THE IMPACT OF ECOWA'S TRADE AGREEMENT ON INVESTMENT: A CASE STUDY OF NIGERIA

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Abstract

In the quest for economy diversity, Nigeria signed different Trade Agreements, particularly the AGOA, the Economic Community of West African States (ECOWAS) and the proposed EPAs. Many years down the line, the country still operates a mono economy. The above stance was investigated with a view to establishing the factors that influence Nigeria's positions on trade agreements using descriptive and quantitative methods of analysis. The study found, among others, that Nigeria's positions on RTAs are influenced by the need to diversify the economy, trade creation, domestic policy, commercial, content, systemic and political factor, but the impact of these agreements are negligible. It was recommended, that a holistic approach should be adopted by government and all stakeholders by investing in the non-oil sector particularly the service sector to gain more market access in ECOWAS member state. Also that Nigerian trade policy should be export driven and not import/consumption driven.

Finally, measures should be put in place to address the issues of decay in infrastructures such as rail, road and electricity within Nigeria and the ECOWAS member States to facilitate trade

KEY WORD

Regional Trade Agreement, Economic Community of West African States.

LIST OF ACRONYMS AND ABBREVIATION

ECOWAS:	Economic Community of West Africa States
ETLS:	ECOWAS Trade Liberalization Scheme
EC:	European Community
EPAs:	Economic Partnership Agreement
GDP:	Gross Domestic Product
GATT:	General Agreements of Tariff and Trade
MFN:	Most Favoured Nation
NT:	National Treatment
RTA:	Regional Trade Agreement
WTO:	World Trade Organisation

INTRODUCTION

In 1958, the EC Treaty of Rome came into being. This agreement can be considered the first wide ranging RTA. Ever since then about 220 RTAs have been signed, the year 1992 witnessed a sharp increase in the growth rate in the number of RTAs. After that RTAs have kept increasing at a steady rate of 16%. As countries turn more to regionalism as a means of advancing co-operation on trade rules and other areas of policymaking, rules on trade and investment are progressively more being incorporated into regional trade agreements (RTAs).

The breach of the most-favoured nation (MFN) principle is in consistent with the fundamental GATT rules; this violation was ultimately resolved by the inclusion of Article XXIV and the adoption of decision of the "Enabling Clause" in GATT in 1979. The EU was the first grouping of developed countries to introduce its GSP scheme, in July 1971, but other developed countries followed soon after. Some school of thought believed that the relative decline in the European Union market power and undermined leadership aspiration in recent times led to EU shift to active Preferential Trade Agreement (RTA's). In their search for effective paths to economic development, developing countries have also turned to RTA's. RTAs have produced mixed results as a vehicle for achieving economic development via investment and trade.

However, domestic politics, systemic economic, commercial strategy, content and political factors also influence nation's position in RTAs. While some RTAs have recorded huge success for countries party to these agreements, others have not been as successful in bringing about the desired level of economic development. In the quest for this same economic development the Economic Community of West African States regional trade agreement; a regional group known as the ECOWAS Trade Liberalization Scheme (ETLS), was established on May 28th 1975 with the aim of fostering free movement of transport, goods and persons in the region, including the removal of all tariff and non-tariff barriers to trade. The benefits of a fully-implemented ECOWAS Trade Liberalization Scheme for West Africa could result in greater economic growth in investment, trade facilitation, more market access, lower consumer prices, and trade/job creation for Nigeria and other ECOWAS countries.

In the longer term, ECOWAS envisions progressing to a full customs union, creation of a Monetary Union and eventually a common market to facilitate trade in the region.

Furthermore, an RTA is a necessary precursor to the broader goals of enlarged local market, realizing economies of scale and strengthening bargaining positions in global negotiations. (West Africa Trade Hub Technical Report No. 37). In the review of the treaty establishing ECOWAS on July 24th 1993, ECOWAS Member-States agreed that the organization would, over time, transform into the sole economic community in the region with a view of economic integration and the realization of the objectives of the African Economic Union" (Chap II Art 2 of the Revised Treaty). ECOWAS is presently made up of 15 member nations namely: Benin, Burkina Faso, Cape Verde, Cote D'Ivoire, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo. The number of Member States has reduced to fifteen (15) from 16, owing to Mauritania's withdrawal in 2001.

