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# **WHAT IS THE IMPACT OF REGIONAL TRADE AGREEMENTS ON ECONOMIC GROWTH IN SUB-SAHARAN AFRICA? CASE STUDY ON THE ECONOMIC COMMUNITY OF WEST AFRICAN STATES (ECOWAS)**

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## **1: Introducing Regional Integration as a Driver for Growth**

Regional Trade Agreements (RTAs) and their outcomes for developmental purposes have puzzled economists and governments, motivating a considerable literature on their supposed benefits and drawbacks. At the same time, the number of RTAs in sub-Saharan Africa (SSA) has exploded – a proliferation referred to by the IMF (2011) and UNECA (2012) as “Africa’s spaghetti bowl”. Upon closer inspection, these agreements take on various forms based on a number of variables including the depth of integration, the types of member countries, and the reciprocal or unilateral application of trade liberalisation policies. The growing number, diversity and complexity of RTAs frame the pertinence of broad contextual analysis when it comes to assessing an RTA’s growth impacts. As such, this paper takes on a critical engagement of the theory and empirical evidence within this debate for both intra-African and North-South RTAs ([Sections 2 & 3](#)) to apply to the case study of the RTA called the Economic Community of West African States (ECOWAS) ([Section 4](#)). The discussion in [Section 5](#) derives two main themes from this analysis; 1) it illustrates the methodological difficulties of impact-assessment given the identification of causal mechanisms of “growth” resulting from RTAs in the context of multiple overlapping arrangements and country-level specificities and 2) it distinguishes between RTA impact on

“increased trade” and “growth”, for which the literature has proved unsuccessful in substantiating the link to the latter.

## **2: Free Trade Theory Armed with Regional Trade Agreements**

The proliferation of RTAs in Africa is substantiated economically by the theories of free trade and comparative advantage, which suggests trade barriers protect inefficient production, whereby their removal results in consumer welfare gains (Ohlin 1933; Heckschler 1949). Granted, a thorough analysis of comparative advantage extends beyond the scope of this paper, there are a few important critiques applicable to RTAs. One is a moral dilemma embedded in a static comparative advantage, which recommends SSA economies maintain their comparative advantages in exporting primary commodities. These low value-added commodities experience both an inferior and diminishing terms of trade (TOT) relationship with the products from industrialised countries – limiting prospects for growth and development if countries in SSA remain dependent on commodity exports (Prebisch-Singer 1950; Chang 2002 & 2009). In recognising this problem, a dynamic comparative advantage has been proposed whereby countries can create or specialise within a comparative advantage through prudent state involvement in the economy and use of industrial policy (Hausmann & Rodrik 2006; Kaplinsky & Morris 2008:225; Timmer et al. 2012; Adelman 2000). A second critique suggests comparative advantage should be broadened beyond a trade in “goods” to a trade in “tasks” incorporated into a “global value chain” of firms engaged in a “dispersion of value chain activities across the world” (OECD 2013; Baldwin & Venables 2010). Although by no means is this an exhaustive critique, these criticisms push the concept of comparative advantage into a more contemporary and useful role for recognising why trade relationships and the types of goods traded (not merely increases in trade volume) will impact growth.

The free trade fundamentals described above underpin the promotion of RTAs as a policy tool. Baldwin (2008) describes the simple logic whereby country A will benefit when its exports to country B

incur less duties vis-à-vis other countries (Smith's certitude), while "third nations" without such preferences lose out (Haberler's spillover). The aggregate impacts of RTAs follows the logic that RTA's have ambiguous overall welfare effects (Viner's ambiguity), but it will depend on whether more trade was created than diverted as a result of the RTA (whereby net-trade-creation is a net-benefit).

For the trade relationships between developed and developing countries (termed herein as North-South RTAs), the Heckschler-Ohlin Model is helpful in highlighting the tendency for low-income states to have similar relative factor endowments – incentivising their trade with dissimilar countries (namely Northern countries). However, it has been suggested that Viner's theories of trade creation and trade diversion are not suitable to understand the more recent wave of integration through North-South arrangements termed "deep integration". These sorts of arrangements typically involve harmonisation of national policies to drive greater market liberalisation (UNCTAD 2007b) and to address the "behind-the-border" issues of regional integration stemming from the multi-nationalisation of production processes (Damuri 2012). Such policy reforms allow for increased freedom of movement for MNCs<sup>1</sup>, protection of investments, protection of intellectual property rights, and competition policy (Claar & Nölke 2013).

### **3: Rationale and Drawbacks of RTAs for SSA**

#### ***3.1: Intra-African Integration***

RTAs meant to increase intra-African trade have been called Regional Integration Arrangements (RIAs), as they are typically neighbourhood arrangements. While SSA has been found to be particularly suitable for RIAs due to its many structural barriers to trade (i.e. small and landlocked countries with limited domestic markets), Hartzenberg (2011:4) problematizes their usefulness by highlighting "behind-

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<sup>1</sup> The ECOWAS agreement was shown to only slightly increase international capital mobility in participating countries (Kumar et al. 2014).

the-border” constraints. The literature discusses many such constraints, including poor intra-African transport links, inadequate infrastructure, transportation delays (see [Map 2](#)), lacking capital and skills, and firm-level constraints such as limited export capacity due to small size, insufficient access to information, high telecommunication costs and informality. Given these constraints, African manufacturers have experienced lower labour productivity than counterparts in other developing regions, but surprisingly perform best when controlling for these firm-level and behind-the-border factors (Dinh & Clarke 2012), justifying the need to address them in trade policy (UNCTAD 2013:129). Other issues arise from the incomplete implementation of regional integration policies (Geda & Kebret 2007), obstructed by weak state capacities, fears of losing state sovereignty (Hartzenberg 2011:18), the complexity of states being party to multiple overlapping RIAs, and lacking private sector involvement (Geda & Kebret 2007; UNCTAD 2013).

The empirical evidence on the effectiveness of regional integration has presented a number of general lessons. Venables (2003) finds that RIAs between high-income countries (e.g. the EU) facilitate income-convergence between member countries, while RIAs among lower-income countries can cause income divergence between the better-off and worse-off member countries. Additionally, there is evidence that South-South RTAs, such as RIAs in SSA, have the conditions to divert trade rather than create it (World Bank 2000; Parks 1995; Muslia 2005:118; Urata & Okabe 2013), which is mainly due to lacking complementarity in factors of production.

