# Regional Trade and Economic Growth in West Africa

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*Abstract:* - **This study examines the potential of regional trade in facilitating the achievement of inclusive development in the West African region. It employs straightforward analysis to examine the nature, composition and dimension of ECOWAS trade within the group and with the rest of the world, vis-à-vis three other Regional Economic Communities (RECs) in sub-Saharan Africa (SSA). From the preliminary study, it can be observed that the growth rate of West African economies is increasing, but the rising economic growth does not translate to improvement in inclusive development, as there was no significant reduction in poverty levels in the region. Further evidence reveals that extra-regional trade of the region is increasing at a very high rate, and also at a disproportionate rate with intra-regional trade, compared with SADC. This indicates the existence of opportunity to boost regional trade for inclusive development through conversion of part of the extra-regional trade into regional trade. However, the study further finds that the region's exports is dominated by mineral fuels, lubricants and related materials, and imports dominated by machinery, transport equipment, manufactured goods and chemicals, which implies that skilled technical manpower in the manufacturing sector must be available to effectively exploit the opportunity of trade for inclusive development in the region. Thus, the study concludes that, with the shortage of skilled technical manpower to boost the manufacturing sector in the region, achieving inclusive development in West Africa through regional trade might be difficult. It however recommends that West African countries should intensify investment in human capital development and re-invigorate their commitment towards regional industrial policy to foster higher regional trade and enhance inclusive development in the region**

***Keywords*: Trade: Economy: Growth: Agenda: Region: Integration: Border**

## I. INTRODUCTION

The benefits of regional economic integration cannot be over-emphasized. These include the opportunities to reap trade efficiency gains, exploit economies of scale, and reduce the thickness of borders (De Melo and Tsikata, 2014). Regional economic integration is an agreement among countries in a geographic region to reduce tariffs and non-tariffs barriers to the free flow of goods, services, and factors of production among each other. It is encouraged by the structural, economic and geographical heterogeneity of the countries in the region, with disparities varying from countries with low to medium income distribution, to landlocked, coastal, and island countries. It also offers possibilities to leverage and extend economic comparative advantage at regional level in ways not accessible through national programmes (Mbekeani, 2013). It is usually instituted through a Regional Economic Community (REC) which will be saddled with the responsibility of implementation of regional trade agreement policies such as Free Trade Agreement (FTA), Customs Union (CU), Common Market (CM), Economic Union (EU) and Political Union in that order. Thus, the first and primal policy of every REC is on the implementation of FTA – a regional arrangement whereby all barriers to the trade in goods and services among member countries are eliminated in order to promote regional trade. There are a number of regional arrangements in Africa and most African countries are members of at least one regional grouping, with possibilities of overlapping memberships. The Economic Community of West African States (ECOWAS) is the institution that promotes regional economic integration among West African states. It was established by the ECOWAS Treaty of Lagos, 1975. The REC at present consists of 15 countries, and the key milestones achieved so far include the trade liberalization scheme in 1979 and 1990, and free movement without visas in 2006. Like several other RECs, it is constituted to embark on policies leading to the promotion of regional trade among West African countries. As revealed in Article 3 of the ECOWAS Treaty, the aim of the Community is to promote co-operation and integration, leading to the establishment of an economic union in West Africa in order to raise the living standards of its people, and to maintain and enhance economic stability, foster relations among member states and contribute to the progress and development of the African Continent. An importance clause to note in the Article is "leading to establishment of an economic union in West Africa in order to raise the living standards of its people". This implies that the ultimate objective of ECOWAS is to foster regional cooperation in order to raise the living standards of West African citizens. Meanwhile, raising the living standards of the citizenry may be synonymous with achieving inclusive development. An inclusive development is a desirable pursuit of various governments, particularly developing countries. It is a pro-poor approach to development, as it incorporates all groups of people, especially the marginalized categories. Meanwhile, while individual national governments could exploit the use of an appropriate tax system to redistribute income by embarking on pro-poor fiscal policies, international trade has also been identified as a useful tool for promoting inclusive development (WTO, 2011; World Bank, 2011). Hence, in the context of West African countries, this study seeks to examine the potential of regional trade to facilitate achievement of inclusive development in the region. Following this introduction, Section 2 shall discuss the relationship between economic growth of ECOWAS countries and the poverty level in the region. Section 3 shall explain the nature, composition and dimension of ECOWAS trade to examine its potential for promoting inclusive development in the region. Section 4 shall discuss the ways to achieve increased regional trade in West Africa to promote achievement of inclusive development in the region, while Section 5 shall conclude the paper. ECOWAS Growth and Inclusive Development Included in the broad objective of ECOWAS is the willingness to establish an economic union in West Africa in order to raise the living standards of its peoples. Therefore, in addition to enhancing regional economic growth, ECOWAS was also established to pursue people-oriented programmes at regional level – the basic anchor of inclusive development.

