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Review

The prospects of ECOWAS trade liberalisation in Nigeria

Kanang Amos Akims

Department of Economics, University of Jos, Jos, Plateau State, Nigeria.

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ABSTRACT

This paper examines Nigeria's participation in the ECOWAS Trade Liberalisation Scheme and the potential gains that may accrue the country opening up to trade in the West African sub-region. The ECOWAS Free Trade Area is to give rise to the elimination of custom duties and accompanied by the total elimination of all non–tariff barriers and other administrative measures impeding the free flow of trade in the sub–region. Employing a deductive approach the paper posit that Nigeria stands a chance of benefiting through such gains as improved wages and employment, increased productivity in the manufacturing industry and enhanced technological progress and economic growth. With Nigeria remaining committed to the implementation of the Common External Tariff, she heads toward jointly taking advantage of the opportunities of trade liberalization.

Keywords: Trade liberalisation, economic integration, common external tariff, openness to trade, intra-regional trade.

E-mail: akimskb@yahoo.com.

INTRODUCTION

Nigeria aspires to take full advantage of the opportunities and concessions available in international trade relations at bilateral, multilateral, regional or continental levels. This is noticeable in Nigeria's active participation in the Economic Community of West African States (ECOWAS), African Union (AU), Cotonou Agreement, the European Union (EU) – African Caribbean and Pacific (ACP) Agreement, and the Africa Growth and Opportunity Act (AGOA) of the United States of America. Nigeria's trade policy has always acknowledged the role of international trade in the nation's economy and therefore always makes a strong reference to vibrant engagement in bilateral, regional and multilateral trade negotiations, as a way of boosting trade and achieving full integration into the global economy. Thus, the World Trade Organization (2005:19) stated that, "the government of Nigeria has at every opportune occasion reiterated its continued commitment to the principles and objectives of the multilateral trading system". Given the phenomenal pace of globalization with the multilateral trading system acting as a major catalyst, it has become imperative for Nigeria to critically recognize the role of the World Trade Organisation (WTO) and the need to actively participate in trade negotiations processes so as to take advantage of the benefits they offer.

Nigeria became a member of ECOWAS with the signing of the ECOWAS treaty on the 28th of May 1975 in Lagos, comprising sixteen countries of the West African sub-region. These countries were: Benin, Burkina Faso, Cape Verde, Cote d'ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone and Togo. Following the withdrawal of Mauritania in December 2000, the membership dropped to fifteen (15). The primary purpose for establishing ECOWAS is to integrate the fifteen West African markets in order to aid the free movement of goods, capital and labour so that the community can advance harmoniously as one region in its search for sustained economic growth and development (ECOWAS, 2004). Since the community became operational in 1977, trade development has been central to the cooperation programmes adopted by the decision–making organs of ECOWAS. As early as 1976, the first protocol relating to the concept of products originating from member states of the community was signed by the Authority of Heads of State and Government. Three years later, in 1979, decision on the liberalization of unprocessed products was signed by the council of ministers followed by decision of the Authority of Heads of State and Government relating to trade liberalization in respect of

traditional handicrafts in 1981. Another decision relating to the adoption and implementation of a single Trade liberalization Scheme for industrial products originating from member states of the community dated 30th May 1983 was signed by the Authority completing the scope of products covered by the ECOWAS Trade Liberalization Scheme (ECOWAS, 2004). It is certain that the success of West African integration efforts will be judged by the volume of intra-community trade and by the degree of interaction between the citizenry and also between the business communities.

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

Although Nigeria has missed the deadline in the past at honouring its obligations, it has remained committed to the implementation of the CET. Nigeria has continuously worked at harmonizing trade practices with ECOWAS countries, and creating a conducive and competitive environment for Nigerian businesses to flourish and compete in the regional and global economies. This is aimed at laying a solid foundation for fully exploiting Nigeria's potential in international trade (Briggs, 2007). This paper therefore seeks to identify and discuss possible gains to the Nigerian economy if it was to be committed to the ECOWAS Trade Liberalisation Scheme. To achieve this purpose, the paper is structured into five parts. Part I is the introduction, Part II dwells on conceptual linkages and literature review, Part III discusses the prospects of Nigeria in the ECOWAS Trade Liberalisation Scheme, Part IV focuses on the challenges to Intra-regional trade in West Africa and Part V concludes the paper.

