CHAPTER 1

INTRODUCTION

International trade and investment has been very significant in the growth and development of world economy since many years ago. But it has been especially important since after World War II, with rapid surge in international trade figures. According to International Economics, fifth edition by Steven Husted and Michael Melvin, world merchandise exports was US$ 162.2 billion in 1965. This figure increased to US$ 5,527.9 billion in 1997. This represents a percentage increase of 3308% over the 32 years period or an annual percentage increase of 103.4%.

The massive increase in world trade between 1965 and 1997 was mainly facilitated by liberalization of world trade and openness of national economies. The liberalization of world trade was achieved under the auspices of international organization called General Agreement on Tariff and Trade (GATT), set up after World War II to conduct negotiations among member countries of reduction or bringing down of trade barriers or obstacles. However, after coming under criticisms for being ineffective, GATT was succeed by World Trade Organization in 1995.

With more gains realized from international trade, countries began competition so as to benefit more from international trade by exporting more. As competition intensified, countries, especially those in the same region began forming regional blocs, in order to maximize their benefits from international trade by gaining more bargaining power or offering larger
market size. These regional blocs or regional economic groupings were also vying with one another for investments by making their blocs a free trade area.

Competition for investments with various incentives offered by competing countries and regional economic groups galvanized the international business community. Companies, particularly multinational companies responded by operating on global and large scales to benefit from larger attractive markets.

Towards the end of twentieth century, a phenomenon (globalization), which has been developing long since, has become popularized. Globalization is a term used to describe the interdependence among countries and the cross border activities of individuals and business companies. As globalization became more widespread, there was more intense search for global production resources and markets. This intensified competition among corporate firms and the inefficient ones were either weeded out of the market or forced into merger with other firms for their survival.

This threat or challenge from globalization is not limited to corporate firms only; it is also extended to nation states. Countries, particularly smaller and economically weaker ones, face threat of marginalization, if they don’t team up with other countries in the same region for trade among themselves and to offer attractive investment incentives and larger market for the operations of multinational firms.
Regional economic integration or groupings, which are formed to fend off the threat from globalization is the type of the focus of this paper. Specifically, the paper explores the feasibility of creating unified stock market in the second monetary zone of Economic Community of West African States (ECOWAS), along side the single currency project, so as to promote business activities.

A unified stock market for the second monetary zone of ECOWAS that is efficiently operated will provide an alternative source of financing for corporate firms to undertake more growth investment opportunities. It will also be a venue where group of investors could be grouped together to share risk, thus enabling corporations to take up more risky and long term investment opportunities.

The methodology utilized in this study is mainly the analysis of secondary sources. Secondary data used in this study includes textbooks, internet, journal articles, magazines, theses researches and other researches, government published materials and etc.

The primary shortcomings of this study are lack of original data and the secondary data used may not be that accurate due to serious data collection problem in Africa. Another problem of the study is that it was conducted very far away from the area of focus. This made it impossible to get the views from various stakeholders in the West Africa sub region about the practical realities on the ground.
Chapter 2 provides a literature review on stock market by various sources. This includes a look at different dimensions of stock market and their implications for investment and trade promoting. It also looks at few previous studies and provides a brief description on their findings.

Chapter 3 looks at Economic Community of West African States (ECOWAS) as a regional economic grouping. It reviews the economic and political circumstances of ECOWAS member countries. The chapter also gives an update on the economic integration program, including some of the obstacles hindering the program.

Chapter 4 compares the two monetary zones (economic and monetary union of West Africa and West Africa monetary zone) of West Africa and assesses the eventual merger of the two zones as envisioned by ECOWAS.

Chapter 5 looks at the main topic of the study and assesses the need to establish unified stock market in West Africa monetary zone and how this capital market can effectively promote trade and investment in the zone.

Chapter 6 gives some recommendations on the viability and well functioning of the unified stock market and concludes the study.