## II. ECOWAS AND TRADE FOR INCLUSIVE DEVELOPMENT

Trade for inclusive development has been defined differently by different international organizations such as the World Bank, United Nations Conference on Trade and Development (UNCTAD), and the World Trade Organization (WTO). For instance, UNCTAD (2007) defines it as a process of globalization that benefits countries and population segments that were previously excluded. OECD (2010) defines it as a kind of trade that is harnessed for growth and poverty reduction, based on five categories of policy: trade policy and regulations, trade development, trade-related infrastructure, building productive capacity, and trade-related adjustment. WTO (2011) also defines it as a type of trade that improves access to jobs, wages and stability, while the World Bank (2011) defines it as a type of trade that facilitates the movement of workers and enterprises to growing sectors, and the adoption of new technologies in order to promote the growth of productivity and employment in a broad group of workers and enterprises. Meanwhile, recent studies have analyzed the potential of international trade to aid the achievement of inclusive development (see for example, Nabar-Bhaduri, 2012 and the UN-ECLAC, 2014). These studies established the link between trade liberalization and inclusive development, but however stressed that trade liberalization alone could not generate the desired sustainable and inclusive path of long-run development in developing countries unless it is complemented with supportive industrial and employment generation policies. This implies that trade liberalization cannot automatically lead to inclusive development unless the supportive industrial and employment generation policies are operative. This may explains the findings of Nabar Bhaduri, (2012) on the Indian experience which reveals that weak productivity improvement and employment growth persist even after market liberalization. Also, Latin American countries experienced similar problems following the adoption of liberalization (see Cimoli and Katz 2001, and Cimoli and Correa 2002). Useful supportive industrial policies for sub-Saharan African countries could be in the form of proactive-reactive industrial policy, transfer technology, implementation of technology based on innovation, among others ( Chea, 2012). However, this study will rely on the OECD definition which defines trade for inclusive development as a kind of trade that is harnessed for growth and poverty reduction, based on five categories of policy: trade policy and regulations, trade development, trade-related infrastructure, building productive capacity, and trade-related adjustment. This definition is favoured, as it highlights the key policy areas where supportive industrial and employment generation policies are required to promote regional trade and achieve regional inclusive development. Hence, in the following sub-sections, we present graphical analyses of the trade dimension of the regional trade group in West Africa – ECOWAS. The analyzed trade dimensions include; trade volume, intra-regional and extra-regional merchandise trade, and the composition of ECOWAS imports and exports. This is expected to provide basic understanding of the nature of trade in West Africa, necessary to identify obstacles to regional trade and opportunities to promote regional inclusive development.

## III. CONTRIBUTION OF ECOWAS MEMBERS TO INTRA-REGIONAL AND EXTRA-REGIONAL TRADE

Meanwhile, as regards the contribution ECOWAS member countries to extra-regional trade, Nigeria dominates extensively as it contributed not less than the total contribution of all other ECOWAS members. Nigeria's contribution to ECOWAS' extra regional trade has been higher than 60 percent since 2000, and has been on an increasing trend. Specifically, it increased from 60.51 percent between 2000 and 2004 to 64.73 percent between 2005 and 2009, and then to 67.71 percent between 2010 and 2014. This suggests that Nigeria might be over-trading with the rest of the world, thus any ECOWAS institutional arrangement that diverts parts of Nigeria's extra-regional trade to ECOWAS countries could potentially facilitate improved economic growth and inclusive development for West Africa. In addition, the contributions of Cote D'Ivoire and Ghana to ECOWAS' extra-regional trade are also noticeable; as both countries contributed more than the total contributions of all ECOWAS countries 12 excluding Nigeria. This conclusion is consistent across the three sub-samples. Meanwhile, the data shows that the contribution of both countries to ECOWAS' extra-regional trade over the period under consideration did not exceed 22.64 percent(achieved between 2000 and 2004), with Cote D'Ivoire taking the lead before the global economic crisis and Ghana taking the lead after the global economic crisis. This buttresses the fact that trade performance of Ghana increased after the global economic crisis.

## IV. COMPOSITION OF ECOWAS EXTRA-REGIONAL TRADE

From the foregoing, intra-regional ECOWAS trade is relatively low due to policy, planning, financial bottleneck and internal indecisions in West Africa compared to what is obtained in SADC and that the extra-regional ECOWAS trade is seemingly disproportionate and dominated by Nigeria. Hence, it is imperative to examine the composition of ECOWAS extra-regional trade to provide thoughtful insight into the possibility of converting parts of the extra-regional trade into regional trade, in order to facilitate regional growth and promote regional inclusive development. As in most of the African continent, extra - regional exports in ECOWAS comprise mainly of unprocessed natural minerals, while imports comprise of mainly processed goods. Thus, while the mineral fuels, lubricants and related materials category is clearly the dominant export of ECOWAS to the rest of the world, the machinery and transport category has the highest share of imports in the region. In addition, food and live animals, manufactured goods and chemicals and related products are also important imports in the ECOWAS region.

