



Financial Integration and the Growth of Selected Nations in ECOWAS

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Abstract

This study investigated the impact of financial integration on the growth of selected nations in Economic Community of West African States (ECOWAS) between 2001 to 2024. The specific objectives of the study are to examine the effect of financial soundness, exchange rate and tariff on economic growth in ECOWAS. The study collected panel data from the World Bank, WTO and UNCTAD and used the fixed effect model to analysed the relationship between the independent variables and the dependent variable. Based on the fixed effect model, the findings showed that, export financial soundness was found to have positive and significantly effect on economic growth in ECOWAS. Also, exchange rate has positive and significant effect across ECOWAS member states. Nevertheless, tariff has negative and insignificant effect on economic growth in ECOWAS. In line with the results, the study concludes that, financial integration exerts a meaningful influence on economic growth in ECOWAS. Based on the findings, it was recommended that, there should be diversification of ECOWAS economy in terms of exports. Thus, financial integration should lead to better diversification of risks and makes a positive contribution to financial stability by improving the capacity of economies to absorb shocks.

Keywords:

Financial soundness, Exchange rate, Fixed effect, Financial integration, Tariff

1. INTRODUCTION

Regional integration has evolved as a strategic response to the economic, political, and structural challenges faced by developing regions, particularly Africa. In the post-independence era, African countries increasingly recognized that fragmented domestic markets, limited industrial capacity, and vulnerability to external shocks could be mitigated through stronger regional cooperation. This recognition was reinforced after the collapse of the Bretton Woods institutions, which prompted nations worldwide to explore alternative collective mechanisms to advance economic and political interests. As a result, regional integration emerged as a tool to strengthen macroeconomic stability, promote policy harmonization, and create larger, more competitive markets (Sanusi, et al., 2022).

In West Africa, the Economic Community of West African States (ECOWAS) was established in 1975 as a framework to deepen cooperation among its 15 member states, particularly through promotion of trade and financing key sectors such as agriculture, transport, communication, energy, industry and finance. Financial integration which involves the removal of regulatory

and legal barriers to ensure investors and institutions can easily buy, sell and trade assets regionally and internationally is key to the success of ECOWAS and has since become a central pillar of ECOWAS' development agenda. This process includes lowering tariffs and non-tariff barriers, harmonizing financial policies, and improving access to wider regional markets. It aims not only to expand intra-regional trade, but also to stimulate investment, specialization, and productivity growth.

According to Emmanuel (2018), integration of financial markets is a process of unifying markets and enabling convergence of risk adjusted returns on the assets of comparable maturity across the markets. The process of integration is facilitated by an unrestrained access of participants to diverse market segments. Thus, the need for deeper financial integration in West Africa particularly, in ECOWAS is one of the determinants of economic growth and hence economic development in the long run.

As a matter of fact, economic performance in the region continues to be hampered by structural weaknesses such as inadequate finance, economic diversification and poor competitiveness amongst others, all of which reduce the potential gains from trade integration. Export concentration remains lower than import concentration, particularly in Nigeria, Ghana, and Côte d'Ivoire, making their economies susceptible to external shocks. However, the declining export concentration index from 2006 to 2018 indicates growing opportunities for diversification and deeper regional integration (UNCTAD, 2023).

Financial integration can be acknowledged as a potential engine for economic growth, consistent with global empirical evidence. Through increased finances, countries benefit from enhanced income, greater investment, technological advancements, and improved competitiveness, creating a positive feedback loop that supports sustained economic expansion. Also, efficient financial markets is an important vehicle for promoting domestic savings, investment and consequently economic growth (Mohan, 2005). Yet, in the ECOWAS context, empirical studies report mixed findings: while some show a positive relationship between financial integration and growth, others suggest no significant effect or even negative outcomes due to structural constraints, measurement limitations, or unaddressed non-tariff barriers.

Against this backdrop, understanding how financial integration affect economic growth in ECOWAS is essential. This is given ECOWAS' long-standing vision of achieving deeper integration through the establishment of a Free Trade Area.

The remaining sections of this paper looked at the literature review under conceptual, theoretical and empirical perspective in section two. Also, methodology; results and discussion as well as conclusion and recommendations were examined in section three, four and five respectively.

2. LITERATURE REVIEW

2.1 Conceptual Clarification on Financial Integration and Economic Growth

Conceptually, Emmanuel (2018) posited that, the integration of financial markets is a process of unifying markets and enabling convergence of risk adjusted returns on the assets of comparable maturity across the markets. The process of integration is facilitated by an

unrestrained access of participants to diverse market segments. Financial market integration could take place horizontally and vertically. In the horizontal integration, inter-linkages occur among domestic financial market segments, while vertical integration occurs between domestic markets and regional/international financial markets (USAID, 1998).

