Chapter I

1. Introduction

West Africa has experienced stagnation, and sometimes a decline, of their populations' standard of living (Diop and Gilles). The economic objectives of its region remain largely unrealized. The lack of market integration through trade liberalization was presented in the Executive Secretary's 25th Anniversary Report as "the most glaring failure for ECOWAS" (Bach, 72). Economic integration works along with the welfare of the people in terms of higher incomes and better standards of living which is the goal of ECOWAS by 2030. ECOWAS aim to raise the living standards of its people, foster their relation and maintain enhanced economic stability, but here lies the elusive and ever-important question "what causes the failure of economic objective realization in ECOWAS Region since independence and democracy" (though democracy have been struggling to survive in the region). This study believes that the answer to this question is "Economic Cooperation".

Economic Integration is a strong tool to bring into economic growth plans of West African Nations, the most vulnerable groups in the region, those whom have been excluded from progress, the poor, indigenous people, women and those culturally, socially and politically different (Xinhua, 2001).

The National Economic Partnership for African Development (NEPAD) objectives and standards for Sub-Saharan Africa are fundamental to the creation of an environment conducive to investment and long-term economic growth. The objective of this paper is to investigate the role of ECOWAS governance and institutions in explaining the sub-optimal performance of West African economic growth and market competitiveness while controlling for the conventional sources of good standard of living and economic growth**.** Two cases are studied in this research on different section and subsections. The cases consist of first: Institutions; its effect in ECOWAS economic growth; these is more general in the sense that it characterizes all aspects of social and cooperation arrangements. But this study uses three aspects that describe the institutional environment of trade such as the volume of trade, trade liberalization and the influence of colonial origin on ECOWAS trade. Secondly: Governance and its effectiveness; these puts an emphasis on the leadership (how the political elites use or misuse the power). The state of governance is thus captured by variables such as the rule of law, accountability, efficiency and transparency, political violence, human rights, etc. In this effect the gotten data's is being used to make syntheses in an acceptable conditional model that includes governance indicators and experiences of several ECOWAS countries where measures are undertaken to strengthen their institutions.

The first synthesis illustrates that: Mismanaged macroeconomic policies are factors that directly affect the countries' standard of living. The second illustrates that: High trade cost and poor infrastructure has amount to poor creation of regional markets. The third illustrates that: The volume of trade in ECOWAS is generally found to be correlated with the rule of law and facilitation of trade meaning that the key instrument of achieving trade expansion in ECOWAS is abolition of trade barriers. While intra-regional trade growth and market competitiveness of ECOWAS depends upon monetary integration.

1.1 Background

Africa is the world's second largest and second most populous continent after Asia it comprises of 56 different countries, Craig Murphy (2009) notes that "more than one out of ten people are African. More than one out of four nations are African" as well.

Concrete steps to form ECOWAS commenced at a Conference on Economic Cooperation in West Africa, held by eleven West African States in Niamey, Niger Republic in October 1966. This was followed by another conference held in Ghana in 1967 which adopted Articles of Association presented by the ECA executive secretary, Robert Gardiner. He noted that "branches of economic activities are closed to majority of West African countries due to their small economic size." Fifteen West African states concluded the ECOWAS treaty from 27 to 28 May 1975 in Lagos, Nigeria and at Lome, Togo in November 1976; five protocols to the ECOWAS treaty were signed (Ogunfolu, 2009).

ECOWAS was set up with a community of fifteen West African states comprising of Benin, Burkina Faso, Cape-Verde, Cote-d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra-Leon, and Togo. These are former British, French and Portuguese (Ogunfolu, 2009).

The aims of ECOWAS are to promote co-operation and integration leading to the establishment of a customs union in West Africa in order to raise the living standards of its peoples and to maintain enhanced economic stability, foster relations among its members while contributing to the progress and development of West Africa (Ogunfolu, 2009). To achieve these objective ECOWAS has sought the harmonization and co-ordination of national policies through integration programmes (Ogunfolu, 2009) as its mission to promote economic integration in "all fields of economic activity, particularly industry, transport, telecommunications, energy, agriculture, natural resources, commerce, monetary and financial questions, social and cultural matters (ECOWAS private sector news 2012).