Evidently, the composition of ECOWAS trade with the rest of the world reveals that the region export is predominantly mineral fuels, lubricants and related materials. This magnificent proportion of mineral fuel and lubricants in ECOWAS exports is obviously explained by crude oil exportation by Nigeria, particularly as Nigeria dominates the ECOWAS extra-regional trade. Hence, it is logical to conclude that extra-regional exports could be reduced to promote intra-ECOWAS trade if Nigeria maintains its optimum crude oil refining capacity and patronizes available refining technology in West Africa (like Cote d'ivoire and Ghana) for possible supplementary capacity, while oil importing ECOWAS members also patronize Nigeria for crude oil demand. In addition, extra-regional exports could be reduced by an increase in the availability of technical knowledge in West Africa to facilitate the production of machinery and transport equipment, manufactured goods and chemical and related products in the region. This however requires improved human capital training and development.

## V. ECOWAS TRADE AND IMPLICATIONS FOR INCLUSIVE DEVELOPMENT

International trade increases the availability and lowers the price of better quality goods and services. This fall in prices makes consumption of goods more accessible, and it is one of the most important links between the international market and the poorest population groups. Well-being of the population of west Africa increases as low income section of the population are able to obtain goods that were previously inaccessible, while new opportunities are provided by the continuing growth of trade (UN, 2014). Similarly, high intraregional trade is expected to generate higher scale of production benefit and eventually higher output growth for member countries. In the presence of targeted policies for poverty reduction, youth empowerment and equitable income distribution, high output growth is expected to translate to inclusive development. Supportive evidence is revealed by the study of Anyanwu (2014) which suggests that higher level of intra-African trade reduces both the aggregate, female and male youth unemployment in Africa, thus confirming that increased intra-regional trade would lead to an inclusive development. Meanwhile, given the nature, composition and dimension of ECOWAS trade as discussed previously, it is obvious that regional trade among West African countries could be promoted through increased regional activities in the crude oil refining and manufacturing sectors. Apparently, these are the required activities to facilitate production of highly imported machinery and transport equipment, manufactured goods, and chemical and related products. However, achieving these may be difficult given the very low level of manufacturing activities in the region.

## VI. INCREASING REGIONAL TRADE AMONG ECOWAS COUNTRIES FOR INCLUSIVE DEVELOPMENT

The problems mitigating against the progress of intra-regional trade has been identified to include; trade barriers, low diversification and the eventual lack of product complementarities, absence of a common payment mechanism, and lack of supportive infrastructure (De Melo and Tsikata, 2014). However, in the context of West African economies, lack of supportive infrastructure including technical human capital is a dominant factor. Therefore, this section discusses ways to achieve increased regional trade in West Africa including provision for supportive infrastructure, to promote achievement of inclusive development in the region.

The contribution of inadequate infrastructural development to falling intra-regional trade among ECOWAS nations has been recognized by the ECOWAS Authority of Heads of State and Government. The Authority met in 2010 to set up the West African Common Industrial Policy (WACIP) whose vision is to "maintain a solid industrial structure, which is globally competitive, environment-friendly and capable of significantly improving the living standards of the people by 2030." The policy has four objectives, all focusing on how to achieve increasing intra-regional trade. The infrastructure - related objective reveals that ECOWAS wishes to achieve progressively increasing intra-Community trade from less than 12% to 40 % by 2030 and with a 50% share of the region's trade in manufactured goods, particularly in the area of energy (equipment, electricity, petroleum products, etc.). The policy also set out ten (10) regional programmes in achieving its identified objectives. The relevant regional programme in addressing the problem of infrastructure is, which also highlighted that willingness of ECOWAS to promote infrastructural development with a view to significantly reducing the cost of production factors, promote the development of intra-community trade and afford the national economies enhanced access to West African and global markets. Meanwhile, although the ECOWAS Authority of Heads of State and Government has been intensifying its efforts in the implementation of this policy, much effort is still required as the benefit of regional infrastructural development is yet to be enjoyed by the teeming West African population. Dealing with trade barriers despite the free trade arrangements among ECOWAS members, the practical experience of the problem of trade barriers is alarming. This problem has been contributing to low intra-regional trade among the member countries which is invariably having an adverse effect on the movement of the region to achieve inclusive development through increasing intra-regional trade. One of the objectives of ECOWAS is to establish a common market through "the liberalization of trade by the abolition, among Member States, of customs duties levied on imports and exports, and the abolition among Member States, of non-tariff barriers…." (Article 3 of ECOWAS Treaty). This policy was eventually launched in 1990, and for its implementation, a trade instrument called: ECOWAS Trade Liberalization Scheme (ETLS) was designed. The concept was originally intended at benefiting the private sector in particular, and ultimately boosting the West African economy. It was also targeted at reducing the massive importation of goods which West Africa has been known for. Its ultimate goal is targeted at generating employment among the member states of ECOWAS and increasing intra- regional trade (ECOWAS Vanguard, April 2014). But unfortunately, practical experience has shown that the implementation of this policy remains very poor as explained by stakeholders in the ECOWAS cross border operations. In dealing with this problem, it requires the political willingness on the part of the federal governments of all ECOWAS members to instruct their respective custom agencies to ensure compliance with the regional trade arrangement.

