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Power Relations Between States and Trans-National Economic Institutions:

A Case Study of the CFA Franc

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Abstract

The CFA Franc – which stands for Communauté Financiaire Africaine – refers to the West African CFA franc and the Central African CFA franc, two currencies that, although separate, are in practice interchangeable and have a fixed exchange rate to the euro. The CFA franc is used in 14 countries, 12 of which are former French colonies. The currency has been criticized for its impact on the economic sovereignty of these countries, making economic planning all but impossible since the CFA's value is pegged to the euro – whose monetary policy is set by the European Central Bank – thereby outsourcing their monetary policy. By using the CFA franc as a case study, and with the help of Acemoglu and Robinson's theory of institutions, the present study seeks to analyze how power relations between countries affect the construction of trans-national economic institutions. I argue that the CFA franc acts as an extractive economic and monetary institution, leading to rent seeking behaviors antithetical to economic growth. I conclude that the former serves as a neocolonial domination tool, used by France to maintain its influence over its former colonies.

Key words: CFA Franc, extractive institutions, colonialism, neocolonialism, France

Word count: 9,998

List of abbreviations

A&R	Acemoglu and Robinson
BAO	Banque de l'Afrique Occidentale
BCEAO	Banque Centrale des États d'Afrique de l'Ouest
BEAC	Banque des États de l'Afrique Centrale
CAR	Central African Republic
CEMAC	Communauté Économique et Monétaire des Etats de l'Afrique Centrale
ECB	European Central Bank
FF	French Franc
HPI	Human Poverty Index
HDI	Human Development Index
IMF	International Monetary Fund
OCA	Optimal Currency Area
OIF	Organisation International de la Francophonie
UEMOA	Union Économique et Monétaire Ouest Africaine
UN	United Nations
UNDP	United Nations Development Programme

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1.Introduction

1.1 Research question and purpose

The purpose of the present study is to analyze how power relations between former colonial powers and their colonies affect the construction of transnational economic institutions, using the CFA franc as an example. The latter was founded during a colonial era, namely the French ruling over Central and Western Africa. Using Acemoglu and Robison's (A&R for the rest of this study) theory of institutions, I intend to show how an extractive political system – colonization – has led to an extractive economic and monetary system, which has survived the decolonization process which started in the 1950s. Furthermore, it follows that due to the survival of this system – which, with very few exceptions, has not changed since its creation – , strong extractive ties between France and its former colonies remain, which would lead some to qualify this relation as a neocolonial one. My research question is thus:

What are the effects of power relations between states on the construction of transnational economic institution?

The question will be addressed using A&R's theory of institutions, using the CFA franc as a case. Answering this research question will ultimately lead to the conclusion that power relations between France and its former colonies continue under the guise of neocolonialism which, – through new mechanisms and processes – is similar in essence (if not in magnitude) to colonialism and similarly jeopardizes economic development and national sovereignty.

Following a deductive logic, and using A&R as a starting point, I intend to show how an extractive political institution led to the creation of an extractive economic and monetary institution, which, by its continued existence, could indicate two things: that political institutions internal to the CFA zone are still extractive, and that France continues to act as an extractive institution – both political and economic – which helps maintaining the system. The

logic is indeed deductive, for it starts from a theory, leading to a hypothesis which is then subjected to empirical scrutiny (Byman, 2012, p.24).

1.2 History of the CFA Franc

The CFA franc was initially created in 1939, just before the second world war, but only really came into existence on the 26th of December 1945, in the wake of the Bretton Woods conference. Following France's ratification of the Bretton Woods agreements and the subsequent devaluation and pegging of the French franc to the US dollar, France decided to create new currencies in its overseas territories in order to cushion the latter from a strong devaluation of the franc. The objective was to facilitate exports from the colonies to France, while at the same time restoring France's monetary authority over these territories, which had been isolated from the metropole during the conflict (Nubukpo et al, 2016, p.86). Indeed, French colonies suffered from a rarefaction of trade during WWII, and sometimes had to rely on "improvised" local currencies pegged on currencies other than the French franc such as the US dollar.

In 1958, the CFA franc then became the 'Franc of the French Community of Africa' (FCFA), after Général de Gaulle introduced the notion of 'community' to the colonies of West and Central Africa. At the time, Guinea, under Sékou Touré, was the only one to reject the offer and the country obtained independence in October 1958, some two years before the other colonies. In 1960, Guinea left the franc zone, and set up its own currency and central bank. The new French franc of December 1958 had a fixed parity of one French franc (FF) for 50 FCFA (Ibid, p.89). This parity would not change for the next 36 years, until the devaluation of the CFA franc was imposed by France, on 12th January 1994. In the second half of the 1980s, a sharp fall in cocoa, coffee, cotton and oil prices on international markets battered the CFA-zone economies. Simultaneously, the appreciation of the French franc against other major currencies made the zone's exports less competitive (Ibid, p.85). This double whammy, combined with rising wages and payment arrears, resulted in falling investment and capital flight. The devaluation of 1994 proved to be a real shock for the economies of the zone. The currency lost half its value in one night as one French franc,

previously worth 50 FCFA, became worth 100 FCFA (Ibid, p.100). As of 2015, the currency is used by 150 million people across 14 countries.[1]

1.3 Methods

The present study consists in a disciplined-configurative – or interpretative – single case study, since it uses an established theory to explain a case (George & Bennett 2005, p.213). The case study is explanatory, as it intends to explain how, using A&R's analysis of institutions, an extractive – international, or exogenous – political institution led to an extractive economic institution, and why this state of affairs is maintained over time. Qualitative methods will be used for the purpose of the present study. I will rely on secondary data from various governmental bodies and public agencies, including the French treasury, the Bank of France, and the BCEAO and BEAC, which are the central banks of the Western and Central CFA zones respectively. These data – which constitute for the most part official statistics and statements – will be used in the analysis to provide evidence for the theory. GDP growth values, human development indicators, data pertaining to access to financial markets as well as estimations of foreign exchange reserves will be used from the aforementioned sources. The reason for their use in the present study is their high-quality and reliability (Bryman 2012, p.312). In addition, I conducted one semi-structured interview with Kako Nubukpo, the current director of the Digital and Economic Francophonie section of the International Organisation of La Francophonie (IOF), which took place in his office in Paris. The reason why I decided to interview him was because of his extensive knowledge of the issue, given that he has worked for the BCEAO, has been minister of economic prospective and public policy evaluation in Togo, and has always been a very active actor in discussions revolving around the CFA franc, through numerous books and articles he has published, in addition to television and radio broadcasts he took part in.