These findings indicate the linear process of market integration has been inefficient and/or insufficient for SSA. While the linear model focuses on tariffs and border barriers, it misses the main impediments for successful intra-African trade (i.e. behind-the-border issues, commodity-export dependence and other supply-side constraints). UNCTAD (2013) proposed a more holistic strategy called “developmental regionalism” described as, “sequenced trade liberalization alongside conscious and planned policy actions aimed at building productive capacities of member countries and promoting

industrial restructuring” (p.97) including alleviating supply-side constraints by using industrial policy, development corridors, special economic zones, and regional value chains (p.107). In this way, UNCTAD supports an understanding of the concept of “economic growth” as sustainable and inclusive growth following from structural transformation that can offer SSA a more substantial role in the global economy. As such, this paper adopts such a definition for “growth”, arguing that GDP figures alone are insufficient and commonly misleading while indicators on poverty, inequality<sup>2</sup>, export structure<sup>3</sup>, and intraregional trade share will be more useful (See [Box 1](#) for a clarification and justification of “economic growth” as this paper refers to it). In a two-step process, UNCTAD argues intra-African trade can lead to growth: first by opening up domestic manufacturing exports to larger regional markets in Africa and second by using these economies-of-scale to increase African firm’s competitiveness for engagement in international trade.

### ***3.2: North-South Arrangements***

The facilitation of SSA’s engagement in global trade has commonly been facilitated through North-South RTAs offering unilateral market access for SSA imports in Northern partners using a generalised system of preferences (GSP). Notable unilateral North-South RTAs include the European Union’s (EU) Everything But Arms agreement (EBA) and the US’ African Growth and Opportunity Act (AGOA). Collier and Venables (2007) find these RTAs benefit SSA by transferring to them rents<sup>4</sup> – a value calculated by combining rents from present commodity trade with possible future rents from

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<sup>2</sup> Darma and Ali (2014) show that income inequality and poverty help explain slowed GDP increases among ECOWAS countries “growth”.

<sup>3</sup> Lloyd et al. (2014) describe the impact of export diversification on GDP for ECOWAS saying, “export diversification and manufacturing value-added index induced a positive and significant impact on per capita income growth” (p.71).

<sup>4</sup> I.e. tariff revenues that would be collected by the Northern importers that are effectively “transferred to producers in exporting countries” (Collier and Venables 2007:1327).

increased manufacture trade. Like intra-African integration, the logic for North-South integration similarly suggests expanded markets for SSA firms. However, because the potential growth impacts for SSA are much higher for exporting manufactures<sup>5</sup>, Collier and Venables (2007) suggest that North-South trade preferences should target this sector to catalyse industrialisation in SSA countries at the threshold of global manufacturing competitiveness. This being said, not all SSA countries are at such a “threshold” and many face other restrictions sourcing from the design of trade preferences and their “rules of origin” (RoOs), which can increase input costs or hinder complementary manufacturing sectors used for regional value chains (ibid. p.1328). As an example, Kaplinsky and Morris (2009) find AGOA to be a more effective North-South RTA, particularly for SSA’s apparel sector due to an RoO exemption. However, AGOA has been criticised as a politically unstable arrangement, facing revocation by domestic political movements or expiry due to the WTO’s non-discrimination ordinance, and also creating dependency on exemptions offered to particular countries (Collier & Venables 2006:1649). Moreover, the benefit of increased access to Northern markets is limited by non-tariff barriers that SSA imports there face, such as sanitary and phytosanitary standards and the supply-side constraints discussed previously (UNCTAD 2008:49-50).

Emerging in the place of the EU’s EBA are reciprocal Economic Partnership Arrangements (EPAs), which are currently under negotiation between the EU and African Caribbean and Pacific countries (ACPs). The reciprocal EPA approach necessitates eventual reciprocation of import liberalisation by ACP countries (albeit with a 15- to 25-year timeline to reciprocate tariff reduction [European Commission n.d.]). Hinkle and Newfarmer (2005) find this can have the effect of increasing the competition faced by SSA firms due to the inflow of goods from the Northern partners and reducing

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<sup>5</sup> This is the case because employment in this sector “can be expanded without running into diminishing returns to scale” (Collier & Venables 2007:1327).

state revenue sources (i.e. from reduced taxes on trade, see Zouhoun-Bi & Nielsen 2007). The EPAs have been further criticised for lacking mechanisms to reduce intra-regional barriers to trade and presenting an unconvincing ability to accommodate for differing conditions between Southern partners (Hoekman 2005).

It appears economists and policymakers have put these lessons under careful consideration for the future creation of – or consolidation between – RTAs in SSA. However, what remains a less understood phenomenon are not the specific effects of RTAs on increases on trade –explored in the literature and presented above – but rather the impact of RTAs on economic growth. Addressing such a question necessitates debates about how trade can be made to precipitate growth (e.g. UNCTAD’s developmental regionalism and Collier and Venables’ discussion of catalysing industrialisation). But in a globalised pattern of trade, investment and production patterns characterised by global value chains, a more global perspective is needed to accurately discuss the growth impacts from RTAs in SSA and their limitations. This section is followed by a case study on ECOWAS to address these questions of RTA-level impacts on growth ([Section 4.1 & 4.2](#)) contextualised within its global context ([Section 4.3](#)).

## **4: How Does ECOWAS Impact Growth?**

### ***4.1: Introducing ECOWAS***

ECOWAS is a regional arrangement of 15 states in West Africa initiated through the Lagos Treaty in 1975 to promote economic and political integration through a linear-integration process based on the EU model (World Bank n.d.). While ECOWAS has not yet accomplished most of its integration goals in the treaty (Mistry 2000; de Melo & Tsikata 2014; Clark 2014), some noteworthy progress has been made. ECOWAS has become increasingly active in regional conflict prevention and peacekeeping/building (discussed in Box 3), and some described it as a free trade area (FTA) that has significantly eliminated (non-)tariff barriers and allowed for the free movement of citizens (Afesorgbor &

van Bergeijk 2014:3; UNECA 2012). However, others disagree about the FTA designation<sup>6</sup>. In terms of composition, ECOWAS is politically and economically dominated by Nigeria – constituting nearly half of the population and GDP of all ECOWAS states (World Bank n.d.). Nigeria’s historical influence in ECOWAS should be framed by the country’s efforts to become the industrial heart of West Africa (see [Box 2: Nigeria in the History of ECOWAS](#)). Additionally, ECOWAS’s makeup is characteristically divided between landlocked Sahelian countries and more humid coastal countries, then divided again between two sub-RIAs, one composed mainly of Francophone countries in a currency union called WAEMU and another Anglophone bloc called WAMZ (see [Appendix 1](#) for all RTA abbreviations). While the WAEMU use a common currency (the CFA), WAMZ does not use a common currency and there remain concerns about whether it would be advantageous to do so given the diverse economic makeup of WAMZ countries (Harvey & Cushing 2015). The West African region mainly exports a limited range of agricultural commodities and most economies are characterised as net oil-importers, with the exception of Nigeria. This exacerbates trade policy as “fluctuations in oil prices on the import side are often combined with commodity price shocks on the export side” (World Bank n.d.).