The institutions of the ECOWAS comprise of; the Authority of Heads of State and Government (Ogunfolu, 2009), the commission, the community parliament, the community court of justice and the ECOWAS bank for investment and development. The ECOWAS Commission and the ECOWAS Bank for Investment and Development more often called The Fund are its two main institutions designed to implement policies, pursue a number of programmes and carry out development projects in Member States. Such projects include intra-community road construction and telecommunications; and agricultural, energy and water resources development. (ECOWAS private sector news 2012)

ECOWAS was born out of the experiences of the Union Douaniere des Etats de l'Afrique et l'Ouest meaning-Customs Union of West African States (UDEAO) and West African Economic Community (WAEC) (ECOWAS strategic plan, 2007-2010), And was inspired mainly by African political leaders, it was created and administered by African technocrats and bureaucrats (Adebajo and Ismail, 2004). On its creation, it was entrusted with the task of promoting cooperation and development in all areas of economic activity, abolishing trade restrictions, removing obstacles to the free movement of persons, goods and services, and harmonizing regional sectoral policies as mentioned above. The main objective remains the creation of a vast West African common market and the creation of a monetary union (ECOWAS strategic plan, 2007-2010).

The review of the ECOWAS Treaty on 24 July 1993 in Cotonou confirms its role as the *primo mobile* for the coordination and completion of regional integration in a region replete with a diversity of IGOs (intergovernmental organizations), cooperation initiatives and multinational groupings. In the Treaty as revised, ECOWAS Member-States "decide that the organization would, over time, become the sole economic community in the region with a view to economic integration and the realization of the objectives of the African Economic Union" (Chap II Art 2 of the Revised Treaty).

With its large number of small, isolated economies, ECOWAS's economic geography is particularly challenging. Of the fifteen (15) member countries, three (3) are landlocked, eight (8) have fewer than 10 million people, eleven (11) have a gross domestic product (GDP) of less than $5 billion per year, and six (6) rely on transnational river basins for their water resources (World Bank, 2011). In addition, four (4) countries have recently emerged from conflict that has severely damaged their national infrastructure networks. Economic activity in the region is most intense in certain urban pockets along the coast, as well as in northern and central Nigeria, where GDP exceeds $1 billion per hundred square kilometers. Economic density tails off steadily as one moves inland and north, reaching a low point of less than $10 million per 100 square kilometers in the Sahel region (World Bank, 2011)[1].

1.1.1 Main Economic Sectors in ECOWAS

Overview

Research on ECOWAS economic data shows that the West African states which comprises of 15 member states has different divisions of natural resources that are grouped into three economic sectors namely the primary sector, the secondary sector, and the tertiary sector. These three economic sectors accounts for about 60% of the ECOWAS GDP growth rate. At the primary sector consisted of the agricultural sector contributes about 24.2%, secondary sector which consist of mines and quarries contributes 19.3% and trade in the tertiary sector contributes 15.7 %. ECOWAS Bank for Investment and Development (EBID, 2008).

In the primary sector, the share of agriculture accounted for 79%. Some cash crops produced in the region such as coffee, cocoa and cotton report significant currency to member states, but their prices fixed on the outside, fluctuate unpredictably. The main agricultural crops in the ECOWAS countries are coffee, cocoa (Côte d'Ivoire, Ghana, Togo), cotton (Benin, Burkina Faso) EBID (2008).

In the secondary sector, mining and quarrying accounted for 61% of all secondary activities in the region. However, their importance varies across member states. In Nigeria, the exploitation of crude oil represents about 84% of all secondary economic activities in the country, while mining accounts for 53% of Liberia activities. The reasons for the average Liberian performance are the result of economic sanctions imposed by the United Nations on diamond and other products from Liberia. In ECOWAS countries, the main products are mineral oil (Cote d'Ivoire, Nigeria), diamonds (Guinea, Liberia, Sierra Leone), gold (Burkina Faso, Ghana, Guinea, Mali, Niger) EBID (2008).