It must also be noted that there are numerous challenges faced by ECOWAS countries, particularly Nigeria; among these are poverty and food insecurity, low per capital income, low level of literacy, conflicts and over population. 14 member states are still classified as least developed countries[1].

Nigeria's aggregate trade flows among ECOWAS member states is very minute as compared with Nigeria- EU aggregate trade flows. Nigeria's export to the ECOWAS region, which averaged about 7 percent of its total exports between 2001 and 2006, declined to 2.3 percent in 2010. The vast majority of Nigeria's exports to the ECOWAS are mineral fuel and oils, which reached 97 percent and 94 percent, respectively, in 2009 and 2010. Comparatively, the share of manufacturing in Nigeria's total exports to the ECOWAS region increased from 1 percent in 2001 to 5.4 percent in 2010, while the share of Nigeria's agricultural exports—which was 3 percent in 2001—plunged to nearly nothing in 2009 and 2010. Likewise, the share of other ECOWAS countries in Nigeria's imports dropped from 4.4 percent in 2001 to less than 0.5 percent in 2010. (Dynamics of Trade between Nigeria and other ECOWAS countries) by

[1] The GDP per capita is still low, i.e., around US$350/yr. The region benefits from less than 0.3 % of the total foreign direct investments (FDI) and its share in world trade remains extremely low, with less than 1 % of trade. Official Development Assistance (ODA) accounts for less than 5 % of regional GDP in 2001, i.e. on per capita basis, around US $17.

Source: 2007 -2010 Strategic Plan of the ECOWAS Commission - Summit June 2007(ECOWAS CEDEAO Commission).

Nigerian Institute of Social and Economic Research, A.O. Adewuyi, Loius N. Chate, University of Ibadan.

Statement of Problem

Some ECOWAS member countries particularly Nigeria had witnessed rapid economic growth in investment and trade in the service sector since the inception of ECOWAS in 1975.

However, a question arises as to what extent of growth in trade and investment induced by joining ECOWAS.

Significance of Study

The significance of this study is to investigate the impact of RTA on trade and investment in ECOWAS (Nigeria).Findings from this study will be very relevant for further research in this field and assist policy makers decide on the sector that should be liberalize in Nigeria to attract FDI.

Objectives

The objectives of this paper are to:

i. To determine the influence of RTA on trade and investment in ECOWAS, particularly Nigeria and to determine the trade creation and diversion effect of ECOWAS Regional Trade Agreement.

Overview of the impact of RTAs on Trade and Investment in ECOWAS

ECOWAS Regional Trade Agreement has remained a major discus among different school of thoughts in member countries, particularly in Nigeria. It's believe that the enormous amount of resources both human and capital that has been exhausted by Nigeria is a misplaced priority as Nigeria has not been able to resolve her internal crisis of corruption underdevelopment and the diversification of the economy.

Trade among ECOWAS countries remains stunted —as aggregate trade flows and FDI among all the ECOWAS member states is not favourable as compared with ECOWAS member's trade flow with EU and other bloc. Specifically, Nigeria's export to the ECOWAS region, which averaged about 7 percent of its total exports between 2001 and 2006, plummeted to 2.3 percent in 2010. The vast majority of Nigeria's exports to the ECOWAS are mineral fuel and oils, which reached 97 percent and 94 percent, respectively, in 2009 and 2010. Comparatively, the share of manufacturing in Nigeria's total exports to the ECOWAS region climbed from 1 percent in 2001 to 5.4 percent in 2010, while the share of Nigeria's agricultural exports—which was 3 percent in 2001—plunged to nearly nothing in 2009 and 2010. Likewise, the share of other ECOWAS countries in Nigeria's imports dropped from 4.4 percent in 2001 to less than 0.5 percent in 2010. (Dynamics of Trade between Nigeria and other ECOWAS countries) by Nigerian Institute of Social and Economic Research, A.O. Adewuyi, Loius N. Chate, University of Ibadan.

