ECOWAS AND TRADE LIBERALISATION: CHALLENGES AND THE WAY FORWARD

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Abstract: *Although the ECOWAS Trade Liberalisation Scheme assures member states of numerous benefits, performance of the scheme is poor. This paper, ECOWAS and Trade Liberalisation: Challenges and the Way Forward examines the ECOWAS Trade Liberalisation Scheme and the journey so far vis-à-vis achieving a Free Trade Area in the West African sub-region. The paper identifies deficiency in infrastructure; a non diversified ECOWAS economy; and the absence of an efficient and effective payment mechanism particularly between Anglophone and Francophone countries, to be responsible for the poor performance and the envisioned rate of progress at liberalizing trade. The study therefore recommends that efforts should be directed at ensuring a sound infrastructural base, addressing administrative barriers at the ports with that of the borders, as well as considering the processing of agro-based industrial products since most industrial goods penetrating the West African trade region are processed agricultural commodities, if intra-regional trade was to achieve its objectives and ECOWAS was to stand a chance of jointly taking advantage of the opportunities of trade liberalization.*

Keywords: Trade Liberalisation, Economic Integration, Common External Tariff, Intra-Regional Trade, Trade Barriers.

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INTRODUCTION

The Economic Community of West African States (ECOWAS) was established at the point in time when civil society in general and the business community in particular were striving to understand and rise to the challenges of globalization, posed by World Trade Organisation (WTO) agreements, European Union (EU) and African Caribbean and Pacific (ACP) Regional Economic Agreements, the African Union and New Partnership on Africa's Development (NEPAD) (ECOWAS, 2004). There was a growing enthusiasm for economic integration, which led to the ultimate goal of regional economic unions. Many countries that were close neighbours or had common problems of economic development strived to maintain some degree of economic cooperation. Thus, ECOWAS came into being as a result of the manifestation of the desires for cooperation among the peoples of West Africa.

The treaty establishing ECOWAS was signed in Lagos, on the 28th of May 1975, comprising sixteen countries of the West African sub-region. These countries were:

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Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo. Following the withdrawal of Mauritania in December 2000, the membership dropped to fifteen (15).

The primary purpose of ECOWAS is to integrate the fifteen West African markets for goods, capital and labour so that the community can advance harmoniously as one region in its search for sustained economic growth and development. Since the community became operational in 1977, trade development has been central to the cooperation programmes adopted by the decision – making organs of ECOWAS. As early as 1976, the first protocol relating to the concept of products originating from member states of the community was signed by the Authority of Heads of State and Government. Three years later, in 1979, decision on the liberalization of unprocessed products was signed by the council of ministers followed by decision of the Authority of Heads of State and government relating to trade liberalization in respect of traditional handicrafts in 1981. Another decision relating to the adoption and implementation of a single Trade liberalization Scheme for industrial products originating from member states of the community dated 30th May 1983 was signed by the Authority completing the scope of products covered by the ECOWAS Trade Liberalization Scheme (ECOWAS, 2004). It is certain that the success of West African integration efforts will be judged by the volume of intra community trade and by the degree of interaction between the citizenry and also between the business communities.

This is why in 1987; the ECOWAS Authority of Heads of State and Government directed that both the member states and the institutions of the community accord the topmost priority to the promotion and development of intra-community trade. As a result, the ECOWAS Trade Liberalization Scheme (ETLS) came into effect in January, 1990 with a view to eliminating customs duties and levies of equivalent effect, removal of non tariff barriers, and establishment of a Common External Tariff (CET) to protect goods produced in member states. The Trade Liberalisation scheme is therefore meant to provide impetus to the process of economic integration and development in the West African region. It is also to provide easier access to markets in other ECOWAS countries and thereby encourage local manufacturing outfits to compete favorably with cheap imported products that may be dumped on the market. The scheme is to furthermore encourage entrepreneurial development because it provides preferential treatment among member states (CBN, 2011).