## VII. DEALING WITH THE PROBLEM OF PRODUCT CONCENTRATION

Product Concentration or Lack of Product Complimentarity is a product of inadequate economic diversification. This is also one of the fundamental problems militating against increasing intra-regional trade among ECOWAS members. Since most ECOWAS countries export primary commodities (oil and non-oil), the potential for intra-regional trade is limited while the potential for extra-regional trade is expanded. It could be observed that ECOWAS members trade less with their fellow ECOWAS members and more with the Rest of the World. It is noted that ECOWAS intra-regional exports is very low with no ECOWAS country trading up to 50% of its topmost export with another ECOWAS member; and that the ECOWAS member with highest export to fellow ECOWAS members is Gambia, which appears to export 49.94% of its total export of textile yarn, fabrics, made-up articles and related products to ECOWAS countries. But considering the extra-regional trade flows, It portends very high export rate to the rest of the World on the general note, with the highest being a 100% export of gold, non-monetary (excluding gold ores and concentrates) by Burkina Faso, while fish, molluscs and aquatic invertebrates by Cape Verde.

Petroleum and petroleum products are exported by seven out of the fifteen ECOWAS members; namely, Benin, Burkina Faso, Cote D'Ivoire, Ghana, Niger, Nigeria and Senegal. Gold is also one of the top export commodities of 6 members; namely, Senegal, Mali, Guinea, Ghana, Cote D'Ivoire, and Burkina Faso. Similarly, textiles is one of the top exports of 5 members; namely, Benin, Burkina Faso, Gambia, Mali and Togo. In solving the problem of trade concentration, a concerted effort must be made toward diversification of the economic based of the entire region, such that transformed products rather than the primary products will be exported. This may however be facilitated through technological advancement and significant improvement in the provision of infrastructural facilities. This conclusion is similar to that of Söderbom and Teal(2004), when the duo find the manufacturing sector as the potential prime mover of development in sub-Saharan Africa.

## VIII. CONCLUSION

This study examined the potential of regional trade to facilitate achievement of inclusive development in the West African region. It employed descriptive analysis to examine the nature, composition and dimension of intra-regional trade of ECOWAS and three other-Regional Economic Communities (RECs) in the sub-Saharan Africa (SSA), vis-à-vis ECOWAS trade with the rest of the world. From the preliminary analysis, it was noticed that the growth rate of the economies of West African countries is increasing; however, the rising economic growth has not significantly reduced the rate of poverty in the region. This suggests that regional trade among West African economies has not promoted inclusive development in the region as expected. Further findings from the study revealed that the intra-regional trade – as presented by ECOWAS intragroup trade is very low compared with that of Southern Africa Development Community (SADC). Similarly, the extra-regional trade of the region was found to be increasing at a very fast rate, and also at a disproportionate rate with intra-regional trade, compared with SADC. This indicates the existence of opportunity to boost regional trade for inclusive development through conversion of part of the extra regional trade into regional trade. However, the study further finds that the region's exports is dominated by mineral fuels, lubricants and related materials, and imports dominated by machinery, transport equipment, manufactured goods and chemicals. This suggests that skilled technical manpower in the manufacturing sector must be available to effectively exploit the opportunity of trade for inclusive development in the region. Thus, the study concludes that, with the shortage of skilled technical manpower to boost the manufacturing sector in the region, achieving inclusive development through regional trade would be difficult. The study further discussed other factors that could enhance regional trade in the region, such as removal of trade barriers and dealing with product concentration. Finally, the study noted that achievement of inclusive development in West African countries may be unrealistic, especially as the policy implementation problem is crippling most ECOWAS development policies. Hence, political commitment to regional integration would be recommended, such that the ECOWAS Authority of Heads of State and Government would intensify their efforts towards the implementation of all of their trade and development policies, particularly as they relate to human capital development and industrial policy

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