The reason why the CFA franc has been chosen for answering the present research question is because it is the last and only colonial currency still in use today (Nubukpo et al.

[1] The CFA franc is in fact divided between two zones: the west CFA franc and the east CFA franc. The west CFA franc is used in the UEMOA, and includes the following countries: Benin, Burkina Faso, Guinea-Bissau, Ivory Coast, Mali, Niger, Senegal, and Togo. The east CFA franc is used in the CEMAC, and includes the following countries: Cameroon, Central African Republic (CAR), Chad, Republic of the Congo, Equatorial Guinea, Gabon.

2016, p167). Its uniqueness offers the rare opportunity to study the underlying power relations between a former colonial power and its former colonies in a context where an element of economic extraction – the CFA franc – has remained and is still fully controlled by France. As will be explained, it acts as an extractive, *trans-national* economic institution. The trans-national nature of it come from the fact that it is France who controls it, and more specifically the French treasury, who is the sole decision-maker of its rules and regulations, such as its exchange rate and several modalities pertaining to the volume and use of foreign exchange reserves that member countries must place within the French treasury vaults. Although most qualitative studies use an inductive approach, emphasizing the preference for treating theory as something that emerges from the collection and analysis of data, some qualitative researchers argue that qualitative data can and should have an important role in relation to the testing as well the use of theory to explain a case (Bryman 2012, p.387).

The first step will be to present A&R's theory of inclusive and extractive institutions, by explaining the processes by which the nature of political institutions conditions that of economic institutions, how interrelated they are, and what effects do inclusive and extractive institutions have on market access. The role of rent extraction, as well as the different ways in which extractive institutions hamper economic growth will be presented. In the second step, I use the aforementioned theoretical framework to provide an explanation for the CFA franc, by testing the theory in practice in order to determine if, and to what extent, the CFA system constitutes an extractive economic institution. If the CFA fulfils the criteria characterizing extractive institutions as described by A&R – which are presented in chapter four – and if there has been little or no sustained economic growth over time, then A&R's theory will be confirmed. If the former does not fulfil those criteria and or there has been sustained economic growth over time, then A&R's theory will be falsified for the presence case. If the case fits the theory, then it follows that, in line with my hypothesis which is presented in the next section, the CFA system acts as a neocolonial tool, perpetrating the domination over Africa that France established during the colonial era.

It must be emphasized however that A&R's framework normally applies to national economies, and does not intend to capture power relations between states, in a trans-national extractive setting. If the theory holds and the hypothesis is confirmed, I infer that A&R's analytical framework can be extrapolated to international economic and political institutions, following the same mechanisms. The latter process corresponds to the last step of deductive reasoning described by Bryman in which *induction* is used by the researcher to infer his or her

findings for the theory that prompted the whole exercise. The findings are then fed back into the stock of theory and the research findings associated with a certain domain of enquiry (Ibid p.24).

1.4 Hypothesis

Starting from a chronological and sequential approach to the problem, the following hypothesis is established:

The CFA system finds its origins in a *formally* extractive setting, as colonialism is by definition extractive. In line with A&R's theory, an extractive economic and monetary institution has been established in order to accommodate France's needs and desires. By the economic rent – although small – and the political leverage France derives from the system, the CFA is by consequence *trans-national*, for it involves processes, transfers and power relations across countries. As the system still exists today – and has not changed much since 1945 – several questions arise. Following A&R's idea that economic and political institutions are mutually reinforcing, a corollary emerges:

For the system to have survived, it appears that some elements of France's colonial behavior must have lived on, translating into an external extractive political institution. France appears to keep exerting a certain political pressure on the CFA countries, by acting as, and maintaining an extractive institution. As such, it follows that colonialism has taken a new form, neocolonialism, for which the CFA franc is a tool, and an expression of it.

The hypothesis hinges upon the assumption that the CFA franc is indeed extractive, which will be argued in chapter five.

1.5 Limitations

1.5.1 Data collection

As an interview has been conducted, it is worth considering the possible biases that might have impacted the validity and reliability of the data collected. As previously said, I interviewed Kako Nubukpo, director of the IOF. As I interviewed him he seemed hesitant about certain questions, for instance when I asked him about the amount of money France derives from the interests perceived on the operations account of the CFA zone. To the latter, he repeatedly stated that France does not perceive anything, although other sources, including a book he co-wrote ("Sortir l'Afrique de la servitude monétaire. À qui profite le franc CFA?") say otherwise. The fact that I recorded him could explain his reluctance to be honest, coupled with his high position within an organization representing France, its cultural values and language.

1.5.2 Theoretical framework and generalizability

The case study of the CFA franc will allow to us to gain in depth understanding of how power relations between states affect the construction and nature of transnational economic institutions. However, due to its uniqueness, the case of the CFA might not be generalizable to other settings, firstly because it is the last remaining colonial currency. Using Guba and Lincoln's nomenclature, which relies on different criteria of reliability and validity than those used for quantitative methods, it could be said that there is a *transferability* issue, which refers to the degree to which findings can be generalized across social settings (Guba and Lincoln in Bryman, 2012, p.390). Nonetheless, because qualitative research typically entails the intensive study of a small group, that is, depth rather than the breadth that is a preoccupation in quantitative research, qualitative findings tend to be oriented to the contextual uniqueness and significance of the aspect of the social world being studied. Considering this, the analysis of the present case provides valuable insights about institutional reproduction from colonial eras to post-colonial ones, while also shedding light on the new forms transnational power relations have embraced.

Moreover, as previously explained, A&R's framework normally applies at the national, not the international level. I am therefore extrapolating a theory to an unusual context, which I expect not only to pose no major issue, but from which I intend to expand the scope of the theory hereby used.

2. Functioning of the CFA franc

The present section contains a non-exhaustive list of the main regulations and principles of the CFA franc.

The CFA franc zone is based on four key principles:

● The unlimited convertibility of the CFA franc in euro (in French franc before the creation of the euro) guaranteed by the French treasury.

● The exchange rate between the CFA franc and the euro is fixed, and has only been changed once since the creation of the currency, in 1994.

● In order to guarantee the fixed exchange rate, the foreign exchange reserves of the CFA countries are centralized in their respective central banks, of which 50% are required to be deposited in a current account managed by the French Treasury, called the "operations account".

● The free movement of financial flows and capital between the franc zone and France (and with the entire European union since the ratification of the Treaty of Maastricht).