## ***4.2: The Simple Answer, ECOWAS Isolated***

### *4.2.1: Previous Analyses and Findings*

While this paper addresses ECOWAS’ impact on “growth”, such a relationship has been elusive in the literature (de Melo & Tsikata 2014:12; see a review in Box 3). Previous studies have been more modest and assessed the RIA’s impact on increasing trade. At a further removed level, other analyses have shown that trade openness and increases in foreign trade in ECOWAS countries have explanatory power over increases in GDP (Aboubacar et al. 2014; Darma & Ali 2014; Arodoye & Iyoha 2015).

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<sup>6</sup> See footnote 4 in de Melo & Tsikata (2014:3-4)



However, these findings are not attributable to the ECOWAS RTA *per se* and GDP alone is not a sufficient understanding of growth. Although early reports suggested ECOWAS had unsubstantial impact on trade (Hanink & Owusu 1998), recent studies using gravity models indicate positive results of ECOWAS's trade creation effects (Musila 2005; De Melo & Tsikata 2014:14; Gbetnkom 2007; Karingi et al. 2005). Furthermore, De Melo and Tsikata (2014) use the gravity model to compare “frictionless trade” to actual trade flows – finding actual trade flows have been converging upon “frictionless trade” (i.e. a reduction in “costs of trade” over the years), indicating increasing integration. Yet, within ECOWAS, country-level impacts have been different. For one reason, intra-regional trade between WAEMU countries is four times higher than the gravity predicted model – attributable to common currency, infrastructure harmonisation (Araujo-Bonjean & Brunelin 2013)<sup>7</sup>.

#### 4.2.2: Statistical Analysis to Characterise Growth

By referring to statistics on a range of indicators, a deeper analysis of ECOWAS' effects on growth can be offered. From the available data, four segments of this paper's definition of “growth” have been quantified, including “GDP figures” (i.e. GDP per capita and GDP growth rate), increasing “role in the global economy” (i.e. ECOWAS GDP as share of world GDP), sustainable growth via structural transformation (i.e. share of exports by product grouping), and “inclusive growth” (i.e. poverty and inequality variables). Given data limitations on trade and development in SSA (in both rigour and completeness), these findings are supplementary and invite further scrutiny and analysis.

When analysing ECOWAS as a whole, the share of trade between ECOWAS members (intraregional trade share) has fluctuated since 1970, peaking at 25% in 2004 and dropping by 2010 to its

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<sup>7</sup> It may also be the case that the sub-regional RIAs are useful because they group countries with the same official languages which contribute to better regional trade integration outcomes (such as French in WAMEU or English in WAMZ) (Reuben & Akintunde 2013).

pre-ECOWAS levels (nearly 5%). In periods since the mid-1980s, intraregional trade share behaved inversely with regional GDP per capita, meaning the share of intraregional trade increased during the 1980-2000 growth slump, but decreased after 2004 when growth increased (see [Figure 1](#)) – likely an indication of the region’s dependence on commodity export prices (which dominate its international trade). Additionally, the symmetric trade introversion index, which “measures the intensity of ‘revealed trade preferences’ among countries belonging to the same region” (Iapadre & Luchetti 2010:4), has remained near the maximum level, until recent years, indicating a long-running inability for ECOWAS to increase extra-regional trade intensity and corresponds with a decrease of ECOWAS’ share in world GDP ([Figure 2](#)). This evidence supports the view that ECOWAS has been unable to tap into global value chains, while other global regions have been more successful, thus contributing to ECOWAS’ decreasing share in world GDP.

When using UNCTADstat data, an optimistic narrative suggests the absolute value of intra-ECOWAS trade has increased substantially in the 2000s, however compared to extra-regional trade, the percentage of intra-ECOWAS trade has decreased slightly over the past 20 years (also the case for WEAMU and SSA [[Figure 3](#)]). Moreover, ECOWAS’ exports have become even more entrenched in primary commodities vis-à-vis all forms of manufactured goods ([Figure 4](#)). If structural transformation is a condition for growth, these findings present a negative outlook. However, the data also complicated such a blanket forecast, including how ECOWAS has been most successful in increasing exports of the highest value-added manufactured goods (albeit at very low levels). Additionally, while the share of GDP from manufactures has remained low and stable in many West African countries from 2004 to 2012, [Figure 5](#) illustrates the significantly higher and wide-ranging changes in the contribution from the services sector in different countries. This may highlight a “structural transformation” in countries like Ghana and Liberia driven not by industrialisation but by informality, which according to McMillan et al. (2013) can

negatively affect growth due to shifting labour from high- to low-productivity sectors and increasing unemployment.

In the past two decades, GDP per capita has increased substantially along with high GDP growth rates for most ECOWAS countries. However, when inequality and poverty variables are included in these growth profiles, “growth” has been less uniform (as demonstrated by eight case studies from 1992 to 2012 in [Figure 6](#)). Examples such as Nigeria and Côté d’Ivoire indicate increasing inequality and poverty headcounts (\$1.25 a day, PPP, % of population), while in Ghana and Senegal, inequality levels remained stable and both the poverty headcounts and depth of poverty decreased (the sub-\$1.25 poverty gap), and the only countries with reductions in inequality were also those with the lowest GDP per capita (Burkina Faso, Guinea, Mali and Niger). To offer a better grasp of what these intra-ECOWAS findings mean for growth, the next section will contextualise ECOWAS within the broader picture of international trade relations impacting West Africa and [Section 5](#) will discuss these findings.