Concerning the service sector of ECOWAS, trade is the largest component, representing only 42% of the total sector contribution to the regional economy. Moreover, the volume of intraregional trade official is low in 2004 it represented about 11% of total trade in the region. These figures confirm the hypothesis that the informal sector of the region is dynamic and tenacious as it represents a large volume of unofficial business in the region EBID (2008).

[1] Policy Research Working Paper 5899. ECOWAS's Infrastructure A Regional Perspective prepared by Rupa Ranganathan & Vivien Foster The World Bank Africa Region, 2011 pg.11-12

1.2 Statement of the Problem

The benefits of the economic situation and the abundant economic resource in West Africa, however, are yet to trickle down to the majority of the population in the region. In this regard, it is important to support measures that would reduce the gap between rich and poor people and improve governance. Those are needed to improve the living standards of the people in ECOWAS region, strengthen social cohesion and consolidate peace.

The need for regional economic cooperation, sustainable development and market integration in West Africa was appreciated by most African leaders soon after their countries had become independent in 1960s but till present very little have been achieved in this field as a result of competition for resources and reluctance in adhering to integration programs due to concerns over losses and uneven gains.

Scaling ECOWAS with ASEAN is currently lagging behind substantially as regards "competitiveness" of the regional markets. Many economic sectors in ECOWAS remain fragmented and are characterized by weak competition and persistently high prices that harm industries and consumers alike. It is uncontroversial that lack of competition in the Community curbs innovation and hinders research efforts (ECOWAS.int)

Many West Africans, readers, students, teachers, and even the young nursery and primary school children's are being thought to know the ECOWAS vision and everyday are steering at the great long desired vision of ECOWAS to come to pass in their time but instead of development people are seeing economic issues standing at the same spot with no change achieved. The past decade in ECOWAS is likely to go down in African history as the decades of economic downturn, increment on insecurity turnover, high trade barriers. Customs officials and police at roadblocks make trading difficult for traders to move their goods across the region. Sea corridors and ports faces high barriers while surface transport is seen to be costly and slow, owing to cartelization, restrictive regulations, and delays.

Sub-Saharan African economies are typically small, undiversified and suffer from weak infrastructure (BIS, 2011). Trade among African countries only accounts for about 10 per cent of their total external trade[2]. According to a 2009 survey conducted by the US Chamber of Commerce's Africa Business Initiative, many US corporations believe that investing in African markets is still not 'sufficiently enticing' enough. They cite a general lack of rule of law, a relatively small consumer market and poor infrastructure as the main reasons why investing in Africa continues to lack appeal. These problems and more that are reviewed in this paper have deprived ECOWAS Region of its economic development.

1.3 Importance of the Study

Evidence suggests that enhancing trade has a positive effect on both the growth and level of income (BIS, 2011). Achieving undisputable regional cooperation in ECOWAS that would reduce trade barriers and build more efficient development institution and other forms of regional cooperation could result in doubling of per capita incomes over the next decade (CAREC, 2006)[3]. The price of non-cooperation could also be large. Lost economic opportunities and difficult access

[2] Addis Ababa-based UN Economic Commission for Africa (ECA). 2002 Annual Report on Integration in Africa from Africa Recovery on *How to boost trade within Africa.* Vol.16 #2-3 (September 2002), page 20.

[3] See; Fifth Ministerial Conference on Central Asia Regional Economic Cooperation 18-20 October 2006 Urumqi, XUAR, People's Republic of China.

to markets would mean poor employment prospects, and slow progress in reducing poverty, conflict and insecurity.