An inflation target is also imposed upon the CFA countries: the UEMOA – the West African area of the CFA franc – has a 2 % inflation target while the CEMAC – the Central zone – has a 3% limit on inflation. Moreover, France imposes a 20% minimum rate of coverage of the monetary base in order to guarantee the peg. This rate of coverage corresponds to the amount of sight liabilities – in the form of foreign exchange reserves – that a central bank holds in relation to its monetary base (Gulde, 2008, p.7). As will be explained in detail in another section, this significantly limits the access to credit for economic agents, thereby hindering economic growth and development.

3.Literature review

This section provides a review of the most prominent literature on power relations between states as well as critical theories of development.

3.1 Power politics

In order to untangle the power relations underpinning the CFA system, we can make use of Susan Strange's views on power.

Susan Strange recognizes two forms of power: relational and structural power. Relational power is the conventional "power of A to get B to do something they would not otherwise do", relying on instruments of overt coercion and or bribery (Strange, 1988, p.24). Structural power, by contrast, is "the power to shape and determine the structures of the global political economy [...] the power to decide how things will be done, the power to shape frameworks within which [actors] relate to each other" (Strange, 1988, p.24-25). In other words, structural power is the power to set the agenda that defined the choice set available to others. Four key structures are identified: security, production, finance, and knowledge. Of most direct relevance here of course is the financial structure: "the sum of all the arrangements governing the availability of credit plus all factors determining the terms on which currencies are exchanged for each other" (Strange, 1988, p.90). This analysis provides key insights for the present study, for France – as will be explained – controls both the availability of credit and the exchange rate of the CFA franc, indicating that France exerts significant control over the African countries belonging to the franc zone, thereby *de facto* perpetrating its domination over its former colonies. Similarly, Strange argued that the creation and control of credit was a significant source of power in the global economy (O'Brien & Williams 2013, p12).

Interestingly, she argued that control can be exercised indirectly rather than directly. In Strange's words: "the possessor [of structural power] is able to change the range of choices open to others without apparently putting pressure directly on them to take one decision or to

make one choice rather than others (Strange 1988, p.31). Such power is less "visible". The CFA system illustrates perfectly the aforementioned aspect of power politics. By using a transnational monetary and financial system as an intermediary, France renders less visible its agenda, by blurring the line between the gains it derives from it and that of the African member states.

3.2 Dependency theory

Dependency theory can offer a helpful approach to analyze the case of the CFA in relation to the present research question. Dependency refers to the asymmetrical economic relations between metropolitan societies and non-European peripheries – a factor resulting in the development of the former at the expense of the underdevelopment of the latter (McMichael 2011, p.6). In the words of Andre Gunder Frank, – leading author of the dependency paradigm – "[…] underdevelopment is in large part the historical product of past and continuing economic and other relations between the satellite underdeveloped and the now-developed metropolitan countries. When we examine this metropolis-satellite structure, we find that each of the satellites [...] serves as an instrument to suck capital or economic surplus out of its own satellites and to channel part of this surplus to the world metropolis of which all are satellites (Frank in McMichael 2011, p.7). The CFA can be analyzed in the same manner, as its member states centralize the foreign exchange reserves derived from the export of primary commodities, to then invest them in the operations account created for them by the French treasury. Looking at the situation from a dependency perspective would lead to the conclusion that France – the core – extracts economic surplus from its former colonies, which are at the periphery of the world system. The CFA countries' underdevelopment is thus a reflection of the manner of their incorporation into the global capitalist system.
Dependency analysts also focus on how "northern states" are able to use the financial system to retain great influence in developing countries' economies (O'Brien 2013, p.157). The CFA system provides a good illustration of this process, as will be argued in the present study.

In order to unveil the power relations between France and the CFA countries, the present study relies upon A&R's theory of institutions. Important to notice is that Acemoglu

and Robinson are mainstream economists, whose core theories are *built upon* neoclassical economics (Smith 2013). However, the theories and authors presented in this literature review would be classified as belonging to critical IPE or critical economic theory, which stands in opposition to mainstream theories of development (O'Brien 2013, p.159). The bulk of evidence for power relations between states indeed comes from critical IPE. Nonetheless, I will demonstrate that they all lead to the same conclusion in the present case, as A&R's theory offers an explanation for the dominant position that France holds in relation to its former colonies. In other words, it is possible to use mainstream political economy to make the same claims as critical IPE – namely that France continues to exert power over its former colonies, under the guise of neocolonialism.

4.Theoretical framework: Acemoglu and Robinson

In “Why Nations Fail”, A&R intend to explain the variations in cross-national economic development by focusing on national level institutional factors. In the present study, I adapt their theoretical framework to analyze trans-national processes of institution-building and institutional reproduction.

4.1 The different types of political and economic institutions

A&R distinguish four types of institutions: inclusive political institutions, inclusive economic institutions, extractive political institutions and extractive economic institutions.

4.1.1 Inclusive institutions

According to A&R, two elements make a political institution inclusive: the degree of centralization and the degree of pluralism. Political institutions determine who has power in society and to what end that power can be used. If that power is sufficiently distributed across society and subject to constraints, then that institution can be said to be pluralistic. Centralization on the other hand determines the ability of the state to enforce the rule of law, to support economic activity and to provide security for its citizens (A&R. 2012, p.94). Without such political or state centralization, the state cannot fulfil its most basic role, and the society it governs is doomed to “descend into chaos” as A&R have said. As a consequence, we refer to political institutions that are sufficiently centralized and pluralistic as inclusive political institutions.

Following A&R, "inclusive economic institutions […] are those that allow and encourage participation by the great mass of people in economic activities that make the best use of their talents and skills" (A&R. 2012, p. 144). To be qualified as inclusive, economic institutions must feature secure private property, an unbiased system of law, and a provision of public services that provides a level playing field in which people can exchange and contract. As such, inclusive economic institutions depend as much on the notion of plurality as their political counterparts. In addition, they must also permit the entry of new businesses and allow people to choose their careers (Ibid p.89). Inclusive economic institutions create inclusive markets, which not only give people freedom to pursue the vocations in life that best suit their talents but also provide a level playing field that gives them the opportunity to do so.

4.1.2 Extractive institutions

Extractive political institutions can be defined as institutions where power is narrow, unconstrained, and concentrated in the hands of a few. Such institutions are exemplified by the absolutist monarchies reigning throughout the world during much of history, or, for a contemporary example, North Korea's dictatorship. In line with the aforementioned definition of inclusive political institutions, if one or both of the two criteria is missing – pluralism and centralization of power – then the institution can be qualified as extractive.