Constraints on Expansion

The prospect for significant trade and services between Nigeria and other countries in the ECOWAS zone is constrained by parallel or non-complementary production structures across member countries. For instance, the share of agricultural products as a percentage of GDP was approximately 72 percent in Liberia in 2000 and approximately 62 percent in Guinea Bissau in 2006. Similarly, services accounted for nearly 61 percent of the Senegalese GDP and 74 percent in Cape Verde in 2006. In contrast, share of manufacturing in GDP was below 5 percent in Guinea, Mali, Sierra Leone and Nigeria between 2000 and 2006. A widespread infrastructural deficit also remains a formidable obstacle to the expansion of national output and the generation of surpluses for export in services within the region. According to the 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.

Furthermore, the value of output lost, as a proportion of turnover due to electrical outages, is estimated at 6.1 percent. Similarly, telephone outages average 28 days a year. Moreover, the average freight cost in West Africa in 1997 was about 12.9 percent of the cost of insurance and freight import values, in comparison with 4 percent of these values for developed countries (World Trade Organization 2004).

The incredibly high volume and range of nontariff barriers that are still in force distorts intraregional trade. The number of checkpoints erected by law enforcement agents along highways connecting West African countries range from seven per 100 kilometers between Lagos and Abidjan to two per 100 kilometers between Accra and Ouagadougou.

CONCEPTUAL FRAMEWORK AND MODEL FORMULATION

The analysis of data was descriptive and quantitative method to analyze the time series data of import and export of Nigeria and other ECOWAS member States on trade.

Data were taken from World Bank/wits, COMTRADE by country by export or import and other various sources. Data were exported into an excel file and analyzed with excel tools such as graph.

RESULT

Table: 1 and graph: 1 below revealed the trend in time series data for the period under review, Togo is Nigeria's major importer with the volume of import totaling $ 430,000.00 in 2008 representing Nigeria's highest export to ECOWAS bloc, this was followed by Niger republic with a volume of $330,000 in 2008 and Guinea Bissau imported a total of $ 200,000. Nigeria's import for the period under review revealed that import from Togo was $800,000 which exceeded Nigeria's export to Togo, followed by Benin and Niger. Nigeria's terms of trade was not be very favorable for the period under review

TABLES AND GRAPHS

Table 1: Nigeria' Export to ECOWAS Member States (1000 USD)

	YEARS									
Country	1999	2000	2001	2002	2003	2006	2007	2008	2009	2010
Benin	959.12	6311.15	3998.834	61119.144	15199.606	457.457	44546.613	8401.428	36185.917	74822.331
Burkina Faso	26.783	453.605		24.44	99.948		10298.283	10933.539	8344.634	51985.035
Cape Verde					16.301			284.404	314.643	68.948
Gabon	48.87	3.134		1081.466	5738.794	94.606	682.609	121349.25	17542.691	8178.938
Ghana	294117.1	262249.1	271148.9	380185.283	454751.16	1563126.6	859430.09	1861736.1	303534.47	442426.65
Guinea	1014.542	12121.33		8847.841	225.979	1107.98	6427.725	5252.302	1018.004	203.078
Guinea-Bissau								54.517	241.791	39.191
Liberia		149.479				479.973	4197.192	1158346.7	1752.561	5100.313
Mali	1114.413	4681.508	24439.183	238.276	3408.287	2506.303	2172.418	3145.699	1570.172	1791.511
Mauritania			6.971		355.267		348.293	1046.026	3433.978	1002.519
Niger	28.178	388.065	2075.602	75.728	761.185	4709.954	71123.17	93843.388		
Senegal	172678.7	246836.9	174798.4	118772.565	254168.55	88.339	73826.339	934825.97	285168.14	192996.99
Sierra Leone	1.546					220.064	9197.793	7463.796	4579.335	3475.751
Togo	1410.625	104.743	41.866	371046.325	3999.043	4663.622	13563.32	9717.962	1200.554	

