



Market Integration Process in the Economic Community of West African States (ECOWAS)

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This article introduces the ECOWAS market integration process by comparing the general measures of regional economic integration with the steps of ECOWAS’s market integration. Furthermore, it lists the still existing obstacles and provides suggestions for choosing a bridgehead country.

6 Levels of regional economic integration and measures of ECOWAS

There are 6 levels of regional economic integration: the economic unifying process. The regions or countries will take different measures on different levels. As shown in the following figure, there are 6 general measures: infrastructure construction, implementation of a common external tariff, elimination of internal tariff obstacles, free movement of people, building of an economic and monetary union, as well as the set-up of supra-national legislation and legal systems. This table indicates that the more measures are implemented, the greater the integration of regional economies will be.

Levels of regional economic integration

| | Infrastructure construction | Implementation of a common external tariff | Elimination of internal tariff obstacles | Free movement of person | Build Economic and Monetary Union | Supra-national legislation, legal systems |
|-----------------|-----------------------------|--|--|-------------------------|-----------------------------------|---|
| Free trade area | ✓ | | | | | |
| Customs union | ✓ | ✓ | | | | |
| Common market | ✓ | ✓ | ✓ | | | |
| Economic union | ✓ | ✓ | ✓ | ✓ | | |
| Monetary union | ✓ | ✓ | ✓ | ✓ | ✓ | |
| Political union | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

Greater Integration



Figure 1 6 levels of regional economic Integration

However, these are only the general measures of regional economic integration. How about the situation of ECOWAS market integration? And which economic integration level has ECOWAS achieved? The following table states the detailed measures of ECOWAS and the degree of these measures' implementation.

| Steps of Market integration | Measures of Ecowas | Degree of Implementation |
|--|---|--------------------------|
| Infrastructure construction | <ul style="list-style-type: none"> Road transport, Railways, Ports, Air transport. ICT (Information and computing technology) network Energy development and transmission (WAGP and WAPP) | ☹ |
| Implementation of a common external tariff | <ul style="list-style-type: none"> The establishment of a customs union External tariff rates are divided into groups of four items | ☹ |
| Elimination of internal tariff obstacles | <ul style="list-style-type: none"> The formulation and implementation of uniform customs documents Implementation of a Single Trade Liberalization Scheme for Industrial Products | 😊 |
| Free movement of persons | <ul style="list-style-type: none"> Cancel the visa and entry permit The issuance of ECOWAS residence card or residence permit Plan to give the right to engage in economic activities abroad | ☹ |
| Build Economic and Monetary Union | <ul style="list-style-type: none"> Issuing traveler's checks Plan of establishment of a single currency zone (ECO) | ☹ |
| Supra-national legislation, legal systems | <ul style="list-style-type: none"> The signing of the Treaty of ECOWAS Establishment of the Community Court of Justice | ☹ |

😊 : well done ☹ : not bad ☹ : bad

Figure 2 Measures of ECOWAS for market integration

The table clearly shows that ECOWAS's member states have taken several measures such as construction of roads for transport as well as development and transmission of energy to improve the infrastructure. In order to eliminate the external and internal tariffs, ECOWAS established a customs union. The specific measures comprise 4 catalogues of external tariffs and the implementation of a single trade liberalization scheme. In the next step, ECOWAS took measures such as cancelling the visa and entry permit, the issuance of the ECOWAS residence card and the member states plan to give right to citizens, so they can engage in economic activities in each of ECOWAS's member states. Moreover, the member countries devoted themselves to building a monetary union and establishing a single currency zone. They also signed the treaty of ECOWAS and set up the Community Court of Justice, but these measures almost do not help in the process of supranational legislation and legal systems.

Another aspect which stands out in this table is the current situation of measure implementation. We used 3 different symbols to illustrate the degree of implementation. In the next part, we will introduce the remaining obstacles in the market integration process to explain why we decided on these ratings for the ECOWAS's market integration measures.