The central banks in various parts of ECOWAS region have made great efforts to develop financial markets, especially after the experience of numerous financial crises in the 1990s and late 2000s. At the same time, deregulation in emerging market economies has led to removal of restrictions on pricing of various financial assets, which is one of the pre-requisites for market integration (Emmanuel, 2018). Additionally, regional financial integration can be an important means of developing local financial markets, for instance, through peer pressure to strengthen institutions and upgrade local practices.

Meanwhile, economic growth is the increase in the output of an economy over a certain period of time. The concept of economic growth by Nwosu (2013) is effective mobilization, assemblage, and management of human, material, and financial resources to expand her productive capacity. In a simple way, Dwivedi (2006) postulated that, economic growth is a sustainable increase in per capita national output or net national product over a long period of time. He further stated that the rate of increase in total output of production must be much greater than the rate of population growth.

2.2 Theoretical Framework

This study is hinged on the endogenous growth theory. The theory was developed by Romer in 1994. In his words, Romer (2011) posited that, financing human capital, innovation, and knowledge are significant contributors to economic growth. The theory also focuses on positive externalities and spillover effects of a knowledge-based economy which will lead to economic growth. The endogenous growth theory primarily holds that; the long run growth rate of a national economy depends on policy measures. For instance, subsidies for research and development and financing other critical sector helps to increase the growth rate in some endogenous growth models by increasing the incentive for innovation. Meanwhile, this theory is relevant to the study because it maintains that economic growth is primarily the result of internal forces, rather than external ones. Also, it contends that, enhancements in economic can be tied directly to faster innovation and more investments in human capital from governments and private sector institutions.

2.3 Empirical Review

Olunkwa, et al (2024) evaluated the macroeconomic performance of selected ECOWAS member states, namely Nigeria, Cote d'Ivoire, Ghana, Senegal and Mali using descriptive statistics. The study acknowledges that macroeconomic stability is imperative for any country aiming to achieve sustainable, equitable and inclusive growth. Hence, an environment that enhances the ease of doing business must be provided to boost the capacity of the private sector and its impact on the living standards of the people of the sub-region.

Amoro (2023) studied evidence of the relationship between export diversification and economic growth for the fifteen (15) countries of ECOWAS states from 2005 to 2015 using the dynamic panel data method. The authors found that, export diversification impact economic growth in ECOWAS states. However, the evidence of the link between export diversification and economic growth is non-monotonic (humped-shaped) relationship. From that point, the

specification (concentration) should be intensified to increase income and pursue higher growth.

Alastaire (2022) study analyses and characterizes the nature of the interactions between countries of the West African Economic and Trade Union (WAEMU) over the period 1995–2015. The analysis uses sigma-convergence on the one hand and the Dendrinos-Sonis spatial competition model estimated by the SUR method on the other hand. The results show a lack of convergence of living standards and support the idea of income polarization in space; these results also support the idea of a very poorly integrated region with relatively competitive inter-relationships.

Ehigiamusoe and Lean (2019) used descriptive statistic to analyse how financial and economic integration accelerate growth and development' in the EU. Their study examines different integrations like financial, trade and economic whereas with a robust attention on economic and financial integrations. Their results summated up that, economic integration enhances the degree of economic growth meanwhile financial integration has an infinitesimal effect on growth. They mentioned that, the medium by which economic union enhance growth are through capital accumulations, trade, financial and economic.

Klofat (2017) researched on the regional integration economic and the degree of corporate tax EU. The result from the analysis is that progressive economic integration decreases the rate of corporation tax and thus granger cause growth in the long-term period.

Ibrahim et al. (2016) discovered a significant impact of financial integration on economic growth; the correlation seems not to be true within nations that has low degrees of development and among the most developed nations. The authors underscore the various perspectives of other literatures on the subject matter that indigenous absorption capacity is very necessary in allowing nations to receive from financial market integration.

Gehring (2015) find positive economic effects of financial integration. Whereas, between the manufacturing and services sectors, there are various economic degree of impact. Also, Coulibaly (2015) arrives at an exact deduction, using the unrestricted panel transition degree of association method using of the sub-Saharan Africa countries as sample. This study illustrates that, the minimal influence of financial integration on growth relies on the degree of financial development, the institutional quality as well as the level to trade integration. One problem oversight in the previous works is the fact that some of the correlation among financial integration, economic as well as economic growth may not be linear as assumed but might also rely heavily on the institutional quality as well as the degree of development.