Source: www.Wits.worldbank.org

1: Graphical Representation of Nigeria's Gross Export to ECOWAS-States

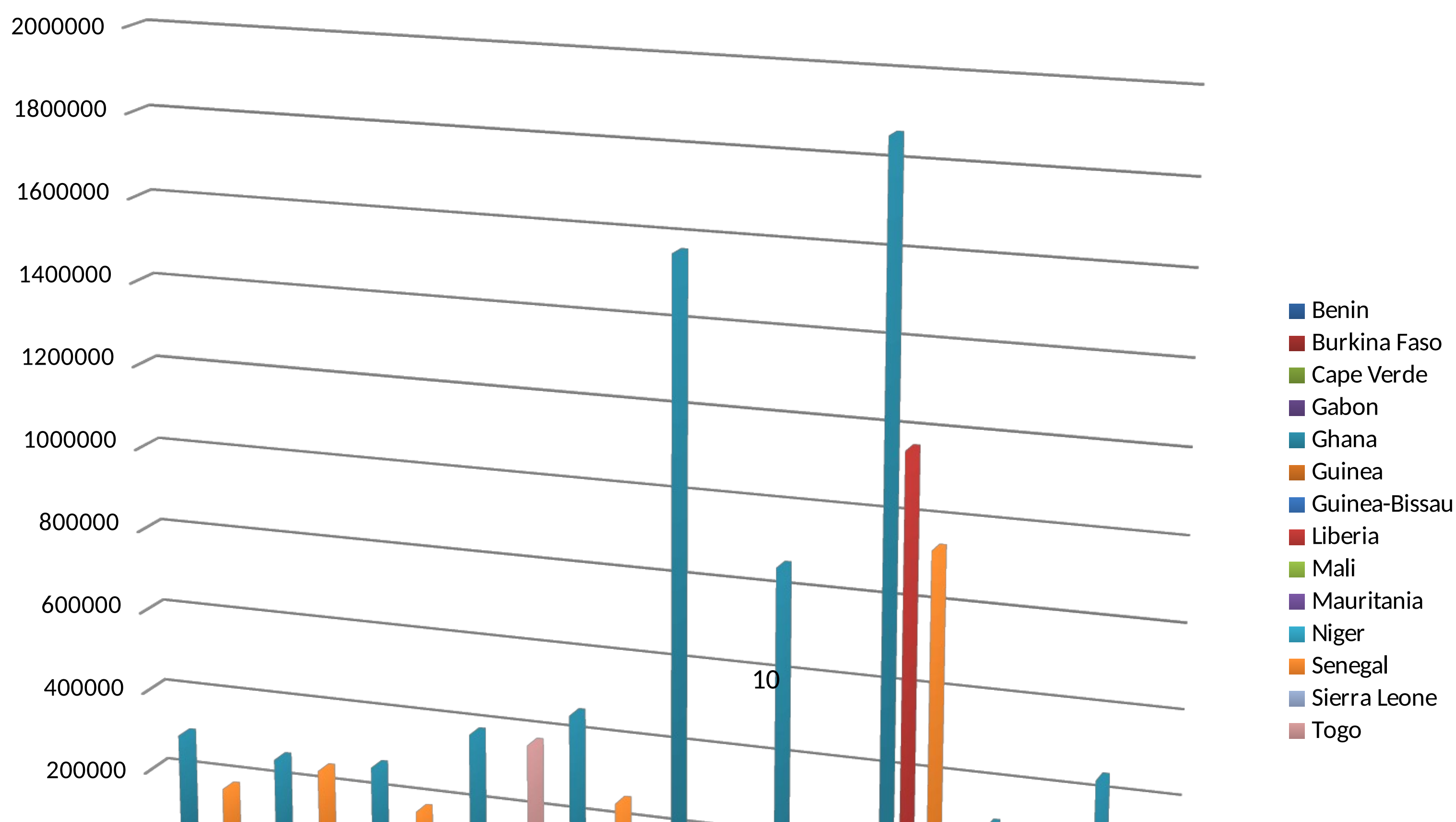

Table 2: Nigeria's Import from ECOWAS Member Nations (1000 USD)