However, in spite of the regional backing the scheme enjoys and the numerous benefits that are to accrue member countries, its objectives to a large extent have not been achieved. The volume of trading activities generated among the member countries of ECOWAS in 2010 stagnated at 11% when compared with the total trade traffic in the region during the year.

For ease of exposition, the paper is structured into five parts. In section two following this introduction, is the review of literature. While section three examined the challenges facing the ECOWAS Trade Liberalisation Scheme, section four consist of the recommendations and section five is the conclusion.

LITERATURE REVIEW

Trade liberalisation from the regional perspective, may imply a part of the process of economic integration which is accompanied with a customs union where there is a unified market for goods and service. This leads to the stage of unified market for productive factors, it is then necessary that the impediments to the free mobility of these factors be eliminated. If such factors as labour, investment capital and entrepreneurship do in fact move in the union in response to differentials in factors earning to the extent that these differentials reflect relative productivity, the transfer of factors from low productivity areas to where productivity is highest will benefit all concerned. Trade liberalization thus, entails the removal/reduction of official barriers to trade which distorts the relative prices of tradable and non-tradable goods and services and those between different trade-able. The removal/reduction of these official barriers will have significant effect on economic welfare of an economy.

Intra – regional trade liberalization is to facilitate trade within a regional economic space, and through enhanced trade opportunities to elicit firm-level decisions to expand productive capacity. Such expansion of productive capacity, through various modalities of investment, can have important implications for the development of markets and market process, resulting in robust, sustainable regional development (Visser and Hartzeberg, 2004).

In terms of competition, trade liberalization provides incentives for firms to compete, to innovate and to search for new opportunities and markets. Firms in protected industries are less likely to innovate or seek new markets. Evidence across the Organisation for Economic Co-operation and Development (OECD) countries suggested that firms in protected sectors have lower rates of innovation and productivity growth than firms in areas facing the full force of international competition. The same cross country evidence also suggests that countries which are more open to competition generate less unemployment. This occurs because in more competitive markets, employers are less able to pass on higher wage costs by setting higher prices. This makes them more resistant to wage increases in excess of productivity improvements. Lower prices in turn lead to lower wage claims (OECD, 2003).

As also noted by OECD (2011), Trade liberalisation brings about expansion in the number of foreign – invested firms. As their number increases, their labour intensity is likely to increase. This reflects their ability to attract additional labour, relative to additional Foreign Direct Investment (FDI) capital. Labour tends to be fairly mobile within and between sectors, and foreign – invested firms account for a relatively small proportion of total employment in most economies. Foreign-invested firms should have little trouble attracting labour away from domestic firms in their own sector, and from other sectors in the local economy. Although the spill – over effects of liberalising FDI may result in firms that compete directly with the foreign-invested firms, especially domestic firms in the same sector to suffer from lower priced competition, the sectors that use the services of foreign – invested firms as inputs benefit from lower – priced inputs. So long as the liberalisation is reasonably widespread across economies, the positive spillovers dominate both within and between economies.

In driving dynamic productivity gains, and in turn economic growth, the importance of trade liberalization should not be under appreciated. It is generally accepted that countries can achieve allocative efficiency gains through trade liberalisation. Allocative gains arising through the (re)allocation of resources to the efficient sectors of the economy represent the traditional theory on the benefits from trade liberalization (CIE, 2009). Consequently, it is these gains that ECOWAS countries stand a chance of achieving with an effective trade liberalization scheme.

THE CHALLENGES OF THE ECOWAS TRADE LIBERALISATION SCHEME

The major challenges to the ECOWAS trade liberalization are identified here as; wide spread infrastructural dearth, non diversified ECOWAS economies and the absence of a common payment mechanism.

Infrastructural Dearth

Infrastructure here includes; Information Communication Technology (ICT), power (electricity), water and transport. The table below gives the situation of infrastructure in West Africa.