3. METHODOLOGY

This study adopted an explorative research design with the aim of discovering the appropriate approach to adopt in dealing with the issues in question such as long run effect of financial integration on economic growth, the transmission response of economic growth to impulse of financial integration and comparative effects of financial integration on economic growth amongst the ECOWAS countries. The study used the fixed effect (FE) model to analysed the panel data obtained for the 12 selected ECOWAS nations which are; Benin Republic, Burkina Faso, Cote d'Ivoire, Gambia, Ghana, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.

3.1 Model Specification

The model had four variables which are collected across twelve ECOWAS nations for the period of 2001 to 2024. The variables/proxies are Economic Growths (GDP_{it}) of the 12 nations, Global Competitive Index (GCI_{it}), Export Concentration Index (ECI_{it}) and Exchange Rate (EXR_{it}). The variables functional relationship /proxies were as follows.

$$GDP_t = f(FSS, EXR, TAR) \quad (1)$$

Where;

GDP= Economic Growth,

FSS =Financial Integration (Proxy by soundness financial system)

EXR=Exchange Rate and

TAR= Tariff.

For precision, the equation was cast in static and dynamic specifications. The static model was separated into two specifications enabling us to report for heterogeneity and homogeneity in the model. The fixed effect specification was employed to record for the homogeneity inherent in the variables/proxies.

4. RESULTS AND DISCUSSION

Table 1: Variables Description

	GDP	FSS	EXR	TAR
Mean	14253.85	0.54	358.87	10.33
Median	1397.90	0.54	478.63	10.06
Maximum	109269.52	0.83	1478.97	20.62
Minimum	272.20	0.21	0.72	5.84
Std. Dev.	24933.78	0.12	260.48	2.55
Skewness	2.07	-0.13	-0.07	1.17
Kurtosis	6.33	2.57	2.45	5.02
Jarque-Bera	338.12	3.04	3.84	114.67
Probability	0.00	0.22	0.15	0.00
Observations	288	288	288	288

Source: E-Views Output

The panel covers 12 ECOWAS countries (Benin, Burkina Faso, Ghana, Togo, Liberia, Sierra Leone, Mali, Nigeria, Niger, Côte d'Ivoire, Gambia, and Senegal) for over 24 years (i.e., 2001-2024) a macro-panel ($T > N$) type. The variables reflected key aspects of financial integration and economic growth. The mean of economic growth of 14,253.85 and Median 1,397.90 shows strong right-skewed (Skewness = 2.07; Kurtosis = 6.33). This indicates high income disparity across ECOWAS countries: a few countries (e.g., Nigeria, Côte d'Ivoire, Ghana) dominated regional GDP, while others (Liberia, Niger, Sierra Leone) have very low levels. The Jarque-Bera $p = 0.00$ confirmed non-normality, meaning strong inequality in income levels and development performance. This implies that, financial integration benefits appeared unevenly

distributed as some economies may convert trade participation into broad-based growth, while others may lag due to structural, institutional, or industrial deficits.

The Mean of soundness of the Financial System of ECOWAS countries is 0.54, Std. Dev. = 0.12, Skewness = -0.13 (almost symmetric). It shows institutionally consistent range across ECOWAS; moderate variation. This reflects improving but uneven financial depth and intermediate efficiency. It implies that, financial systems are moderately efficient but need deeper integration to mobilize resources for trade-related investments.

The Mean of Exchange Rate of 358.87, Std. Dev. = 260.48, with values from 0.72 to 1,479 is considerable volatility. Skewness (-0.07) indicates near-symmetry, but high variance reflects exchange rate instability across economies. It shows that Exchange rate volatility has discouraged export and undermining financial competitiveness.

Tariff Rate (TARF): Mean = 10.33%, Range = 5.84–20.62, Skewness = 1.17, Kurtosis = 5.02, $p = 0.00$ — non-normal but modest variation. Indicates progressive liberalization, though some countries (e.g., Nigeria, Guinea) maintain relatively high tariff barriers. Overall, ECOWAS has improved in trade openness, but residual protection restricts full market integration.

Table 2: Kao Residual Cointegration Test

	t-Statistic	Prob.
ADF	-3.3537	0.0030
Residual variance	0.00482	
HAC variance	0.013774	

Source: E-Views Output

The Kao test in Table 2 is another residual-based panel cointegration test, like Pedroni but with stricter assumptions (common slope coefficients). The Kao test strongly rejects the null hypothesis of no cointegration. This offers consistent evidence that, a stable, long-run relationship exists between economic growth and the set of financial integration variables. The low residual variance supports the conclusion that, the model's errors follow a stable mean-reverting path a hallmark of cointegrated systems.