	1999	2000	2001	2002	2003	2006	2007	2008	2009	2010
Benin	3430.191	36018.15	176692.8	30796.21	12625.01	66381.47	236208.2	3715.873		
Burkina Faso	42.024	109.526	79.724	1118.078	1560.743	25.547	97.525	13.957	0.266	65753.13
Cape Verde		401.985	143.773	661.512	31.39	2957.197	3247.709	280.521	124.486	32.64
Gabon	152.288	1949.224	5901.828	8113.739	11131.71	2227.591	75.568	12508.79	68978.56	5626.082
Ghana	5763.353	14155.44	11980.64	17631.59	22398.86	54471.31	70187.22	45165.1	26919.43	6561.874
Guinea	21.31	1398.475	11249.34	5691.341	24828.74	1437.697	1278.058	371.198	147.655	1248.868
Guinea-Bissau		848.182	491.371	2584.068	12908.5	1032.617	2516.864	59.97	369.428	
Liberia	1.082	529.612	41.874	524.112	773.145	7257.315	168.462	5306.629	10.452	30.887
Mali	114.032	197.709	1211.622	65.511	518.307	18330.86	187.952	3.32	1907.355	50.259
Mauritania	71379.61	51742.63	54227.56	22238.69	12426.03	39895.13	17151.24	23141.71	264.692	61631.51
Niger	903.595	598.794	262.254	1219.754	1309.355	13698.05	1082.512	1611.993		
Senegal	1298.51	531.812	2127.19	2565.18	31363.8	2286.22	11710.3	13146.1	13964.1	630.209

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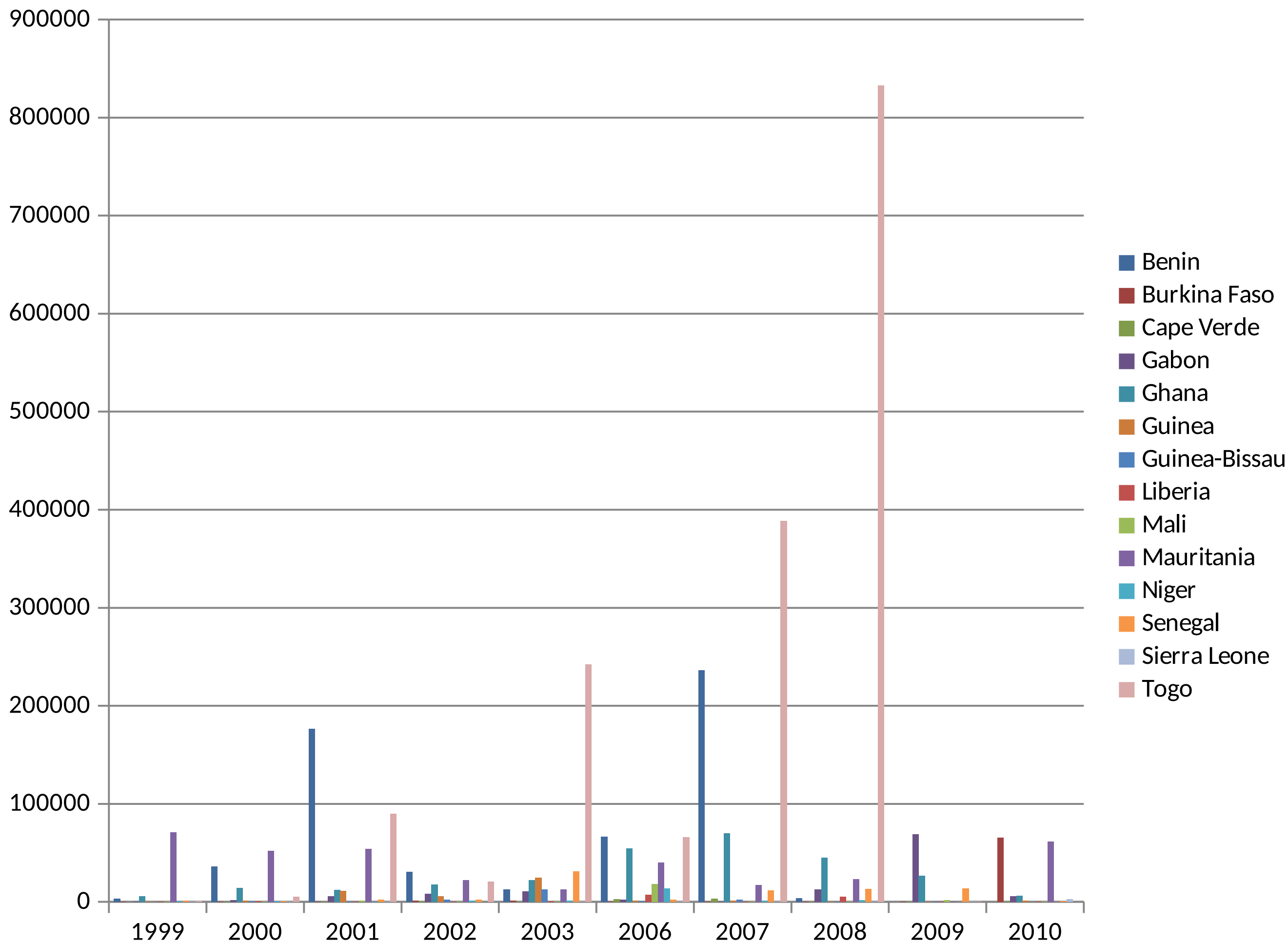
	8		5	3	3	9		9	8	
Sierra Leone	6.372	27.103	114.987		442.08	94.887	64.679	481.459	428.033	3018.261
Togo	1003.889	5379.709	89921.14	20921.08	242636.2	65846.24	388878.3	832587.5	213.843	