Extractive economic institutions have the opposite properties to those we call inclusive; they are designed to extract incomes and wealth from one subset of society to benefit a different subset. By preventing certain individuals to enter certain markets, or to exercise certain professions, or by simply forcing them to enroll in unpaid labor such as slavery, extractive economic institutions put an obstacle to the free functioning of markets. Similarly, a state incapable of, or unwilling to enforce property rights and contracts between private parties, and prevent fraud and theft constitutes an extractive system, for it prevents its citizens to produce, exchange and take part in the economy in an optimal manner. Given the central role public goods and services play in an economy, if the state fail to provide public infrastructures such as roads and a transport network, its economic institutions do not fulfil the requirements to be classified as inclusive, and are as such, at least partially extractive. In A&R's words, extractive institutions block the engines of prosperity, or make them work in reverse (Ibid p.102).

4.2 How do political institutions influence economic institutions?

There is a strong synergy between political and economic institutions, as the nature of one influences that of the other. More specifically, A&R suggest that there is a causality from political to economic institutions, meaning that it is the nature of the political institution that will in turn determine the nature of the economic institution of a given country. Political leaders can shape the economic system at their convenience in an extractive political system, given that they hold a disproportionate amount of power. As such, they will build economic institutions that allow them to extract economic surplus from the rest of society, as the absence of democratic oversight over their actions does not restrain their ability to do so. In that sense, while inclusive institutions are generally good for the prosperity of a nation as a whole, some people or groups are better off by implementing extractive institutions.

Extractive economic institutions thus naturally accompany extractive political institutions (Ibid p.95). In fact, they inherently depend on extractive political institutions for their survival, because inclusive political institutions – vesting power broadly – would tend to uproot economic institutions that expropriate the resources of the many, erect entry barriers, and suppress the functioning of markets so that only a few benefit. Furthermore, due to the synergetic relation between extractive political and economic institutions, a strong feedback loop reinforces this mechanism. Indeed, extractive political institutions enable the elites to choose economic institutions with few opposing forces and constraints, while also enabling them to structure future political institutions and their evolution (Ibid p.96). Extractive economic institutions, in turn, enrich the same elites, and their economic wealth and power help consolidate their political dominance. The dynamics underpinning the nature of political and economic institutions are thus pro-cyclical and self-reinforcing.

Moreover, even if new actors succeed in breaking through and achieve power under an extractive political institution, they are likewise subject to only a few constraints since the structure of that institution remains unchanged. As a result, they have incentives to maintain these political institutions and create a similar set of economic institutions.

4.3 How do extractive institutions limit access to markets?

The type of economic institutions that a nation is subject to have a direct impact on the ease with which people can access markets. The present section seeks to explain the mechanisms by which inclusive and extractive institutions modulate a people's ability to access markets.

Under inclusive economic institutions, people are free to choose their profession, whether to start a business or not, whether to invest or not, in addition to having the confidence that their property rights are guaranteed. One could thus say that freedom is the cornerstone of inclusive economic institutions. Inclusive economic institutions create inclusive markets, which not only give people freedom to pursue the vocations in life that best suit their talents but also provide a level playing field that gives them the opportunity to do so. Those who have good ideas will be able to start businesses, workers will tend to go to activities where their productivity is greater, and less efficient firms can be replaced by more efficient ones (A&R. 2012, p.91).

In contrast, extractive economic institutions are characterized by the systematic exclusion of certain individuals or groups from markets, while transforming certain markets into "exclusive preserves", for the benefits of the elites. Slavery provides a good example of an extractive economic institution. Slaves are deprived of their ability to choose their profession and whether they want to enter certain markets; they are instead coerced to take part in a productive activity.

Education occupies a central role in A&R's concept of extractive institutions. Indeed, the latter fail to provide adequate education to the people – because of inexistent or insufficient public services – which leaves no choice for most citizens but to work as poor, uneducated farmers. As those institutions fail to provide enough skills and education to their citizens, the latter are limited in their choice when entering the labor market, or are completely excluded from the latter and instead partake in other forms of work such as slavery or serfdom.

Monopolies enforced by the government, also called legal monopolies, constitute another form of exclusion from the market that is characteristic of extractive institutions. 18th century Europe provides a clear illustration of this, as aristocrats derived most of their income from landholdings and trading privileges granted by the state. The inability for most people to enter

those markets translates into exclusive markets. Likewise, the impossibility for slaves to own land in European colonies in the Americas is an example of restricted market.

4.4 The role of rent extraction

A central feature of extractive economic institutions is their ability to allow one or several economic agents to extract a rent from the rest of society. According to A. Smith, a rent is an unearned income or profit reaped by those who did not sow (Smith in Kaldor, 2007). Another definition of rent is given by Lucian Bebchuk and Jesse Fried, who define the term as "[an] extra returns that firms or individuals obtain due to their positional advantages" (Bebchuk et al. 2004, p.62).

Under extractive political institutions, political leaders can implement policies to expand their own wealth and that of their relatives, following a clientelism logic. Examples of economic rent include import tariffs, subsidies to certain sectors, or the imposition of regulations on competitors in order to increase one's market share. Corruption of public-sector employees can also involve an extraction of rent, such as tax officials who would take bribes for lessening the tax burden of certain tax payers. While rent-seeking behaviors do exist in inclusive institutional settings, they remain marginal compared to extractive ones. The reason for the iniquitousness of rent extraction in extractive institutional settings is the high concentration of power, and the lack of checks and balances on that power. If a narrow elite possess all the political power and rule over a sufficiently centralized nation, it has the ability to request favors and accept bribes in exchange for protection and legal recognition over one's activity or business.

In contrast, under inclusive political institutions, rent-seeking behavior is prohibited and fought against due to the ability of citizens to use their political power to do so. Indeed, economic rents are by definition unearned, and are extracted from the economy by economic agents who did not contribute to their creation, which make them undesirable. Supposing that those rents are sufficiently visible so that most people have identified them, people will use their legal rights to request the abolition of such rent extractions.

Furthermore, as inclusive economic institutions create and sustain inclusive markets, rents are not viable under them, due to the existence of competition. If an individual or group of individuals extract a rent from a certain activity, by setting a price exceeding the market price, other suppliers will take over his market share by setting a lower price. The free entry and exit of markets puts an obstacle to any rent-seeking activity.

4.5 The impact of extractive institutions on economic growth and development

The ultimate objective of A&R's analysis of institutions is to provide an explanation for the determinant of long-term economic growth, and by the same token, to explain the divergence of growth across countries over the course of history. The central thesis of "Why Nations Fail" is that economic growth and prosperity are associated with inclusive economic and political institutions, while extractive institutions typically lead to stagnation and poverty. The present section explains the mechanisms underpinning the aforementioned processes.