#### ***4.3: The Complex and Nuanced Answer, ECOWAS Contextualised***

While ECOWAS has facilitated intra-block trade and most member countries’ GDP figures have risen, it would be naive to assume ECOWAS alone can take credit for such changes. For instance, the smaller RIAs within ECOWAS (see [Map 1](#)) have been found to have a “positive impact [on ECOWAS because the] additional membership complements the integration process of the original [RIA]” (Afesorgbor & van Bergeijk 2014:4) – contrary to the convention that multi-membership in overlapping RTA is harmful due to increased red tape and legal complexities (de Melo & Tsikata 2014:5).

Broadening the analysis further, the US’ AGOA and EU’s EBA arrangements constitute influential policy tools from “the North” to promote export dynamism in ECOWAS (described with additional sources in [Box 4](#)). However, the discussed effects of AGOA on the apparel sector in SSA barely touched ECOWAS due to the region’s lacking involvement in this sector. The U.S. Department of

Commerce (2013:1) reports petroleum exports from SSA dominate the trade patterns under AGOA, otherwise near-exclusively composed of by raw materials. An optimistic narrative shows modest increases in non-petroleum exports under AGOA and an increase in the number of non-petroleum exporting countries in ECOWAS to the US (Schneidman & Lewis 2012:7-9), which may be assisted through initiatives such as the US' *West Africa Trade Hub*<sup>8</sup>. However, Didia (2011:43) concludes pessimistically that (excluding Nigeria), “there has been no noteworthy impact on trade relations, [with the US] running a trade surplus” vis-à-vis ECOWAS countries.

While SSA's export volume to the EU is double its US volume (UNCTAD 2008), primary commodities similarly dominated this trade (Sukati 2011) and previous SSA-EU trade agreements (including the Lomé Convention, Cotonou-Partnership Agreements and EBA<sup>9</sup>) have proven be of little impact on growth in ECOWAS countries (Portugal-Perez 2008; UNCTAD 2007a). Orbie and Farmer (2008) suggest the EBA had a more notable impact on policy itself – as a precursor to the EPA negotiations (p.237-243). Although the EU-ECOWAS EPA negotiations have not been finalised, the EPA's likely impacts (based on a 15-25 year reciprocation of trade liberalisation) are forecasted to be 1) increased regional trade diversion; 2) increased dependence on EU imports; 3) reduced tax-revenues; and 4) improved consumer welfare for middle and upper-income citizens in ECOWAS (Karingi et al. 2005:61-2). These findings are supported in von Uexkull *et al.* (2014), which combines the use of a partial equilibrium model and firm-level survey data in Nigeria to forecast the effects of the ECOWAS-EU EPA. This method allowed the study to predict that two thirds of firms would benefit from lower input prices resulting from the EPA, while the remaining one third may lose profit due to increased

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<sup>8</sup> See <http://www.watradehub.com/> (accessed 2 March 2014).

<sup>9</sup> The EBA agreement with LDCs included all ECOWAS countries except for Nigeria, Ghana and Cape Verde.

competition from imports (von Uexkull et al. 2014:1). However, Milner et al. (2011) find that any progress of regional integration would be reversed by the time of reciprocation if ECOWAS countries do not increase indirect tax collection (Busse & Großmann 2007; Zouhon-Bi & Nielsen 2007). Keeping some asymmetry in the tariff levels, such as 20 per cent of trade protected for SSA countries, has been proposed as a solution to these concerns (Bilal et al. 2012).

In the interim, when ECOWAS states will need to maximize on their unilateral access to Northern partners, other global factors pose constraining and opportunistic factors. This includes the work of international financial institutions (IFIs) limiting the ability for state-led industrialisation in ECOWAS through structural-adjustment-policies, while still financing infrastructure harmonisation (Hoppe & Aidoo 2010; Akpan 2014). Other factors include the increasing role of China and other export-oriented economies in Asia that constitute the main competition faced by ECOWAS firms exporting regionally or internationally (demonstrated by Rotunno et al. 2012; Kaplinsky & Morris 2009). At another level, China has driven the increased demand for hard commodities in SSA, increasing fuel (thus transportation) prices and negatively affecting the export competitiveness of non-commodity ECOWAS countries. Meanwhile, China's offer of resource-for-infrastructure deals can be used to improve the behind-the-border barriers to intra-ECOWAS trade.

### **5: Making Sense of ECOWAS' (Indeterminate) Growth Impacts**

This paper set an ambitious target for the definition of “growth” – arguably a necessity when aiming for inclusive and sustainable development (Thorbecke 2014, Thorbecke & Charumilind 2002; Sindzingre & Nissanke 2005). Nevertheless, tracing RTAs' impact on growth in SSA has largely been an unfruitful endeavour, even with narrow definitions of “growth” based on GDP figures. While ECOWAS provides a theory-consistent example of the expected trade increases resulting from regional integration (Section 4.2), trade does not necessarily cause economic growth. Trade is merely “one of the several

catalysts of productivity and growth” (Singh 2010:1555). Even in terms of the minimalist definition of growth, Nissanke (2011:35) finds SSA’s rising GDP figures have unfortunately resulted not from structural transformation, but have been primarily “associated with the commodity boom of 2002-08”. These findings suggest a bleak experience of RIAs and RTAs in SSA, and provide further evidence that the linear progression of regional integration and focus on border-barriers to trade is inefficient and insufficient.

As was demonstrated through the statistical analysis ([Section 4.2.2](#)), ECOWAS and its member-countries do not appear to be experiencing inclusive, sustainable growth led by structural transformation. Furthermore, the region’s increasing GDP figures are neither offering the region a more significant role in the global economy nor is it based on increasing intraregional trade shares or significant increases in extra-regional trade intensities (and especially not in the higher-value added sectors that would drive growth). Of course, attributing any of these changes (or lack thereof) solely to ECOWAS is unsubstantiated. At the same time, the impact of significant North-South RTAs demonstrated little effect on non-commodity growth-inducing trade from ECOWAS countries. A positive narrative will indicate, that at the regional- level, sub-ECOWAS RIAs such as the CFA currency union (WEAMU) has facilitated deeper integration inside ECOWAS, while at the global-level; IFIs and China have supported regional integration in ECOWAS through infrastructure harmonisation. Conversely, a negative narrative highlights the heightened competition due to the “Asian drivers” and the evolved nature of international trade defined by global value chains and a “trade in tasks” – in which ECOWAS lacks participation.