2: Graphical Representation of Nigeria's Gross Export to ECOWAS-States



DISCUSION

Other factors shaping Nigeria's position on ECOWAS RTAs, apart from the quest for a united West Africa without trade boundaries are:

i. **Domestic Policy factors:** The after effects of the introduction of Structural Adjustment Program (SAP) in the 1980s resulted in the distortion of the market by the government, the ban on certain products were introduced and sole concession was given to certain importer with the aim of protecting domestic industries such as the cement and sugar industries.

ii. **Systemic (economic) factors:** In the bid to secure access to major markets through diversification and alternative to multilateralism negotiations under WTO, perceived as not meeting Nigeria's expectations resulted the need for second alternative, such as joining AGOA and RTA (ECOWAS) becomes inevitable.

iii. **Commercial Strategy:** The choice for engaging with world economy, national supply capacity, regional competitiveness and to attract FDI, the aid for trade with the view of competitiveness at regional and international markets. This was backed by the National Economic Empowerment Development Strategy (NEEDS). The bedrock of NEEDS is its vision of a Nigeria with a new set of values and principles, which will facilitate the achievements of national goals of wealth creation, employment generation and poverty reduction.

iv. **Content:** The need to analyze the costs and benefits of joining RTAs like ECOWAS was in line government policy to encourage trade as a necessary contributor to GDP, which will result in wealth creation, poverty alleviation and growing the economy in the long run. The overall aim is for trade liberalization and market access regionally, continentally and globally.

v. **Political Factors:** Nigeria's return to democracy in 1999 witnessed improvement in her image abroad and resulted in Nigeria's active and productive role regionally and globally. The political stability of Nigeria is paramount to a successful ECOWAS policy implementation.

Nigeria has proven a powerhouse in the region in economic and security affairs. Without Nigeria, ECOMOG (West African Peace Monitoring Force) of ECOWAS would not be effective and African-led peacekeeping missions in Guinea-Bissau, Liberia and Sierra Leone would not have been possible.