4.5.1 Allocation of resources

Inclusive economic institutions offer the most favorable conditions for economic development for several reasons. Under such institutions, people are free to choose their profession, workers will tend to go to activities where their productivity is greater, and those who have good ideas will be able to start businesses. Secure private property rights – which are a feature of inclusive institutions – are central to economic success, since only those with such rights will be willing to invest and increase productivity. Furthermore, public goods such as road are associated with greater exchanges and better allocation of resources, all of which are key to economic growth.

In contrast, extractive institutions cannot sustain economic growth for extended periods of time because of their inability to secure property rights and to foster trade and innovation. They are designed to maximize wealth for the elites, but not for a broad cross-section of society.

4.5.2 Technological change

In line with the neoclassic growth theory, technological change is the main driver of economic growth (Todaro & Smith 2015, p.138-139). In the long-run, adding more capital and labor is ultimately less important than learning new technologies that increase productivity per person and per unit of capital. Consequently, given that technological change results from innovation, it follows that an economic system conducive to innovation is also conducive to economic growth.

According to A&R, extractive institutions frustrate the process of creative destruction resulting from technological change by two channels: the lack of economic incentives and resistance from the elites (A&R. 2012, p.144). The first is due to the fact that in the absence of secure property rights, investing is a risky game. If the economic reward from an investment is jeopardized by theft or plagiarism, a cost-benefit analysis will indicate that such an investment is not worth it. The second comes from the tendency for political elites in extractive systems to resist changes that reallocate incomes away from themselves and towards new companies and individuals (Ibid, p105). Indeed, innovation and its resulting economic growth creates both winners and losers, by a process named creative destruction (Schumpeter in Acemoglu & Robinson, 2012, p.98). The former replaces old production processes with new ones, and new sectors divert resources from old ones. Inclusive political institutions are better able to cope with these frequent and difficult transitions than extractive political institutions, as there is a net gain for society overall and only a minority of the population bears the costs. As political power is broadly spread, and most people are better off or at least not worst off, creative destruction is less often and less intensively fought against under inclusive institutions.

Therefore, growth moves forward only if not blocked by the economic losers who anticipate that their economic privileges will be lost and by the political losers who fear that their political power will be eroded. It is precisely the latter process which prevails under extractive institutions, due to the extensive political and economic power held by the elites, enabling them to resist technological change.

5.Analysis

5.1 From colonialism to neocolonialism: how an extractive political institution led to an extractive economic and monetary system

5.1.1 The genesis of the CFA

The CFA franc was instituted in 1945 during the colonial rule of France over its African territories. In line with A&R's hypothesis that extractive political institutions lead to economic institutions of the same nature, the direction of the causality was indeed from political to economic institutions, as the former where put in place in the late 1880s (Shillington 2005, p.301).

Prior to 1929, the FF was the only legal tender in all French colonies, after what the metropole decided to relegate monetary emission for its Sub-Saharan territories to the BAO, a private, French owned bank (Nubukpo et al. 2016, p.86). That was the first step towards the institution of a monetary zone under the aegis of the metropole. The creation of the CFA franc – separated from but pegged to the FF – was the cornerstone of France's strategy to build the "Colonial pact", an integrated commercial zone where its colonies would not have to worry about industrial competitiveness as their exclusive role would be to produce primary commodities, while the metropole would transform the latter in its industries, or export them without transformation in order to raise foreign exchange reserves (Ibid).

After having taken power in its colonized territories, France installed extractive political institutions – or took control of them in case they already existed – to gain full control over the populations. These institutions were indeed extractive according to A&R's definition, as power was narrow, unconstrained, and concentrated in the hands of a few (Nubukpo et al. 2016, p.177). The CFA system was an apparatus through which France could further expand its grip over its overseas territories in a logic of full control of the chain of

production. The intended consequence was to create a “chasse gardée”, an exclusive market where only French industrial products could enter without having to compete with other countries’ products. Still in line with A&R, the political elites – both French and African –, facing no democratic oversight over their actions, could in total impunity set the economic institutions favoring their own interests.

5.1.2 A system of political repression at the service of France’s interests

Despite the independence of its former African colonies, France still wields a high degree of influence in sub-Saharan Africa. The present section aims at analyzing this influence, that lead some observers to qualify France as a neocolonial power.

For Kwame Nkrumah, neocolonialism is a process through which a theoretically independent state, having all the “outward strappings of international sovereignty”, has an economic system and a “political policy” direct from outside (Nkrumah 1965). In addition to the economic rent it derives from the operations account – which will be discussed later on – France has a significant political leverage over the CFA nations. France has favored the ruling of “unique presidents” as a tool to maintain the economic order of the CFA franc, using different political manipulations (Kako et al. 2016, p177). This model of neocolonial control relies on the longevity of the executive power, and contains two essential modalities: presidency for life and dynasty. Almost all the African political leaders who opposed the CFA franc were either assassinated or toppled (Sylla in Nubukpo et al. 2016, p.176). Between 1960 and 2012, the CFA zone has been the scene of 78 attempted coups, 37 of which having led to a change of government. The most notorious example of coup organized by France is the assassination of the then president of Togo, Sylvanus Olympio, in January 1963, in line with France’s strategy of elimination of “anti-French” leaders (Ibid p.84; Nubukpo, 2017). Furthermore, from 1960 to 2005, France launched 46 military operations in its former African colonies (Griffin 2007). In fact, French military interventionism in the latter has been a relatively consistent policy since 1960, and is supported by an extensive network of bilateral Franco-African defense and military assistance treaties. The propensity of France to conduct

military interventions in its former colonies – members of the CFA zone – reflects its domination over what is nothing but a critical geopolitical area for the metropole.

The despotic leaders ruling over the CFA countries are thus backed by France, which allows them to remain in power. On the other hand, France benefits from the political support these leaders give her, as they are aligned on France's interests in all international decision-making meetings, including those of the UN (Nubukpo 2017). The CFA franc plays a key role and even constitutes a sine qua non condition for this conditional support from metropolitan France. Political leaders therefore cannot emancipate from the guardianship offered by the CFA system, due to their lack of legitimacy, or else they would soon lose power. This voluntary servitude, in which political leaders accept to maintain an extractive trans-national economic institution, is thus an expression of this lack of political legitimacy.[2]

[2] Given the extractive nature of the CFA franc, and its inherent inimicality to economic growth and industrialization, one could wonder why, in the context of seemingly independent sovereign countries, would any nation maintain such an inadequate monetary system. For that matter, Gramsci's thought can bring interesting explanations, by shedding light on the institutional and political mechanisms underlying this system, and by unveiling the motives of the relevant stakeholder.