The analysis finds that ECOWAS demonstrates the “black-box” effect of policy making, whereby specified policy inputs (such as RTA membership) cannot solely be attributed to specified outcomes (such as economic growth). Multiple overlapping RTAs, including those within ECOWAS and other North-South arrangements, complicate the attribution of growth to any particular RTA (or to other actors altogether, e.g. China’s demand for primary commodities). Furthermore, the link between increased trade

and growth remains marred in an incomprehensible complex relationship with various other factors that perform differently given a country's economic profile. Despite growth remaining an elusive variable in this analysis, if counterfactuals and regression analysis are set aside, ECOWAS countries have not met the conditions of inclusive and sustainable growth resulting from structural transformation.

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## Appendixes

### *Appendix I: Acronyms*

ECOMOG	Economic Community of West African States Monitoring Group
UNECA	United Nations Economic Commission for Africa
UN	United Nations
WTO	World Trade Organization
ECOWAS	Economic Community of West African States
ECCAS (CEMAC)	Economic Community of Central African States
EAC	East African Community
ESA	East and Southern Africa
SADC	Southern Africa Development Community
AMU	Arab-Maghreb Union
CEN-SAD	The Community of Sahel-Saharan States
COMESA	Common Market for Eastern and Southern Africa
SACU	Southern African Customs Union
CAEO	Communauté Economique de l’Afrique de l’Ouest
WAEC	West African Economic Community,
WAEMU	West African Economic and Monetary Union

**Boxes*****Box 1: Defining "Economic Growth"***

When speaking about “economic growth”, this paper focuses not merely on growth rates calculated by GDP figures. Nissanke (2011) finds that this kind of “growth” in SSA has been majorly determined by a boom in commodity prices sustained by “an upsurge in demand... from newly industrialising emerging economies” (p.20; Kaplinsky 2010). However, this boom in SSA was characterised by 1) increasing price volatility driven by the sectors’ financialisation and 2) historically downward terms-of-trade (TOT) relationship with other higher-value added goods (“A raw deal for commodities,” 1999). This financialisation has made many commodity-dependent low-income developing countries (CDDCs) in SSA beholden to the will of global economic fluctuations while incentivising continued investment in the commodity-export sector historically depreciating commodities (Nissanke 2011:32; UNDTAD 2007; 2008; Sindzingre 2011). This simplistic view of SSA’s current “growth” trajectory is a naïve and dangerous presupposition that does not adequately account for its un-sustainability and facilitation of a poverty trap that would limit growth in the long run. Rather, this paper understands “economic growth” as sustainable and inclusive growth following from structural transformation and industrialisation that can offer SSA a more substantial role in the global economy. As such, growth outcomes such as GDP may be used in the analysis, but will be accompanied by a discussion of the fundamentals of such growth and its implications for “economic growth” as described above.

***Box 2: Nigeria in the history of ECOWAS***

The World Bank describes ECOWAS as dominated politically and economically by Nigeria, which constitutes for nearly half the population and GDP of the aggregate of ECOWAS states (World Bank n.d.). Ojo (1980) describes how Nigeria's ambitions to become the industrial heart of West Africa impacted the formation ECOWAS. In the early post-independence years, the diplomatic tone of West Africa could be framed as a competition between Francophone West African countries (FWAs), Nigeria and the pan-Africanist movement led by Ghanaian president Kwame Nkrumah. Nigeria's push for economic integration made progress as Nkrumah went into exile, however France's interest to regain economic ties with its former colonies imparted a movement to create a francophone countervailing force to balance Nigeria's regional dominance, precipitating the creation of an RTA called CEAO. The CEAO arrangement however was problematic as the FWAs were interspersed between the Anglophone West African countries that were non-members (p.581). The CEAO prompted Nigerian politicians to galvanise domestic and diplomatic support for initiating a wider regional organisation by targeting its neighbouring FWAs (particularly Togo and Benin) to have them join the Nigerian coalition (called WAEC), which in turn pigeonholed Niger against the other CAEO members, having the effect of isolating the two most important FWAs (i.e. Cote d'Ivoire and Senegal). For a more holistic understanding, these sub-regional political manoeuvres should be superimposed with the concurrent negotiations between the EU and ACPs in the Lomé Convention. The formation of a common RoO applicable to all ACPs provided the scope for "regional cooperation, development, or even integration" that – together with the increasing US dependence on Nigerian oil due to the oil shocks of the early 1970s – launched Nigeria into the role of a desirable regional leader to offer the ACP (or at least West Africa) bargaining power with the EU. It is no wonder then, that the negotiations preceding the EU-ACP Lomé Convention improved collaboration between West African states to form ECOWAS, both signed in 1975 (Gruhn 1976; Oja 1980 599; UNECA 1972; Briggs 1975).