The significant support of this study is to promote good governance, foreign direct investment, expansion of regional market, trading and regional security across the sub- region, so that ECOWAS regional economy and environment will have global benefits, facilitate market access and encourage openness to investment, respect for property rights, transparency and predictability in regulations, and value for free movement of people (Washington, 2007)[4]. Cooperation is imperative to build more fair and human societies that results building up a future of shared development in the sub-region (Xinhua, 2001).

In recent years, while ECOWAS has been struggling with printing and distributing customs documents not only has UEMOA (West African Economic and Monetary Union) achieved progress in the areas of institutional harmonization and functional corporation, but its trade liberalization scheme have became effective since 1 January 2000. Experts and non-experts alike have concluded that UEMOA's trade liberalization scheme has been better organized, better managed, and better implemented than ECOWAS scheme (Adebajo & Ismail O. D., 2004). Also in the Association of Southeast Asian Nations (ASEAN) development continued during the year under review, gaining steadily in economic strength, political cohesion and international recognition, despite the difficulties arising from the worldwide recession ASEAN sustained the highest economic growth rate of any region in the world. It has intensified and accelerated its programme of cooperation which has substantially contributed to the stability and prosperity of the ASEAN region, enhancing at the same time the political solidarity of its own member countries (ASEAN Secretariat, 2009).

It is not that ECOWAS Members are not abundantly endowed with resources. In fact, they are very rich in both mineral and human resources. For instance, Nigeria an oil rich nation blessed with good resources that can boost the economy of the country, most populous and having the highest population in Africa had earned US$350 billion between 1965 and 2000. But while oil revenues per capita rose from US$33 to US$325 during the period Gross Domestic Product (GDP) per capita declined from $1000 in 1980 to a trifling value of $300 in 2001 (Obadan, 2003). Thus, what she earned during the period did not add meaningful value to the people's living standard (Sala-i-Martin and Subramanian, 2003). Similarly, Ghana is endowed with gold, diamond, manganese ore, and bauxite; Liberia with iron, timber and rubber; and Sierra Leone has one of the world's largest deposits of rutile, titanium ore (Johnson, 2003).

In 2001, the combined Gross Domestic Product (GDP) for ECOWAS Members was about $74.2 billion, excluding Mauritania that opted out of the union in 2002. Nigeria's economy, the regions largest with a GDP of $39.5 billion in 2001, is larger than the combined GDP of the others. This is not to be commended because her population of about 128.71 million was equally more than half of the entire regions of about 254.53 million people in 2004. While the region's economies grew at a combined average rate of 4.34% in 2002, the average per capita GDP-PGDP was $329.5 in 2001 and the degree of openness indicator stood at a low average of $68.84 for the region in year 2000 (Evans, 2007).

Regional and sub-regional economic cooperation programs always involve several geographically connected countries, especially the border areas of those countries. Border regions usually are underdeveloped areas because they are far from commercial centers in every country. As stated by the ADB (Asian Development Bank, 2005) that cross-border infrastructure development will help to create a sound environment in geographically proximate areas of

[4] See http://trade.ec.europa.eu

neighboring countries to promote trade and investments there. However there is a need to take this as a significance factor to look at cross-border infrastructure development of ECOWAS.

1.4 Purpose of the Study

The objective of this paper is to investigate the role of ECOWAS governance in explaining the sub-optimal performance of West African economic growth and market competitiveness while controlling for the conventional sources of growth**.** The purpose is to see empirically whether poor governance, lack of market integration and weak institutions explain the low growth rates in the ECOWAS countries

A rise in per-capita income growth is observed in a small number of countries in ECOWAS: Cape Verde, Côte d'Ivoire, Ghana and Senegal. The experience of poor performance in terms of economic growth is not encouraging because the current rates are far from those needed to achieve the Millennium development goals. Why the countries endure such a situation is thus a central question for the policymakers in the ECOWAS region.