For Gramsci, power is a necessary combination of consent and coercion (Gill 1993, p.52). This duality is clearly displayed in the dynamics underpinning the CFA franc system. On one hand, however coercive and violent the French authorities might have been when they introduced the franc, the monetary system could not possibly have survived without the consent of the African elites of these countries. As previously explained, this local elite has a lot to gain from the maintenance of the CFA, hence their consent to collaborate. On the other hand, coercion has been extensively used throughout the countries that use the CFA franc over time, in order to maintain the power that France exercises on its (former) colonies.

Moreover, Gramsci argues that coercion is always latent but is only applied in marginal, deviant cases (Gill, 1993, p.53). History confirms that argument: as illustrated by the sporadic interventions of France in Africa to punish deviant behaviors and actors, coercion is a last resort measure used by France to put back in place the elements constituting its hegemony and domination over its former colonies. France therefore exerts power over the franc countries through a mix of coercion and consent.

5.2 How the CFA franc limits access to markets: credit rationing

The present section explains how the CFA limits access to financial markets through a financial repression.

According to Kako Nubukpo, the economies of the franc zone are characterized by an endogenous credit rationing, the latter being the consequence of the hidden agenda of the two central banks, the BCEAO and the BEAC. In order to understand the problem, we need to explain the functioning of the operations account.

As explained in chapter two, one of the key rule of the franc zone is that all of the member countries have to deposit at least 50% of their net external assets – also called foreign exchange reserves – into the operations account managed by the French treasury (BEAC 2007). The member states first centralize their foreign exchange reserves with their respective central bank – the BCEAO for the UEMOA countries and the BEAC for the CEMAC countries – and these two central banks are expected to transfer at least 50% of those external assets to the operations account (Nubukpo, 2016, p.107). All member countries have to keep at the minimum a 20% external coverage rate, meaning that for every franc their central bank issue, they need to have 0.2 franc denominated in foreign currencies. In other words, the 50% of their foreign exchange reserves which must be put in the operations account have to cover at least 20% of the monetary base – the money circulating in the franc zone (Banque de France[1] 2015). These requirements are a condition that member states must respect if France is to maintain the fixed exchange rate and guarantee free convertibility into euro. However, the effective external coverage rate is significantly larger than what is required by France. On the 31st of December 2014, it stood at 84.3% for the UEMOA and 89.8% for the CEMAC, corresponding respectively to 7,033.6 and 8,387.47 billion CFA francs, or a total of 23.51 billion euros (Banque de France[2] 2015). The reason why the two central banks hoard so much liquidities is because their staff and the political leaders of those countries earn interest on them, which as will be explained in the next section, translates into a rent extraction.

Figure 1 displays the external coverage rate and the volume of foreign exchange reserves held by the BCEAO under the operations account controlled by the French treasury. In any given year, the coverage rate exceeds the required 20% by a large margin.

Figure 1: External coverage rate in UEMOA

External Coverage Rate
(In billions of CFA franc ; Rate in %)

	2011	2012	2013	2014
Net External Assets of the BCEAO (1)	6 955,6	7 051,2	6 574,0	7 033,6
Sight Liabilities of the BCEAO (2)	6 473,3	6 685,9	7 297,9	8 339,2
External Coverage Rate of Monetary Emission (1)/(2)	107,5	105,5	90,1	84,3

Source : BCEAO.

The direct consequences of the excessive reserves deposited within the French treasury are the high interest rates stemming from the rigorous fiscal management characterizing the two regional central banks and the little leeway for conducting monetary policy, also caused by rigorous fiscal management. To maximize the volume of liquidities it holds, the UEMOA has implemented a credit control system named "monetary programme" which allocates each year a fixed and predetermined credit volume to each member country. This system persists today, and continues to assign a precise volume of liquidities to each country through the national banking system (Nubukpo 2016, p.127). As a consequence, credit is expensive. In 2013 in the UEMOA, the average interest rate on personal loans excluding tax and charges was 7.56% (Banque de France 2013), and the bank account penetration rate – the proportion of adults having a bank account – stood at 12.6% in 2015 (Banque de France[2] 2015). In comparison, France and Morocco displayed a 3.8% and 6.3% average interest rate on personal loans respectively. After including tax and charges, the interest rate that a household or business needs to pay is around 10-15% (BCEAO 2014). A report from the Banque of France states that "overall, financial inclusion and the development of the financial system remains weak". The franc zone only has three bank machines per 100,000 inhabitants (Banque de France[2] 2015).

The zone's small degree of financializaton is also reflected by the small ratio of credit to GDP, which stood at 23% in 2014, as opposed to 155% in South Africa, over 100% in the E.U and 300% in the USA (Pigeau, 2016). This financial repression is all the more puzzling knowing the presence of massive liquidities held by the French treasury through the operations account. This endogenous credit rationing – which is the direct consequence of the CFA system – constitutes an exclusion from access to markets for most people, caused by prohibitively high interest rates.

5.3 The CFA franc and rent extraction

There are two levels at which a rent is extracted from the African countries part of the franc zone. First, through the operations account, which as we will see, incentivizes the two regional central banks to extract liquidities from commercial banks, by imposing restrictive fiscal rules upon them. Those liquidities are then invested in the operations account, which earns interests for the staff of the two central banks and the ruling class of those countries. Second, by its exchange rate level *and* regime, which has strong distributional effects.

5.3.1 The operations account: rent seeking disguised under a financial stabilization commitment

As already mentioned, the purpose of the operations account is to maintain the peg with the euro and to guarantee the full convertibility of the franc into the euro. However, its design incentivizes rent-seeking behaviors leading to large amounts of excessive liquidities which, instead of financing local productive investments in a logic of endogenous growth, are allocated to investments in France or elsewhere. These massive stocks of foreign exchange reserves held by the French treasury under the operations account earn interests for France and for the BCEAO and BEAC, amounting to 1.25% – the ECB marginal lending rate – for the deposits below the mandatory threshold and 0.75% – the minimum main refinancing operations rate – for the assets exceeding the minimum threshold (Trésor Direction Générale,

2013). Although France's direct material gain in the centralization of foreign exchange in the operations account is relatively small, it is important to notice is that France pays 0.5% of its public debts with this system (Nubukpo, 2016, p.110). African leaders on the other hand, including but not limited to the central bankers of the BCEAO and BEAC, collect the remaining wealth generated by those interests as indicated by article 11 of the UEMOA preamble (UEMOA 1973). A rent is therefore extracted from the economies of the CFA franc members through the excessive hoarding of foreign currencies from their central banks – way beyond what is required to maintain the parity with the euro – which as we explained in the previous section, negatively impacts credits, but also the conduct of monetary policy.[3]

It should be stressed, however, that France does not *impose* the current external coverage rate that the CFA countries display. Indeed, as previously explained, France only requires a 20% external coverage rate as a condition for the unlimited convertibility (Banque de France[1] 2015). The system is thus only extractive to the extent that the collaboration and consent of a certain African elites – which Nubukpo calls "voluntary servitude" – is a condition sine qua non for the extractive nature – and more basically, for the very existence – of this monetary and financial system.