**Box 3: Literature Findings on ECOWAS' Impacts of Growth**

While ECOWAS focuses predominantly on trade, the RIA's involvement in other political and economic issues within West Africa can also be attributed to growth outcomes. As de Melo and Tsikata (2014) find, addressing security concerns and preventing conflict was a substantial driver for participation in ECOWAS (p.7). Although ECOWAS' efforts in this sector have had mixed results, they have undoubtedly impacted trade relations and, to greater and lesser extents, prevented trade interruption that often accompanies conflict (Polachek & Sevastinova 2010). In this respect it is important to distinguish between impacts on "growth" and "trade". On the one hand, studies have found that increasing liberalisation has been followed by increases in trade, investment and growth (Wacziarg & Welch 2008), while "detecting any growth effects of African RTAs has so far proved elusive" (de Melo & Tsikata (2014:12). For instance the deeper integration RIA in Western Africa called WAECU (a sub-ECOWAS RIA), Guillaumont (2013) finds no lasting differences in growth rates over the last 30 years compared to other similar countries. Following upon this the studies assessing the impact of ECOWAS on increasing trade has been a more productive endeavour. Early reports compared trade patterns before and after ECOWAS' implementation, and found the RIA had no impact on promoting trade with its members (Hanink & Owusu 1998). However, more recent studies using gravity model estimates of the trade creation/diversion effects of ECOWAS resulted in more positive reviews. Musila (2005) finds that ECOWAS had been the most successful vis-à-vis two other major RIAs in Africa (COMESA and ECCAS). De Melo and Tsikata (2014:14) and Gbetnkoum (2007) corroborate the findings that ECOWAS has an effect of increasing intra-bloc trade intensity and net trade creation. To illustrate this point, since its inception intra-ECOWAS trade has increased from 3% to 10% (in 2001) while trade between ECOWAS and non-ECOWAS African countries has not changed (Karingi *et al.* 2005). In de Melo and Tsikata (2014), an assessment comparing the gravity model's anticipated trade (given the assumption of frictionless trade) with actual trade, they form an indirect measure of trade costs. As such they attempt to measure the impact of ECOWAS on reducing trade costs. Their findings are that on average ECOWAS traded 38% less than predicted in 1991-92, which reduced to 29% in 1997-98, likely a result of ECOWAS reducing the costs of trade (See Table 2 in *ibid.* p.15). However, as substantiated in the theory section, the likely impacts of ECOWAS in particular member countries are expected to be quite different given their ranging characteristics. One factor may be countries' membership to other RIAs. Carrère's (2013) research on WEAMU, finds intraregional trade is four times above the gravity-predicted trade, while 50% of this can be attributed to a common currency and she also forecasts a positive effect from future harmonisation of infrastructure. Another study by Araujo-Bonjean and Brunelin (2013) find certain agricultural exports have a stronger border effect between WEAMU and non-WEAMU countries than for pairings of joint WEAMU members (controlling for distance).

***Box 4: Intra-ECOWAS and Intra-African Complexities***

Granted ECOWAS has performed well in increasing trade by some accounts described above, it would be naive to assume it alone can take credit for intra-regional trade and growth in West Africa. As described above, much of the increased intra-regional trade was a result of regional integration at the sub-ECOWAS level between francophone states (WAEMU) benefited by its deep integration, common currency and language. The complexity of ECOWAS's impact on growth should also be contextualised by the other sub-ECOWAS RIAs (see Map 1), one of which has begun talks on common currency (WAMZ), another undertaking regional harmonisation in infrastructure and security projects (MRU) and the RIAs involving larger regions of Africa such as CEN-SAD and the Economic Commission for Africa (ECA) that has been working to facilitate regional value chains in ECOWAS (UNECA 2013). Given the intra-West African complexity of overlapping RIAs different methods should be used to explicate ECOWAS's unique effect. One way to do this is offered by a working paper by Afesorgbor and van Bergeijk (2014) who are the first to use the gravity model to compare the multi-membership of states in ECOWAS. Contrary to the argument that multi-membership is a hindrance to trade due to increased red-tape and legal complexities (de Melo & Tsikata 2014:5), they find that ECOWAS countries experienced a "positive impact [because the] additional membership complements the integration process of the original [RIA]" (Afesorgbor and van Bergeijk 2014:4). As ECOWAS is made up of complementary sub-RIAs (WAEMU and WAMZ), the multi-membership was not characterised as competing (as was found to be the case for SADC).

**Box 5: Literature on the Impact of North-South RTAs on ECOWAS**

In addition to the impact of overlapping regional memberships on the growth resulting in ECOWAS states, North-South PTAs (e.g. the US AGOA and EU EPA described in Section 2.2.2) have also been influential. For AGOA specifically, all ECOWAS members are also AGOA beneficiaries<sup>10</sup>, but AGOA's significant benefits for the apparel industry largely left ECOWAS states unaffected as they have not been traditionally involved in the apparel sector<sup>11</sup>. Only Ghana experienced modest increases in clothing exports to the US from 2001-04, which later dropped in 2008 during the recession (Edwards & Lawrence 2013). Otherwise, as of 2013 US-SSA trade under AGOA was represented by 83% for petroleum products<sup>12</sup>, leaving only 3% for textiles and apparel<sup>13</sup>. With petroleum products excluded, SSA imports constituted almost exclusively of raw materials (U.S. Department of Commerce 2013:1). An optimistic perspective finds that since AGOA there has been increasing imports from SSA to the US including modest increases for non-petroleum imports. Additionally, from 2001 to 2011 the number of non-petroleum exporting ECOWAS countries to the US increased from two to six (Schneidman 2012:7-9). On the other hand, Didia (2011) who specifically analyses the impact of AGOA on ECOWAS countries finds (excluding Nigeria) there has been no noteworthy impact on trade relations...[with the US] running a trade surplus with SSA" (p.43). Granted, there have been small increases in trade to the US under AGOA, however there seems to be very little evidence that this preferential market access actually facilitated growth in ECOWAS countries. In fact, due to the increasing exports of commodities under AGOA, it may be actually incentivising SSA countries to remain in primary exports whereby increasing commodity dependence (Edwards & Lawrence 2013). Additionally, the AGOA RoOs (mandating inputs source from other AGOA members or the US) may have had the effect of facilitating regional value chains in ECOWAS. However, for two reasons this has not been the case, 1) most SSA firms are not internationally competitive and they need the cheapest input prices (often times from China or India that are not included in the RoOs) and 2) input manufacturing is not developed adequately in the region to establish the regional value chain. Other activities stemming from AGOA may be helpful to increase trade and possibly growth, including the West Africa Trade Hub, established with USAID to assist SSA exporters to meet US sanitary and phytosanitary standards with offices in Ghana, Senegal, Mali and Cape Verde<sup>14</sup>.

Even in light of these changes, it is important to keep in mind that SSA's main trading partner is

<sup>10</sup> Côte d'Ivoire, Guinea and Niger had lost AGOA eligibility, but regained eligibility in 2011 (The White House 2011).

<sup>11</sup> Research on AGOA has focused on the agreement's impact on the apparel industry in SSA (see Phelps *et al.* 2008; 2009; Collier & Venables 2007; Rotunno *et al.* 2012; Staritz & Morris 2013) because this sector has often been suggested as an initial stage for developing countries to industrialise and attain sustainable growth.

<sup>12</sup> Also, at this time, the top five beneficiaries of AGOA were also major oil exporters (i.e. Nigeria, Angola, South Africa, Chad, and the Republic of Congo [*ibid.*]).

<sup>13</sup> A report by the Brookings Institute qualifies this statement, however, by stating that petro-imports to the US from SSA would enter duty-free regardless of AGOA, due to GSP (Schneidman 2012).