Table 1: Progress and Challenges for Regional Integration in ECOWAS

Sector	Achievements	Challenges
Road Transport	Several major international gateways in West Africa that facilitate trade.	High trucking charges and lengthy delays due to trade facilitation issues. Coastal countries appear to neglect maintenance of regional corridors.
Railway	Two relatively successful bi-national concessions	Low levels of passenger and freight traffic, poor operational performance of railways. Railways facing stiff competition from other modes of transport. Incompatible rail gauges.
Ports	Burgeoning container and general cargo traffic.	Poor operational performance and absence of a transshipment hub.
Air Transport	Reasonable levels of interregional connectivity. WAEMU and BAG are most liberalized markets in Africa.	Low levels of connectivity within ECOWAS. Lack of a strong regional hub. Aging fleet and poor record with respect to air traffic safety.
POWER	High electrification rates. Cost recovery is better than in other regions. Principle of regional trade already well established.	Lack of generation capacity leads to unreliable service, with only 70 percent of demand being satisfied. Utilities highly inefficient with regard to distribution losses and revenue collection.
ICT	Access to ICT services among highest in Africa. Significantly cheaper to call on landline within ECOWAS than outside the region. Roaming arrangements relatively advanced. Associated regional telecom regulators have been active in promoting harmonization. Well-endowed with submarine cable infrastructure.	Relatively high prices for ICT services. Many countries not connected to the submarine cable. Even those connected face high costs due to lack of competition on international gateways.

Source: Africa Infrastructure Country Diagnostic (AICD) in Ranganathan and Foster (2011)
Note: BAG = Banjul Access Group;
WAEMU = West African Economic and Monetary Union

BAG comprises of Cape Verde, Chad, The Gambia, Ghana, Guinea, Liberia, Nigeria, and Sierra Leone and WAEMU consists of Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo

While the development in ICT infrastructure is commendable, it is characterized by relatively high prices for service. Movement of freight is delayed by administrative charges at the ports as well as administrative barriers at the borders such as customs clearance, as well as formal and informal checkpoints and road blocks that keep trucks stationary for extended periods of time. There is the presence of an overbearing number of security personnel mounting checkpoints at member states' borders. This phenomenon hinders trading and the movement of goods within the region. It results in excessive delays and substantial increase in transport costs, as drivers are sometimes subjected to administrative harassment and extortion. Payments at such checkpoints include, among other things, various taxes, transit charges and bribes. Such payments also vary, with the type of vehicle, type of goods transported and nationality of transporter; and involve the police, customs officers, and gendarmes. While some of these checkpoints are legal, others are illegal which amounts to duplication of functions at the borders.

A study by CLEEN Foundation in the West Africa Insight (2010) found that on the Nigerian side of the Nigeria-Benin border, there are roughly 25 security checkpoints and roadblocks within 10 kilometers radius of the border crossing point; and that only about 5 of these security checkpoints (the Customs, Immigration, Joint Nigeria-Benin Anti-Crime Border Patrol, National Drug Law Enforcement Agency and Veterinary Quarantine Service) could be considered to be legitimate and necessary to ensure border security. The remaining 20 were identified as dubious creations implanted by law enforcement officials essentially for extortion. These practices where travelers and traders are meted harsh treatment by officials of government agencies at the borders are against the spirit and the letter of the protocols on the free movement of person and goods upon which the whole regional integration process is founded.

The railway network is constrained by the relatively limited usage of existing lines. This is not unconnected to the poor quality state of the railways. As noted by Ranganathan and Foster (2011), the region lacks a regional rail network, with the exception of two relatively successful binational rail corridors (The rail lines serving Mali and Burkina Faso via Senegal and Côte d'Ivoire), and the national rail systems are in no proper state to compete more effectively with road transport. Still, electricity leaves much to be desired. According to World Bank (2007), delays in obtaining necessary connections to electricity can average up to 80 days, while electricity outages occur on average 91 days per year consequently; output is lost due to the outages.