5.3.2 The distributional effects of the CFA

The second way in which an economic rent is captured is more insidious and indirect than in the first case, and comes from two causes: the exchange *rate* and the exchange *regime*.

The first cause has to do with the chronic overvaluation of the CFA franc, which has continuously undermined the competitiveness of the zone. Several studies have found the CFA franc to be overvalued, by an estimated 10% as of 2014 (Gulde et al, 2008, p.9). The former simply acts as an export tax, because it makes products more expensive when sold in foreign currencies, and by the same token, as an import subsidy, as it makes foreign products cheaper (Pigeau 2016). As farmers derive all their revenues from the sell – mostly exports – of agricultural products, and as the share of imported goods in their total consumption in very low in comparison to the middle and upper urban classes, they bear most of the costs associated with the strong value of the currency. The rich urban classes on the other hand can

[3] In Andre Gunder Frank's words, we could say that there is extraction of economic surplus from the (neo)colonies – the periphery in Frank's terminology – to Metropolitan France – the core (McMichael 2011, p.7).

buy imported goods, including sophisticated manufactured goods which typically are not produced locally, at a cheaper price.

To comprehend the distributional effects of the second cause, the exchange *regime*, the Mundell-Fleming model needs to be exposed. The latter demonstrates that states cannot simultaneously maintain free movement of capital, have an independent monetary policy, and fixed exchange rates – either fixed or with gradual movement. This is also known as the Triffin dilemma, and it states that only two of those objectives can pursued, but the third could not be sustained for an extended period of time because it would violate the other two (O'Brien et al, 2013, p.158). If a government favors capital mobility – with the aim of attracting foreign investment – and choses to opt for fixed exchange rates, then it cannot use monetary policy for purposes of demand management or balance-of-payments adjustment by influencing aggregate demand. Indeed, the interest rates set by the central bank must then be equal to the "international interested rate", or else capital movement will jeopardize the peg – capital flight in case of domestic interest rates being inferior to the international interest rate and capital inflow in the other case (Burda et al, 2013, p.247). This poses a tradeoff between two competing values: stability and flexibility. Achieving monetary stability can be a substantial benefit for countries that have endured high and highly variable inflation and other domestic monetary disturbances. But since achieving this stability means forgoing monetary flexibility, this can be a substantial cost for countries that face severe external shocks to which monetary policy might be the appropriate response (Broz 2001).

The CFA zone, by having a fully fixed exchange rate system, enjoy a certain stability, but it belongs to the latter category, as it chronically suffers from strong external shocks (Hallet 2008). The reason why the exchange rate regime has distributional effects is because it is the poor, rural population who fully endogenizes the opportunity cost of full stability – namely the absence of flexibility – which translates into squeezed revenues whenever an exogenous negative shock – such as deteriorating terms of trade – occurs. The fixed exchange rate indeed makes it impossible to devalue the currency to maintain competitiveness when such a shock occurs, which means that the only solution to return to equilibrium is to apply a downward pressure on wages. African primary commodity producers thus pay the cost of the adjustment through a cut on their revenue. The well-off urban classes on the other hand, who are the main consumers of imported goods, benefit from the fixed exchange rate because it entails a stability of prices. Furthermore, the fact that there is unlimited convertibility into euros and free capital movement – at the cost of credit rationing and inflexible monetary

policy, which as we saw mainly impact the poorest segments of the population – means that the political and economic elite is free to capitalize their money into high-yield, safe investments abroad, with the guarantee of a fixed exchange rate. If they decide to make local investments instead, the low legal limit on inflation, again combined with the fixed exchange rate, also guarantees a certain return on investment. Obviously poor people do not benefit from this, as they do not have the ability to save, as reflected by their almost total average propensity to consume.

Between 1986 and 1994, the CFA countries experienced a series of dramatic economic crises during which the zone saw no economic growth, when other Sub-Saharan African countries were growing at 2.5% annually (Clément, 1996). Because of the overvaluations and rigidly high wages, economic performance started to deteriorate, and adjustment had to come through reduced employment and output. In fact, for some of the countries, there was an output contraction comparable to the Great Depression in the United States, with disastrous social consequences. Cameroon experienced a 41.5% decline in per capita output during the period, compared to 30.9% "only" in the US during the 1929 Great Depression (Shatz & Tarr 2000). The incidence of poverty doubled in Côte d'Ivoire from 30% to 60% between 1985 and 1992 (Ibid).

The system is therefore extractive to the extent that the vast majority of the population of the CFA countries work in the production of primary commodities (Dembele 2011) whose export yield foreign currencies which are extracted by the banking system and invested within the French treasury, but only an insignificant part of the African population – the political elites, which act as a rentier elite – benefit from it, as almost none of this economic surplus is reinjected in the local economy. The misaligned exchange rate allows the elites to import more of the goods and services they desire – boosted by an overvalued currency – at the cost of a share of the rest of the population's nominal revenue, which is indirectly extracted by the former. Finally, the vast majority of those countries' population – mostly rural population – pay the costs of the monetary and financial repression, characterized by expensive credits, almost inexistent public goods and services, and magnified exogenous shocks, due to the rigidity of the exchange rate regime.

5.4 How does the CFA system hamper economic growth?

"Nations fail today because their extractive institutions do not create the incentives to save, invest and innovate"

- Acemoglu & Robinson 2012, p.413.