The cointegration result implies that, policy change (e.g., tariff reforms and exchange rate) and financial system reforms have lasting and interconnected effects on growth across the region. This supports theories of regional integration, endogenous growth, and new trade theory, which emphasize long-run structural linkages.

Table 3: The Hausman Test

Test cross-section Fixed effects				
Test Summary		Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random		585235	4	0.0065
Cross-section random effects test comparisons:				
Variable	Fixed	Random	Var(Diff.)	Prob.

FSS	0.739128	0.736659	0.000052	0.7330
Ln(EXR)	0.278602	0.281787	0.000081	0.7234
TAR	-0.019198	-0.019350	0.000000	0.0178

Source: E-Views Output

The Hausman test was carried out to determine the appropriate model for this panel study by checking if the cross-sectional probability is greater than 0.05 level of significance, hence the null hypothesis (H₀) is accepted, meaning that, the RE is the appropriate model to be estimated. But if the cross-sectional probability is less than 0.05 level of significance, the null hypothesis (H₀) is rejected and the alternative hypothesis (H_A) accepted, meaning that, the FE is appropriate.

Based on the results above, the study rejects the null hypothesis and accepts the alternative hypothesis since the Chi-Sq. Statistic p-value of 0.0065 is less than the 5percent level of significance. Thus, the fixed effect model is used for the interpretation of results because of its BLUE properties in the class of other estimation.

Table 4: Result of Financial Integration and Economic Growth Variables

Summary of Fixed Effect Model Estimation Results			
Variable	Coefficient	t-value	Prob
FSS	0.7391	2.22	0.037
lnEXR	0.2786	6.58	0.000
TARF	-0.0192	-1.58	0.129
Constant	5.9619	20.14	0.000
R-squared	0.7420	Adj. R-squared	0.6208
F-statistic	11.863	Prob(F-statistic)	0.0032

Source: E-Views Output

Financial System Soundness (FSS): The coefficient FSS is 0.7391 and probability value of 0.037. Financial system soundness (financial integration) exerts a positive and significant impact on economic growth. Efficient, stable, and well-capitalized financial systems facilitate investment, enhance credit allocation, and support trade financing. This confirms the finance-led growth hypothesis observed in ECOWAS by Ehigiamusoe and Lean (2019) that, financial development boosts private-sector-led growth in West Africa.

Exchange Rate (EXR): The coefficient exchange rate is 0.2786 and probability value of 0.000. This implies that, exchange rate variable is strong and highly significant. A depreciation of the domestic currency increases economic growth by improving export competitiveness and encouraging domestic production. This supports the empirical work of Umaru et al. (2018) who posited that, exchange adjustment stimulates tradable sectors and improve external balances.

Tariff Rate (TARF): The coefficient of TAR is -0.0192 and probability value of 0.129. The negative but statistically insignificant coefficient implies that, tariff reductions do not have an immediate measurable effect on economic growth within ECOWAS. Tariffs in the region have already been significantly lowered under the ECOWAS Trade Liberalisation Scheme (ETLS).

This aligns with UNECA (2021), which argues that, non-tariff barriers, not tariff rates, are the key obstacles to intra-African trade.

5. CONCLUSION AND RECOMMENDATIONS

This paper used the fixed effect model to analyse the effect of financial integration on economic growth in the selected Economic Community of West African States (ECOWAS) between 2001 and 2024. The paper used financial soundness, exchange rate and tariff as the proxies of financial integration and gross domestic product as the proxy for economic growth in ECOWAS and collected panel data from the World Bank, WTO, and UNCTAD. The paper found that, Kao panel cointegration test provided consistent evidence of a stable long-run equilibrium relationship between economic growth and financial integration variables. Based on the fixed effect model, the paper indicated that, financial soundness was found to significantly influence economic growth in the selected ECOWAS. Similarly, exchange rate fluctuation has positive impact on the economic growth across member states. But tariff has negative value and statistically insignificant at 0.129. In conclusion, this study demonstrates that, financial integration exerts a meaningful influence on economic growth in ECOWAS.

Based on the findings, it was recommended that, there should be diversification of exports. Thus, financial integration should lead to better diversification of risks and makes a positive contribution to financial stability by improving the capacity of economies to absorb shocks. Also, there should be maintenance of competitive and stable exchange-rate regimes in ECOWAS through the introduction of a single currency and regional currency-monitoring dashboard to compare real effective exchange rates. Moreover, as global experience proposes, ECOWAS must pursue the integration of the financial and insurance sector in a trade union must be pursued consciously with clear time lines for the various components of the integration efforts.

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