country of the WAMZ met the primary macroeconomic convergence criteria set by the ECOWAS Monetary Cooperation Programme fully and consistently. The problems of the WAMZ member countries were highlighted as follows;

  - Unfavorable trade and exchange rate policies evidenced by the overvaluation of exchange rates, resulting in the existence of parallel foreign exchange market, capital flight and currency substitution.
  - Inability of monetary and fiscal policies to achieve their ultimate objective evidenced by large unsustainable fiscal deficits leading to macroeconomic instability. Monetary accommodation of these deficits in the face of limited foreign exchange inflows crowds out private sector investments necessary for growth.
  - Very low level of private capital inflows from abroad as a result of weak institutional arrangements as well as regulations on foreign participation in some economies.

- The benefits to be derived by the private sector from regional integration were also outlined, they included amongst others:

  - By liberalizing of the current and capital accounts of member economies, the private sector is expected to benefit from the opening up of financial market and the increased flow of foreign direct investment (FDI).
  - Increased investment opportunities that may generate technological spillovers with the accompanying fall in production costs.
  - The private sector is also expected to take advantage of a wider market for its output and input.

- The policy recommendations made include:

    - Pursuit of sound stabilization measures to achieve macroeconomic stability. For instance, a reduction in the fiscal deficit would lower government-borrowing requirements and lead to a fall in interest rates as well as a release of loanable funds to the private sector.
    - Using monetary and credit policies as tools for granting the private sector equal access to the domestic credit markets.
    - Encouragement of Regional Monetary Integration in order to tap benefits from economies of scale as well as lower cost of financial transactions in the sub-region.
    - Liberalization of the economy through the legitimization of free-market policies in order to enhance private sector development. Commitment to sound macroeconomic management should be sustained, so as to stimulate the interest of investors as the risks associated with a country are lowered, thus encouraging private sector growth.

- The author concluded by stating that Africa's macroeconomic problems could be tackled and reversed, not only through policies that bring about economic stability, but also those that allow the private sector to become the principal engine of growth.

Comments And Obervations

The paper provides very useful lessons for Nigeria as it addresses very important issues in re-invigorating the private sector, through regional integration. The author however, failed to mention the enormous challenges to be faced by the private sector if regional integration is adopted to promote trade within member countries.

Regional Integration brings about competition, which could be unfavorable to inefficient but protected private industries and in the long run lead to their demise, it could therefore create a monopolistic market. This calls for the relaxation of protective policies within countries that attempt to integrate, such step would prepare the local private sector for the challenges of intra-regional competition.

The author seemed to neglect the public sector because of its inefficiencies, but development in this sector is important in unshackling the private sector. For example, any increase in the public sector investment also boosts the private sector. The public sector can therefore become a key explanatory variable that determine growth in the private sector, as it opens up new grounds for investment. The privatization and liberalization programme readily attest to this.