1.5 Scope and Structure of Research

Based on related research conducted in Asean Economic Integration; recommendation was found that the realization of a fully integrated economic community requires implementation of both liberalization and cooperation measures. The Task Force while focusing its recommendations relating to liberalization and facilitation measures in the area of trade in good, services and investment, acknowledges on the need to enhance cooperation and integration activities in other areas. These will involve among others, human resource development and capacity building; recognition of educational qualifications; closer consultations on macroeconomic and financial policies; trade financing measures; enhanced infrastructure and communications connectivity; development of electronic transactions through e-ASEAN; integrating industries across the region to promote regional sourcing; and enhancing private sector involvement (ASEAN Secretariat, 2014).

Giving the range of this study, this research is in order word advising the ministries in ECOWAS regions on trade liberelisation and increment in intra-regional trade. Attention is being paid to both the administrative and technical obstacles to trade while regional cooperation and good governance is being promoted. Intra-regional procedures are to be assessed to a high-quality infrastructure based on modern, international standards.

For African countries to be able to capture more trade opportunities they need to diversify their products (Mutume, 2002). At present, regional economic arrangements exhibit narrow patterns of trade, depend on primary products and involve low levels of inter-country trade (Mutume, 2002). In regards to trade---improvement in infrastructure development can help foster the success of manufacturing, cross border trading and agricultural activities and will cause private sector reform which will bring change to ECOWAS business climate such as increase in inward and outward investment, trade expansion and regional cooperation.

1.6 Methods

This is a qualitative research study and a secondary data process that does not utilize empirical research instruments. Instead it focuses on expert opinions, historical regional integration and economic cooperation data, governmental and non-governmental publications and academic journals. Is a secondary research that relied predominantly on Internet based sources and references. The information used in the literature review comes from different trade, investment and government division working papers and journals. Some of this information are from the Economic and social Commission for Asia and the Pacific. In the result section of this paper, data attained from government publications and other historical regional integration and economic cooperation data is compiled and analyzed both through written and illustrative means.

This utilizes the written proposition found in the ASEAN regional integration and economic cooperation working papers towards the 2015 ASEAN Community goal to compare and contrast the cases in the ECOWAS regional integration and economic development paper publications. This illustrates that for ECOWAS to achieve economic growth and improvement in the living standard of its people they need to maintain good governance, integrate their market and invest in infrastructural development. Creating regional markets can thus allow companies to expand operations and create economies of scale, making them more competitive. Gaining access to regional markets also increases incentives for more investment flows, and permits suppliers to specialize and integrate into regional supply chains that ultimately cater to both domestic and international markets. Moreover, conceptual model and tables are used to better illustrate this method.

This choice of methodology limited the ability to access exhaustive and up to date information on the status of progress of many ECOWAS members, since most of the Internet based sources were neither exhaustive nor up to date.

1.7 Conceptual Model

Long before the establishment of the OAU (Organization of African Unity), African leaders had recognised that cooperation and integration among African countries in the economic, social and cultural fields are indispensable to the accelerated transformation and sustained development of the African continent. This was concretised in 1963 in the objectives of the OAU Charter, as well as in the OAU Summits of 1973 and 1976, and the Monrovia Declaration of 1979 (Pan-African-Perspective, 2010). In 1980 the OAU Extraordinary Summit adopted the Lagos Plan of Action, as a major step towards that goal. During that Summit, the African leaders stated their commitment, individually and collectively, to promote the economic integration of Africa, in order to facilitate and reinforce social and economic intercourse (Pan-African-Perspective, 2010). They also committed themselves to promote the economic and social development and integration of their economies and, to that end, to establish national, regional and subregional institutions leading to a dynamic and interdependent African economy, thus paving the way for the eventual establishment of the African Economic Community (Pan-African-Perspective, 2010).[5]

To support the ECOWAS vision of regional cooperation in other to improve the living standard of its people three stages needs to be processed and met these includes “trade expansion and facilitation, investment (domestically and internationally), security and good Governance throughout the region”.