CONCEPTUAL LINKAGES AND LITERATURE REVIEW

From the regional perspective, Visser and Hartzenberg (2004) suggest that the purpose of intra–regional trade liberalization is to facilitate trade within a regional economic space, and through enhanced trade opportunities to elicit firm-level decisions to expand productive capacity. Such expansion of productive capacity, through various modalities of investment, can have important implications for the development of markets and market processes, resulting in robust, sustainable regional development. Trade liberalisation, may imply a part of the process of economic integration which is accompanied with a customs union where there is a unified market for goods and service. This leads to the stage of unified market for productive factors, it is then necessary that the impediments to the free mobility of these factors be eliminated. If such factors as labour, investment capital and entrepreneurship do in fact move in the union in response to differentials in factors earnings to the extent that these differentials reflect relative productivity, the transfer of factors from low productivity areas to where productivity is highest will benefit all concerned. Trade liberalization thus, entails the removal/reduction of official barriers to trade which distorts the relative prices of tradable and non-tradable goods and services and those between different tradables. The removal/reduction of these official barriers will have significant effect on economic welfare of an economy as identified below:

Macroeconomic impacts on activity and productivity

According to CIE (2009), trade liberalisation will result to increased import competition, which will encourage domestic producers to pursue productivity gains, either through the use of better technology and business practices or through innovation and/or quicker adoption of new ideas. On the contrary, depending on the structure of the economy and such things as the responsiveness of the demand for a country's exports to changes in price, the imposition of tariffs and other import restrictions with a view to promoting a favourable balance of trade will lead initially to a fall in imports and an improvement in the trade balance. For a given savings and investment behavior this will lead to a rise in demand for the country's currency relative to its supply, and hence an appreciation of the exchange rate. However, the higher exchange rate will reduce the demand for the country's exports and restores some of the imports. Depending on the relative responsiveness of exports and imports, this can either lead to higher or lower income and output. The sensitivity of exports to price has compounded this as tariff protection thus hold the highly productive export industries back while having a smaller effect on the less productive sectors that are being protected.

Alternatively, improved domestic efficiency and liberalising trade barriers will improve the competitive position of exporters, and greater exports may also be associated with productivity gains. There can be learning

by exporting where the experience and knowledge gained in export markets can be translated into productivity gains (Aw et al., 2000). Exporting may also allow producers to expand output and exploit economies of scale, thereby lowering average production costs (Itakura et al., 2003).

Effect on productivity and employment

Trade liberalization provides incentives for firms to compete, to innovate and to search for new opportunities and markets. Firms in protected industries are less likely to innovate or seek new markets. Evidence across the Organisation for Economic Co-operation and Development (OECD) countries suggested that firms in protected sectors have lower rates of innovation and productivity growth than firms in areas facing the full force of international competition. The same cross country evidence also suggested that countries which are more open to competition generate less unemployment. This occurs because in more competitive markets, employers are less able to pass on higher wage costs by setting higher prices. This makes them more resistant to wage increases in excess of productivity improvements. Lower prices in turn lead to lower wage claims (OECD, 2003). Empirical studies using firm and plant – level data by Trefler (2004) on Canada – U.S. Free Trade Agreement estimated that for the group of industries that received the largest Canadian tariff cuts, employment fell by 12% while productivity rose by 15%. These productivity gains were at the industry level, not the plant level. Further, Trefler found that the U.S. tariff reductions resulted in considerably higher Canadian productivity at the plant level, but only in modestly higher productivity at the industry level. These striking results present a puzzle. How is it that tariff reductions resulted in an increase in industry–level productivity, but had no effect on the productivity growth of individual plants in one case and tariff reductions increase the productivity growth of individual plants, but had no significant effect on industry-level productivity growth on the other?