The movement of freight at the ports just like road transport is bedeviled by administrative procedures and with the rapid expansion of traffic; a few of the region's ports are beginning to experience capacity constraints. Besides, there is an absence of strong regional air transport hubs in the ECOWAS region. While countries in ECOWAS have fair international connectivity, domestic connectivity is very poor. More than half the countries in ECOWAS have no domestic connectivity at all. In a few cases, this state of affairs may simply reflect small size (as for The Gambia and Guinea-Bissau), but more generally it reflects low traffic volumes and limited purchasing power in the domestic market. Both of these facts make it difficult for air transport to compete with surface transport alternatives, such as long-distance bus services (Ranganathan and Foster, 2011:36).

Non Diversified Economies

There is the non diversification of the production structures in the ECOWAS sub-region. Export comprises mainly of primary products such as cocoa, cotton and crude oil with little or no form of value added. Agriculture and services have been dominating the productive activities of most of the West African economies. It is also noteworthy that the products are basically oriented to the developed markets in Europe and North America rather than to those of West Africa. Countries within the same crop belt tend to produce similar agricultural products; hence they cannot be each other's important trade partners thus limiting intra-regional trade Odularu (2009:34).

Absence of a Common Payment Mechanism

The adoption of a common currency which is crucial to simplifying and facilitating so many operational aspects of intra-ECOWAS trade is yet to be achieved. Deadlines are extended over and over again because of failure of the governments of member states to implement certain directives in compliance with specific criteria, or ensure that measures adopted are strictly enforced. The absence of an efficient and effective payment mechanism, particularly between Anglophone and Francophone countries, is an impediment to cross-border and intra-ECOWAS trade. Economic operators invariably have to resort sometimes to physically carrying large amounts of cash in either United States Dollars or Euros to effect payments for goods and services in countries of business interest to them. (ECOWAS, 2004).

RECOMMENDATIONS

If the ECOWAS trade liberalization scheme is to be effective in integrating the economies of the West African region, the following recommendations should be considered;

i. A sound infrastructure is crucial to a successful intra-regional trade as well as a significant determinant for growth in ECOWAS. Effort must therefore be directed to seeing that member states improve upon their electricity generation, as well as road and telephone density.

ii. There is the need for a regional hub for transshipment. The creation of a West African hub would facilitate the consolidation of sea freight for the region.

iii. Steps should be taken at addressing administrative barriers at the ports with that of the borders. The unnecessary delays, harassments and massive graft associated with corruption among those engaged in intra - regional trade in West Africa needs to be tackled in order to increase trade. This will require a coordinated and harmonized implementation of ECOWAS protocols on the free movement of goods and people across the region by, in particular, dismantling the numerous security outposts and checkpoints along the borders. The establishment of a common understanding between economic operators and the relevant government ministries/departments and border agencies (customs, immigration and police) will improve compliance with ECOWAS trade-related protocols and ease the flow of trade at border posts and harbours leading to increased intra-ECOWAS trade and deepening of the economic integration process.

iv. Since most industrial goods penetrating the West African trade region are processed agricultural commodities such as sugar, canned beef, frozen meat, tobacco, textiles, leather products and other agro-based industrial products, the right policy mix will greatly improve the prospects for the expansion of intra-regional trade in processed and agro-based industrial products.

v. In order to stimulate trade and cross – border investment and the establishment of a common external tariff, it will be necessary to accelerate the process for adopting a single currency for the region and to harmonise the economic and financial policies of member states. Such an exercise demands that all member states adhere to the ECOWAS macro-economic convergence criteria and adopt a surveillance mechanism for macro-economic policies. The mechanism should be streamlined with national economic policies. This programme is imperative for the advancement of the integration process and will ensure that individual states increasingly take account of the regional dimension in their development efforts.

CONCLUSION

Trade liberalization and regional integration have already become a reality in most parts of the world and even in other parts of Africa, with Regional Economic Communities growing from strength to strength. Indeed, it is widely believed that regional economic integration is the only way for African countries to survive the negative effects, and collectively, take advantage of the opportunities of globalization. The message for policy makers then is that the elimination of those visible and invisible controls and barriers to the implementation of the ECOWAS trade liberalization scheme as well as creating the necessary environment within which the scheme can function successfully will increase investment in the region and thus restructure economic activity towards greater global competitiveness.

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