[5] For more info please visit http://www.panafricanperspective.com

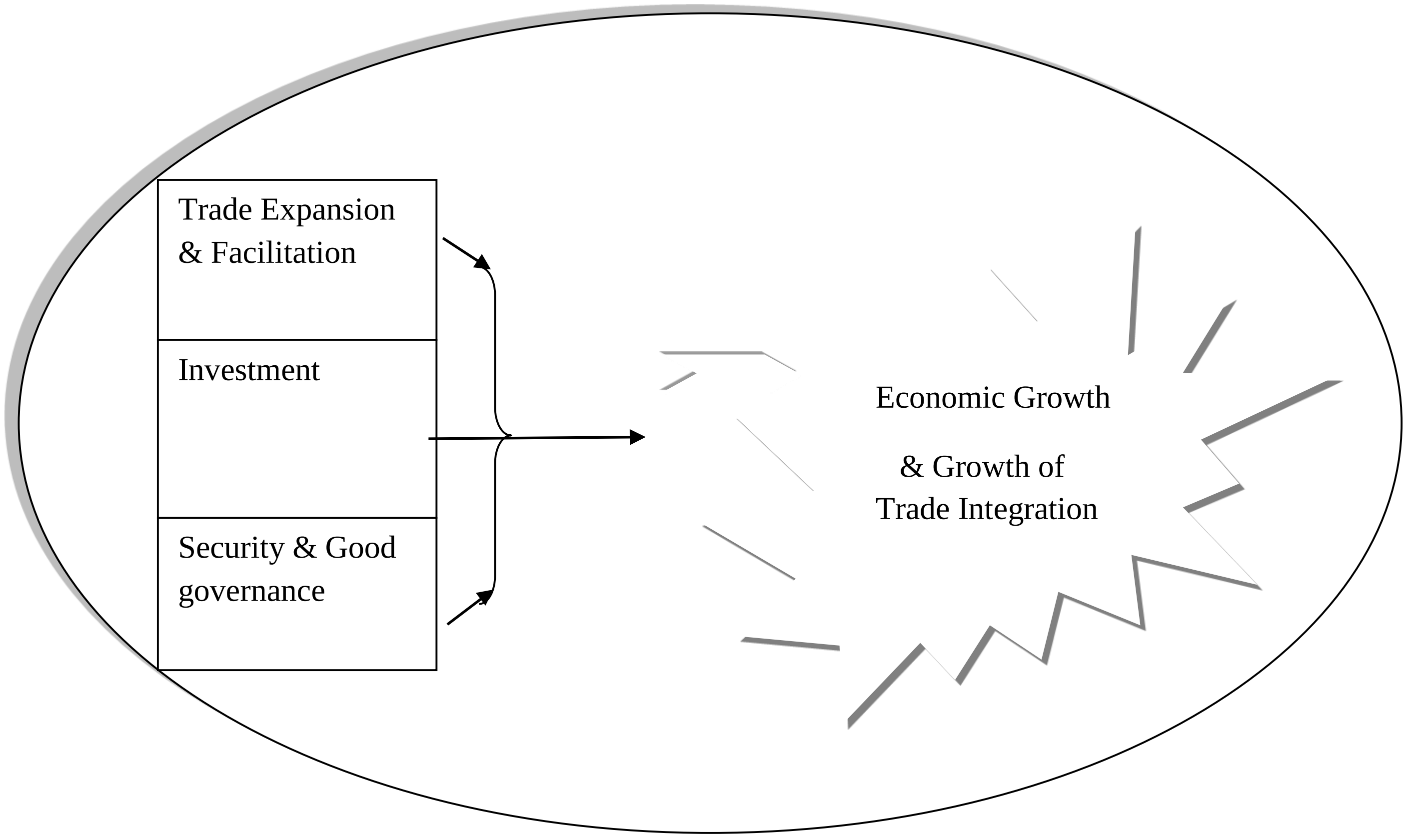

Figure 1 Conceptual Model

1.8 Independent Variables

The independent variable of this study influences the dependent variable; it's obvious that all the contracting members of West African states are in similar interest which is "improving the living standard of the people". For ECOWAS regions to achieve economic growth and intra-regional trade expansion of member states which would support the achievement of the ECOWAS vision it needs to strengthen its institution and governance efficiency towards trade expansion, Security stability, peace and investments into the regions.