Growth Effects of Regional Trade Area (RTA's)

i. **Production Efficiencies:** Competition will result to increased production and economy of scale for goods and services Nigeria can produce more efficiently than her trade partners. That is in the production of goods and services with comparative advantage and also imports goods and services Nigeria cannot produce efficiently.

ii. **Economic growth and reduces poverty level:**
Liberalizing the economy will enable ECOWAS member states to have access to Nigeria market and vis-visa. This will assist domestic producers to have access to other markets to sell their goods and services thereby reducing the poverty level of Nigeria's citizens.

iii. **Increase Export:** A borderless ECOWAS member States would further increased market access for Nigeria's goods and services. This is evident in the influx of Nigeria's banks into most ECOWAS member States.

iv. **Improve Rule of Law:** Members of RTAs has no option than to conform to legal term or contract binding the agreements, which will also have a positive impact on the implantation of rule of laws in member States.

v. **Trade Creation:** There is every tendency for trade to be diverted from less efficient member to a more efficient member with comparative cost advantage thereby leading to trade creation for the efficient producers.

Effects of ECOWAS RTAs on Nigeria's Economy

i. **Collapse of infant industries:** Nigeria's membership in Preferential Treatment Area's such as AGOA and ECOWAS, has resulted in the collapse of so many infant industries such as the textile industry in Nigeria, less than 1% of this industry is now in existence in Nigeria due to the liberalization of the textile sector.

ii. **Domestic economic instability:** The impact of distortion in foreign economy will also result to a fall in the demand for the products of an RTA member State like Nigeria; the global financial crisis resulted in the fall for the demand of products from ACP trading partners, instability in the global oil prices will have a negative impact on Nigeria economy because her economy depend on crude oil.

iii. **Unfair practice by Trading Partners:** Liberalization has resulted to unfair practice such as the influx of China cheap and sub-standard goods into Nigeria economy leading to severe injury to the infant industries.

iv. **Trade Diversion:** Trade have been diverted from the less efficient member states to a more efficient member, thereby resulting to the collapse of infant industries and loss of jobs by local workers.

Constraints on Expansion

The prospect for significant trade between Nigeria and other countries in the ECOWAS zone is constrained by parallel or non-complementary production structures across member countries. For instance, the share of agricultural products as a percentage of GDP was approximately 72 percent in Liberia in 2000 and approximately 62 percent in Guinea Bissau in 2006. Similarly, services accounted for nearly 61 percent of the Senegalese GDP and 74 percent in Cape Verde in 2006. In contrast, share of manufacturing in GDP was below 5 percent in Guinea, Mali, Sierra Leone and Nigeria between 2000 and 2006. A widespread infrastructural deficit also remains a formidable obstacle to the expansion of national output and the generation of surpluses for export within the region.

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Moreover, the average freight cost in West Africa in 1997 was about 12.9 percent of the cost of insurance and freight import values, in comparison with 4 percent of these values for developed countries (World Trade Organization 2004). The incredibly high volume and range of nontariff barriers that are still in force is violates WTO intraregional trade law. The number of checkpoints erected by law enforcement agents along highways connecting West African countries range from seven per 100 kilometers between Lagos and Abidjan to two per 100 kilometers between Accra and Ouagadougou.

CONCLUSION

The main objective of this study was to determine the influence of RTAs on trade and investment in ECOWAS (Nigeria), to determine the trade creation and diversion effects (ECOWAS) RTA has had on Nigeria's economy.

The study highlights some relevant factors influencing Nigeria positions in RTAs which entails political, commercial, content, systemic and domestic political factor.

Also the relative peace in the region is seen as a catalyst for economic diversification and market access by Nigeria government.

It was revealed that there has been a decline in the export of Nigeria's products to some Economic Communities of West Africa's States.

In conclusion, it is hereby inferred that factors influencing Nigeria's position in joining Regional Trade Agreement particularly ECOWAS entails commercial, content, systemic and domestic political factor. All these are aimed at diversifying the economy and gaining more market access.

It was however recommended that a holistic approach should be adopted by the Nigerian government and stakeholder by investing in the non-oil sector such as manufacturing, industry and service.

Government should always determine the influence of RTAs on trade / investment in Nigeria and determine the trade creation and diversion effects any Regional Trade Agreement on Nigeria's economy prior to signing any RTA, particularly the EPAs and the proposed Nigeria-Norway Regional Trade Agreement.

Measures should be put in place to address the issues of decay in infrastructures such as rail, road and electricity within Nigeria and the ECOWAS member States to increase trade among members.

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