Lileeva (2008) puts forward that there exists, behind the effects of trade liberalization, some complex industry dynamics. Studies by Melitz (2003), Melitz and Ottaviano (2005), Bernard et al. (2003) and Ederington and McCalman (2008) considered the environment with heterogeneous firms in which trade liberalization induced exit of less – productive firms and market share reallocation towards more productive firms, which leads to improvement in industry – level productivity. According to Melitz (2003), trade increases competition for labour, which results in higher wages, forcing the least productive producers to exit. This effect is driven by an increase in exports, while imports competition does not play a role in reallocation. In Melitz and Ottaviano (2005), the effects on the factor market competition and product market competition are reversed: the only channel that matters is the product market competition. Imports competition increases competition in the domestic market, which forces the least productive firms to exit. Applied to the ECOWAS Trade liberalization Scheme, these studies suggest that reduction/removal of Member States' tariffs and other trade barriers would increase the exit rates of the least productive firms and increase wages. Bernard et al. (2003) also have a model with heterogeneous firms in which reduction in costs of exporting leads to aggregate productivity gains through the firms' exits and reallocation. All these models predict that, as a result of trade liberalization, the lower tail of the productivity distribution will improve as a result of exit of the least productive non-exporting plants.

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

The importance of trade liberalisation in driving dynamic productivity gains, and in turn economic growth, should not be under appreciated. It is generally accepted that countries can achieve allocative efficiency gains through trade liberalisation. Allocative gains arising through the (re)allocation of resources to the efficient sectors of the economy represent the traditional theory on the benefits from trade liberalization. Consequently, it is these gains that ECOWAS countries stand a chance of achieving with an effective trade liberalization scheme. Liberalisation will result in more efficient economies that will more likely open the way for new foreign investment opportunities leading to transfer of technical know-how and capital accumulation, which can in turn stimulate productivity growth and lead to higher economic growth (CIE, 2009).

CHALLENGES TO INTRA-REGIONAL TRADE IN WEST AFRICA

However, standing in the way of the gains that may likely

accrue a nation engaging in free trade in ECOWAS, are two issues worth mentioning; a wide spread infrastructural dearth and a non-diversified economy. Electricity and transportation in the West African region leave much to be desired. According to World Bank (2007), delays in obtaining necessary connections to electricity can average up to 80 days, while electricity outages occur on average 91 days per year consequently; output is lost due to the outages. Movement of freight is delayed by administrative charges at the ports as well as administrative barriers at the borders such as customs clearance, as well as formal and informal checkpoints and road blocks that keep trucks stationary for extended periods of time. Also the region lacks a regional rail network, and the national rail systems are in no proper state to compete more effectively with road transport (Ranganathan and Foster, 2011).

Moreover, there is the non diversification of the production structures in the ECOWAS sub-region, export comprises mainly of primary products such as cocoa, cotton and in the case of Nigeria, petroleum. Agriculture and services have been dominating the productive activities of most of the West African economies. It is also noteworthy that the products are basically oriented to the developed markets in Europe and North America rather than to those of West Africa. Countries within the same crop belt tend to produce similar agricultural products; hence they cannot be each other's important trade partners thus limiting intra-regional trade. However, most industrial goods penetrating the West African trade region are processed agricultural commodities such as sugar, canned beef, frozen meat, tobacco, textiles, leather products and other agro-based industrial products. This suggests that the right policy mix will greatly improve the prospects for the expansion of intra-regional trade in processed and agro-based industrial products Odularu (2009). Such policy mix should aim towards achieving considerable industrialization of the economy while adopting trade liberalization measures. This is because industrialization is an important channel through which exports can be diversified and trade enhanced.

PROSPECTS FOR NIGERIA IN THE ECOWAS TRADE LIBERALISATION SCHEME

This paper outlines the following pathways through which Nigeria is viewed to benefit from the ECOWAS Trade Liberalisation Scheme:

i) Wages and Employment.
ii) Manufacturing
iii) Economic growth and technology.