<sup>14</sup> See <http://www.watradehub.com/> (accessed 2 March 2014).

not the US, but the EU with nearly double the imports (UNCTAD 2008). Because of SSA's existing market access in the EU and historical linkages, policies from the EU are likely to have the most impact on growth for ECOWAS states. However, similar to trade relations with the US, West African trade with the EU has similarly been comprised of primary commodities (i.e oil, gas, cocoa, and iron [Sukati 2011]). The largely stagnant EU-ACP trade relationship frames the on-going EPA negotiations aiming to promote supply side, regional integration, etc. There has been little evidence that the previous agreements (including the Lomé Convention, replaced by the Cotonou-Partnership Agreement and EBA<sup>15</sup>) have led to increased growth in ECOWAS countries. The major problem with previous agreements was that benefiting countries did not utilise the preferences due to restrictive RoOs and the administrative burdens they imparted (Portugal-Perez 2008; UNCTAD 2007). Orbie and Farber (2008) review the impact of EBA on SSA and arrive at two major conclusions, 1) the agreements have had only modest impacts on increasing trade and development, but 2) "its influence on various fields of policy making in the EU and on the Europe's external relations have far outweighed its original intentions as a development tool" (p.237). The EBA has been framed as a precursor to the EPA negotiations and even larger discussions that led to the Doha round of WTO negotiations (*ibid.* p. 243). Because the EPA negotiations with ECOWAS are still underway, with only a few countries pre-emptively agreeing to the EPA terms, no impact analysis has been conducted thus far, and as such, only a short review of possible EPA impacts on ECOWAS will be provided here. Given the current trajectory for the EPA negotiations favouring 15-25 year lagged reciprocation by ACPs and further regional integration, the UNECA's study (Karingi *et al.* 2005) closely models this likely prospect. In using a general equilibrium model for all SSA countries UNECA finds SSA would benefit from this scenario in terms of welfare and GDP, albeit with a slight deterioration of balance of trade (p.37). In the partial equilibrium model showing country- and region-specific projections, they test the effect of eventual reciprocation of reducing tariff levels among ECOWAS members. They find it would cause regional trade diversion, increase dependence on EU (namely UK and French) imports (absorbed mainly by Ghana and Nigeria), reduce overall ECOWAS trade diversification, and reduce tax-revenues affecting Guinea Bissau, Ghana and Nigeria significantly. Data also suggested consumer welfare gains would be attributed to the inflow of cheaper EU imports for middle and upper class populations in ECOWAS (e.g. cars, machinery, and equipment) (Karingi *et al.* 2005:61-2). The interpretation of this data suggests that reciprocation by ECOWAS countries should only be implemented after considerable regional integration has taken place and after governments have diversified their indirect tax collection, such as VAT (Busse & Großmann 2007). Other studies have found similar results, echoing different aspects of the UNECA findings, including support for regional integration tied to EPA implementation (Hinkle & Newfarmer 2005) but also wariness that EPAs will be inadequately designed to meet varying regional and state-specific economics vulnerabilities (Hoekman 2005). Zouhoun-Bi and Nielsen (2007) also looks specifically at the EPA's impacts on ECOWAS and finds similar results on increased EU imports and tax-revenue losses but project much smaller impacts than does the UNECA findings. Bilal *et al.* (2012)<sup>16</sup> reviews all SSA countries, and finds the percentage loss in tax revenue to be highest for West African countries, which may have negative impacts on state financing for reaching the post-2015 Millennium Development Goals (p.ix-xi). Milner *et al.* (2011) similarly finds that regional integration can be boosted through the EPA, but will likely be driven in the

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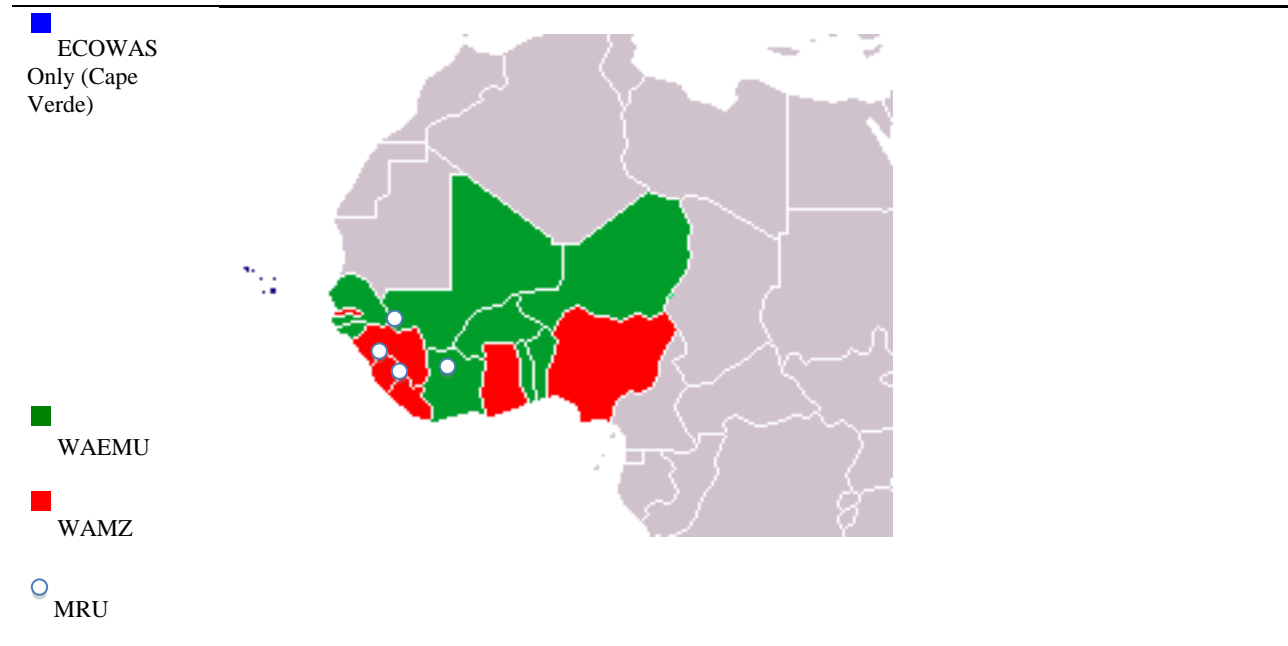
<sup>15</sup> The EBA agreement with LDCs included all ECOWAS countries except for Nigeria, Ghana and Cape Verde.