1.8.1 Trade Expansion & Facilitation

This will scale up the attractiveness of the ECOWAS region as a single market, as stated in the ECOWAS common investment market paper report (2010) that "bigger markets permit better exploitation of economies of scale while factor mobility across borders and the coordination and harmonization of monetary and fiscal policies would facilitate faster economic growth and greater welfare for participating countries", and will in addition creates good return of enhance regional cooperation and economic growth of member states.

1.8.2 Investment

The second independent variable that will influence growth of intra-regional trade and economic growth of member states is investment (Domestic and FDI) and capital market development. FDI is a major catalyst to West African economic development (OECD, 2002) while investment in infrastructure is a key to expand and strengthen trade integration.

1.8.3 Security Stability and Governance Efficiency

Promoting good governance is amongst the most important commitments in the economic and environmental security dimensions (OSCE, 2012) of West Africa that can influence enhanced regional trade and economic growth of member states.

As discussed in the 20th OSCE Economic and Environmental Forum (2012) Good governance centres around a belief that when government is more equitable, more transparent, and more accountable, the needs of our citizens are better cared for, our economies are more efficient, and ultimately our states more secure.

1.9 Research Questions and Objectives

Below are the questions backing up this study. These questions are analyzed in this paper and answers to them are given in chapter V of this study.

1. In what ways can West Africa exploit economies of scale?
2. What are the challenges of regional integration and trade growth in West Africa and how can strategies be reached that effectively address these challenges?

The objective of this research is to try to answer these questions raised above.

1.10 Hypothesis

The first hypothesis illustrates that lack of regional trade mindset in business management is the dominant factor responsible for the backwardness in ECOWAS market integration achievement. The counter claim is that the application of regional trade mindset in ECOWAS business management is in line with focusing only on smaller domestic markets for companies. Economic literature suggests that trade, and intra-regional trade in particular, plays an important role in promoting economic growth and development in any region

The last three to four decades witnessed a significant growth in the formation of regional and sub-regional economic groupings for the principal objective of promoting trade at the regional and sub-regional levels. In this regard, as at the end of 2008, intra-regional trade as a percentage of total trade stood at: 70% in the European Union; 32% in North America; 47% in developing Asia; 27% within Latin America and the Caribbean; and 10% in Africa (Jean-Louis, 2010).

The low ratio of intra-African trade to total African trade despite rising intra-African trade values has been traced to some tariff and non-tariff barriers to the trade Africa (Jean-Louis, 2010).

The second hypothesis illustrates that poor governance in the region is the dominant factor that have denied it of achieving economic growth and high competitive scale in meeting the better living standard of its people.

The third hypothesis illustrates that weak institutions has been the dominant course of lack of trade integration slowdown in the region’s foreign direct investment and infrastructural development which is the key to accelerating economic growth and creating economies of scale in the region.

1.11New Knowledge

The expectation on this research is to gain new knowledge and to use this new knowledge to find new applications that can solve economical problems. The new knowledge to be gained from this study is the different ways in which expanded trade and economic growth through cooperation can positively affect the living standard of the people in ECOWAS.

1.12 Chapter Conclusion

The term cooperation simply means doing things together with understanding. Economic cooperation deals with economic union which involves trading with one another, removing barriers to trade improving free movement of people and the living standard of the people in the region. Cooperation is a powerful instrument to bring into economic development (Xinhua, 2001) and strengthening of intra-regional trade unification of the ECOWAS member states**.** Cooperation is needed to address regional coordination failures and finance common policy solutions in presence of cross-border externalities (Viña del Mar, 2009). By pooling resources, individual countries can also attain greater developmental gains than they would if they were to act on their own (Viña del Mar, 2009). Making this effective will entail the need of market integration, good governance, proper resource management system, security stability, and investment development within the region.