Wages and employment

Nigeria clearly is a labour abundant economy, participating in the ECOWAS Trade Liberalisation Scheme implies easing/removing barriers to trade within the sub–region, such freer trade will gravitate towards higher wages in general. As more of the country's goods are being sort after, this will induce prices to go up as a result of the increased demand. This rise in prices will make it possible for wages to be increased.

It is noteworthy also, that not only will the liberalization in trade increase wages, but greater number of people will be employed to the more productive sectors of the economy. This can be viewed from two perspectives. Firstly, there is most likely to be a greater inflow of technology which could be skill biased because of the increased demand. This will increase the demand for skilled labour and thus reduce the army of the teaming unemployed graduates. Secondly, the labour market in Nigeria can be said to have a perfectly elastic supply. That is to say, even with fewer wages, people are willing to work. As such, the wage will be fixed exogenously by what labour can earn elsewhere and the adjustment will take place in terms of employment. This suggest that a country or an economy, rather than isolating itself from the world economy, it should avail itself by way of opening its economy to trade as much gains can be derived through improved wages and employment. This will surely go a long way in improving living standard of the citizenry.

Manufacturing

When the necessary conditions including: improved infrastructure and security, which will spur competitiveness of firms and attract major investments to the country have been put in place for firms to respond to new threats and opportunities, freer trade will clearly foster socio–economic benefits for Nigeria by enhancing growth and productivity and improving resource allocation. As Nigeria opens up to trade within the West African sub-region, the country will be able to export products that are lacking in other countries, thereby increasing productivity of the manufacturing industry. The increased productivity in manufacturing will act as a catalyst that will accelerate the pace of structural transformation and diversification of the economy, in addition to facilitating the country in fully utilizing her factor endowment. Since manufacturing in comparison to other sectors of the economy have greater spillover effects to other sectors, it offers a ready market for agricultural produce as well as providing intermediate goods for further production and supporting the services sector.

Economic growth and technology

Economic growth is the key to increased welfare in an economy. Except growth seriously worsens income

distribution, welfare of the people in an economy will better as average incomes increases. The contrary view has no standing because there is no specific information on a strong case that a particular openness of an economy seriously worsened income distribution. As the market for Nigeria's goods widens as a result of the trade liberalization, it is most likely that the technological base will be improved upon through learning from the technology available in developed countries to meet up with the increased demand. This learning will take place through technology transfers either through efforts to imitate technologies or through importing capital goods. It is important to note that both of these activities are assumed to require only skilled labour. Thus, trade liberalisation avails Nigeria the opportunity of accessing new technologies to improve upon its productivity and on the other hand, having wider market to export its produce thereby bringing about technological progress and economic growth.

An open trade regime is probably essential to the long-run achievement of trade stances and thus should be seen as a major contributory factor in economic development. The link between openness and growth operates at least partly by enhancing technical progress. The evidence that access to imports enhances performance is quite strong. Of course technological flows need not depend just on trade or technology policies, they may arise autonomously or through direct interventions in research and development in favour of a country.

CONCLUSION

Nigeria subscribes to the view that regional integration can serve as building block to attaining economic growth and development. Indeed, regional integration schemes can play a very useful role in reform and further liberalization of policy. In this regard, the ECOWAS Trade Liberalization Scheme and the attendant Common External Tariff (CET) are noteworthy. The advantages of the Common External Tariff in integration schemes are well known. They are first and foremost a measure of the degree of integration among contracting parties. An obvious advantage of the CET is that adopting it is a way of reducing asymmetry in the distribution of gains and losses. The CET thus helps lessen potential tensions between members by lowering external tariffs, this helps to generate the classical gains from trade.

It is evident that trade liberalisation will, over time, continue to play important role in determining a country's trade relations in the global world. Beyond concluded trade agreements, these established networks greatly lower the risk and uncertainly involved in world trade. However, openness to trade should be accompanied by sound policies in areas such as infrastructure to provide sufficiency in electricity generation and distribution; and efficiency in transport and communication; market facilitation; competition; education and governance in order to achieve its desired goal.

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