<sup>16</sup> This paper offers an update from the UNECA (Karingi *et al.* 2005) paper and reviews the many findings on EPA impact throughout SSA and talks of the methodological issues in using the various models.

opposite direction after reciprocation by ACPs, suggesting that sensitive products should be excluded from reciprocation, especially those products traded within ECOWAS. Liberalisation of ECOWAS' largest market (Nigeria) to regional imports was also suggested to benefit regional integration and increase welfare of poor Nigerian consumers (Andriamananjara et al. 2009:27).

## Maps

*Map 1: RTAs in West Africa: ECOWAS and sub-ECOWAS*



**ECOWAS** The Economic Community of West African States (ECOWAS): Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, the Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo. Created in 1975. (Includes all countries coloured on the above map)

**WAEMU** The West African Economic and Monetary Union (UEMOA): Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo. (Economic Community of West Africa: 1973: revived in 1994 as WAEMU)

**WAMZ** West African Monetary Zone: Gambia, Ghana, Guinea Bissau, Liberia, Sierra Leone, and Nigeria. Created in 2000 to established a rival currency to the CFA franc and eventually join with WAEMU to create one West African currency under the West African Monetary Institute<sup>17</sup>.

<sup>17</sup> See <http://www.wami-ima.org/>

MRU The Mano River Union (MRU): Guinea, Liberia, Sierra Leone and Côte d'Ivoire created in 1973 for economic cooperation, but stalled due to conflicts in the countries until 2004 and making efforts to harmonise regional infrastructure<sup>18</sup> and security<sup>19</sup>.

CEN-SAD\* The Community of Sahel-Saharan States: Benin, Burkina Faso, Central African Republic, Chad, Côte d'Ivoire, Djibouti, Egypt, Eritrea, The Gambia, Ghana, Guinea Bissau, Liberia, Libya, Mali, Morocco, Niger, Nigeria, Senegal, Sierra Leone, Somalia, Sudan, Togo, and Tunisia. Created in 1998 to facilitate the creation of an economic union, coordinate investments and education standards<sup>20</sup>.

\*Not shown on figure.

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Source for ECOWAS, WAEMU and MRU: *World Bank World Development Indicators 2006: list of regional trade blocs.*

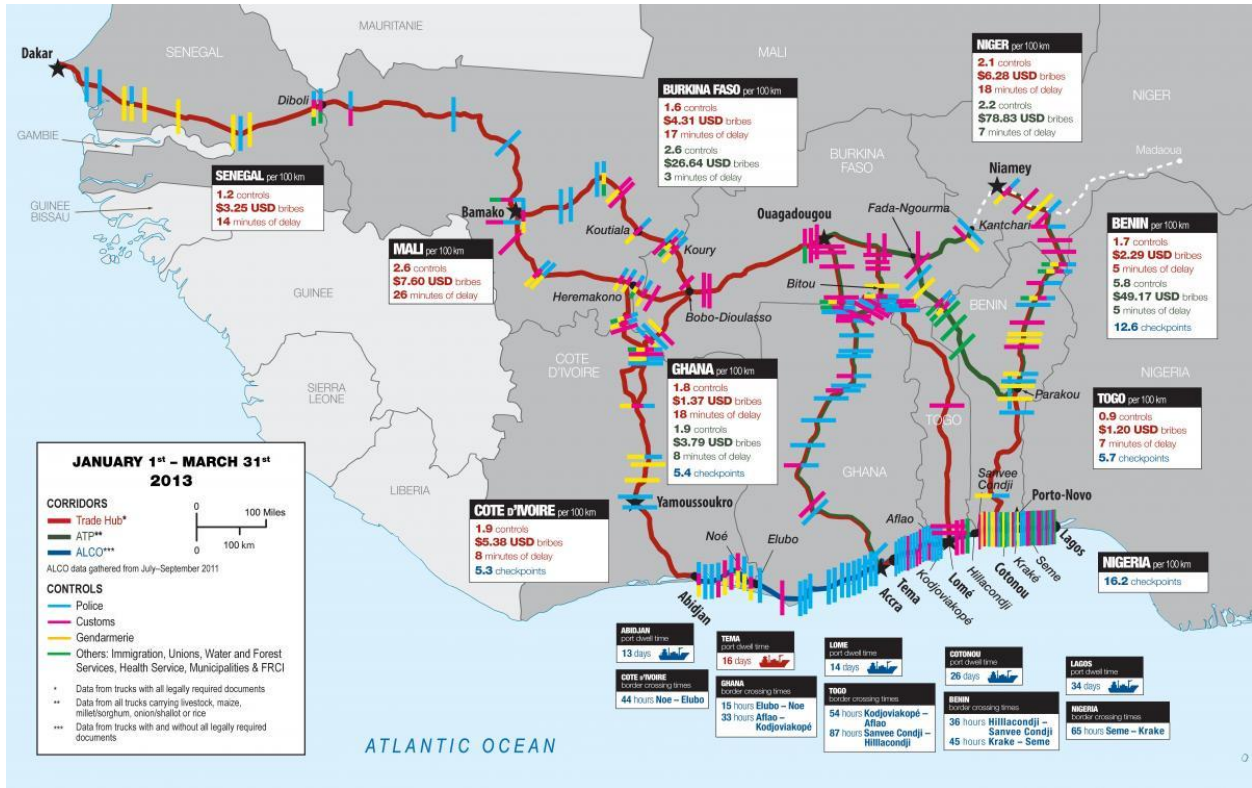
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<sup>18</sup> See <http://www.afdb.org/en/news-and-events/article/pioneering-energy-project-to-bring-relief-to-mano-river-union-countries-12527/>

<sup>19</sup> See <http://www.irinnews.org/report/30657/mano-river-union-member-countries-agree-on-border-security>

<sup>20</sup> See <http://www.uneca.org/oria/pages/cen-sad-community-sahel-saharan-states>

Map 2: 21<sup>st</sup> USAID UEMOA Road Governance Map



The above map illustrates the major overland trade routes in West Africa (between the shaded countries) and the bribes, delays and checkpoints.



**Figures and Data Tables\***

\*Figures and tables are shown on a separate document.