After having shed light on the functioning of the operations account and explained briefly its impact on credit, it becomes obvious that if the two central banks were to stop hoarding so much liquidities, by only maintaining a 20% external coverage rate for instance, or if they were to abandon the CFA franc altogether, the system would suddenly become much less extractive. Indeed, this volume of money could be either lent to the governments of those countries at a low interest rate, directly invested in development projects such as building schools and hospitals, or passed on to the private sector through loans by alleviating the restrictions on credit. It is all the more surprising that the CFA countries recurrently borrow money on international financial markets at an average interest rate comprised between 5.5% and 6.5% in order to finance their fiscal deficits (Pigeaud 2016 ; Banque de France[2] 2015). The independence of the two regional central banks and the legal framework characterizing the CFA system prevents the former from lending to the respective government of their zones (BEAC 2007), thereby enhancing the extractive nature of the CFA system. All the aforementioned alternatives would in the long run lead to sustained economic growth, by increasing endogenous consumption and investment, and by fostering innovation which, according to Acemoglu, is the key reason why extractive institutions fails to generate economic growth (A&R 2012, p.94). Indeed, in line with neoclassical models of economic growth, technological change – which is induced by innovation – is the main driver of economic growth, because diminishing returns to factors of production implies that at a certain point, only increases in productivity – which arise from technological change – can lead to intensive growth by offsetting the effects of diminishing returns (Todaro & Smith 2015, p.138-139). Acemoglu argues that two factors prevent extractive institutions from generating sustained technological change: lack of economic incentives and resistance from the elites. Those two obstacles are clear in the present case.

Given the high interest rates that economic agents face, and given that an investment is only undertaken if its returns exceed the interest rates paid to finance it, it is no surprise that there are little economic incentives to invest and produce within the CFA zone for the local population. Little investments entail little capital accumulation, which is a necessary condition for production, but it also reduces the rate of technological change, which is an essential component of sustained economic growth (Ibid p.142).

The data confirms that economic growth has been sluggish in the franc zone. According to a UN report, the CFA countries have displayed lower growth rates from 1960 to 2012 compared to non-CFA African countries (Amin 2000). According to the same source, the most important factor hampering long-term growth has been the institutional rigidity imposed by the monetary and exchange rate arrangements stemming from the CFA system. From 1965 to 1980, the yearly average growth rate was 4.2% in CFA countries as opposed to 6.3% in non-CFA African countries (CIA 1994). During 1986-92, there was negative growth per capita in *all* CFA countries (-2.8%) which was not experienced by non-CFA African countries. During the same period, the export growth rate stood at -4.8% per annum, indicating a decline in the volume of exports (Amin 2000). For the period 1960-2014, four countries have had *negative* growth rate per capita (Comores, CAR, Niger and Senegal), and six have had below-one percent per capita growth (Benin, Cameroon, Côte d'Ivoire, Guinea-Bissau, Tchad and Togo). Most strikingly, Côte d'Ivoire's 2014 GDP per capita is 41% lower than in 1970 (World Bank 2017).

The weak economic performance of the CFA countries translates into low levels of development and well-being. In 1999, the latter scored lower than the average of the other African countries in terms of HPI (UNDP 1997). Furthermore, all of the UEMOA nations rank in the "low human development" part of the HDI, and four of them (Guinea-Bissau, Mali, Burkina Faso, Niger) rank among the five lowest in the index (UN 2006). The CEMAC countries perform only marginally better, with Chad and CAR in the bottom seven and the rest in "middle human development" (Ibid).

In conclusion, the main channel through which the CFA franc hampers economic development is credit. Credit is too expensive for any economy to grow, especially emerging economies such as the CFA countries which, according to a recent UN estimate, would need an annual 7% growth rate in order to halve the number of poor people (Nubukpo, 2016, p.130). Expensive credits lead to few investments, therefore less innovation, less growth, and *in fine*, less development.

Conclusion

While conserving Acemoglu's elements characterizing extractive institutions, and conserving the final outcome – namely the absence of sustained economic growth over the long run – the present analysis offers an original use of Acemoglu's theory of institutions. I have shown that the CFA franc indeed acts an extractive economic and monetary institution as described by A&R, as it excludes certain people from markets, enables a rentier elite to extract a rent from the rest of the population, and hampers economic growth and development. Following the idea that the nature of political institutions conditions that of economic institutions, the CFA finds its origins in an extractive political setting, namely the French colonial rule of Africa. Due to its extractive nature, this system could prevent the emergence of inclusive political institutions, as it gives more power to the established elites who have the incentives to do everything they can to maintain their privileges. This translates into extractive political institutions – characterized by a lack of plurality – and is indeed reflected by the predominance of presidency for life and dynasty as methods of ruling in the franc zone. Paul Biya, who has been in power in Cameroon since 1982, and the Bongo family, who have been ruling Gabon since 1967, are respective examples of the two main methods of ruling (Nubukpo et al. 2016, p.177).

Moreover, I have proven in chapter five that France maintains strong extractive ties with its former colonies, and that strong power imbalances prevail between the two. First, through the functioning of the operations account, which extracts liquidities from the member countries, allowing France to pay part of its public debts while also enabling her to invest those liquidities into higher yield investments. Second, through the political manipulations France has committed, including coups and assassinations, which made it possible to put in power political leaders backed by France, thereby favoring the metropole's interests. France therefore continues to exert a certain political pressure on the CFA countries, by acting as, and maintaining an extractive economic *and* political institution, with the help of the CFA franc. As such, I conclude that colonialism has indeed taken a new form, neocolonialism, for which the CFA franc is a tool, perpetrating *de facto* France's domination over its former colonies. By its impact on credit and subsequently on economic growth, neocolonialism – through new mechanisms and processes – is indeed similar in essence to colonialism and similarly jeopardizes economic development and national sovereignty. The hypothesis is therefore very plausible.

Given that the theory holds for the present case, and that the hypothesis is deemed plausible, I infer that A&R's analytical framework can be extrapolated to international economic and political institutions, following the same mechanisms. Provided that the CFA franc case is generalizable, power relations between states affect the construction of trans-national economic institutions by building trans-national extractive institutions whenever a power imbalance subsists, such as between a colonial power and its colonies. Such extractive institutions are designed to benefit the dominant country, while also benefiting the ruling class of the dominant country or countries, in line with Nubukpo's concept of "voluntary servitude". Furthermore, in the same way extractive political institutions lead to economic institutions of the same nature at the national level, strong interdependency between political and economic institutions appears to exist at the trans-national level. Extractive trans-national political institutions – such as colonialism, as it involves capturing political power from a country and outsourcing it – enhance the extractive aspect of the local economic institutions, and adapt the latter in order to transfer the economic rents captured to the home country, thereby creating a trans-national pattern of economic surplus extraction. Although the findings might not be generalizable, the present study suggests that institutional reproduction dynamics are embedded within international power relations. Further research in this field is needed to produce a comprehensive analysis of the mechanisms by which power relations between state affect the construction of trans-national economic institutions.

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