A number of obstacles hindering market integration

Check points on highways - a still-existing barrier



Figure 3 Check points among the country of ECOWAS

There is a variety of obstacles hindering market integration in ECOWAS. Although ECOWAS has taken many measures and made efforts to form a well-integrated market, some barriers still exist until today.

The first one to mention is about the checkpoints. Almost every country of ECOWAS built a large number of checkpoints on their highways. For example, there are 7 checkpoints per 100 kilometres on the highway from Lagos (largest city and former capital of Nigeria) to Abidjan (former official capital of Ivory Coast and in fact still considered as its capital). These two cities are quite big; nevertheless, there are too many checkpoints between them. ECOWAS has many things left to do to unify the region.

Common external tariffs are not implemented yet

| Category | Goods of Description | Average duty rate |
|----------|---|-------------------|
| 0 | Essential social Goods | 0% |
| 1 | Goods of primary necessity, raw materials and specific inputs | 5% |
| 2 | Inputs and intermediate goods | 10% |
| 3 | Final consumption goods | 20% |

Figure 4 External tariffs plan adopted by Government of ECOWAS in 2006

ECOWAS established the law to create common external tariffs in January 2006. The Authority of Heads of State and government of ECOWAS in January 2006 adopted the decision to establish the ECOWAS-CET (Common External Tariff) in Niamey (capital city of Niger). They categorized trade goods into four groups and allocated different duty rates (percentage of taxes that must be paid) to each of these groups. Essential social goods are taxed at 0%, goods of primary necessity, raw materials and specific inputs at 5%, inputs and intermediate goods at 10% and

final consumer goods at 20%. However, a number of concerns arose, which made it difficult to achieve this plan by 1st January 2008. Moreover, there were some negative opinions stating that the economic development of the member countries is not balanced and unified external tariffs will inevitably have a bad impact on some of the countries' economies. Unfortunately, the plan is delayed again and again because of discordance and incompatibility with member states. Therefore, the ECOWAS member states decided to reconsider the ECOWAS-CET plan in 2006.

| Category | Goods of Description | Average duty rate | Number of tariff lines | |
|----------|---|-------------------|------------------------|---|
| 0 | Essential social Goods | 0% | 85 | Mosquito net, medical device, ambulances, etc. |
| 1 | Goods of primary necessity, raw materials and specific inputs | 5% | 2146 | Generally inputs used to make other product such as rolled steel. |
| 2 | Inputs and intermediate goods | 10% | 1373 | A product that can be used as an input but also used for final consumption, such as sugar or certain plastic, glue. |
| 3 | Final consumption goods | 20% | 2165 | Goods that are ready for sale, such as laundry detergent, washing soap, cigarettes, tobacco. |
| 4 | Specific goods for economic development | 35% | 130 | 130 products made in West African by companies that countries want to shield from international competition strategic reason; for example, makers of non branded malaria drugs, antibiotics, etc. |

Figure 5 External tariffs plan adopted by head of state summit of ECOWAS in 2013

Recently, after 7 years, ECOWAS made a new plan for a common external tariff in October 2013, which is supposed to be implemented in 2015. Compared with the previous plan of 2006, the new one has more detailed measures and careful explanation about each product. They categorized the products into five groups, one more than before (specific goods for economic development at 35% duty rate) and set up specific details.

A single currency for ECOWAS



Figure 6 Currency of UEMOA

ECOWAS wants to have a single currency. Implementation of this adopted monetary cooperation has experienced a lot of obstacles and challenges, therefore prompting change in repeated strategies, the last of which occurred in 2009 by focusing on two monetary zones for the project. The first zone comprises eight countries who are members of the West African Economic and Monetary Union, also known by its French acronym, UEMOA. Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo are members of UEMOA. In these 8 countries, they use the FCFA as common currency. FCFA is the acronym for Franc de la Communauté Financière Africaine. However, there is a crucial problem in the UEMOA: All the countries using the FCFA are in ECOWAS, but not all ECOWAS countries use the FCFA. Only the eight francophone countries use the FCFA. Therefore, it is not accurate to say that one real common currency exists in ECOWAS.

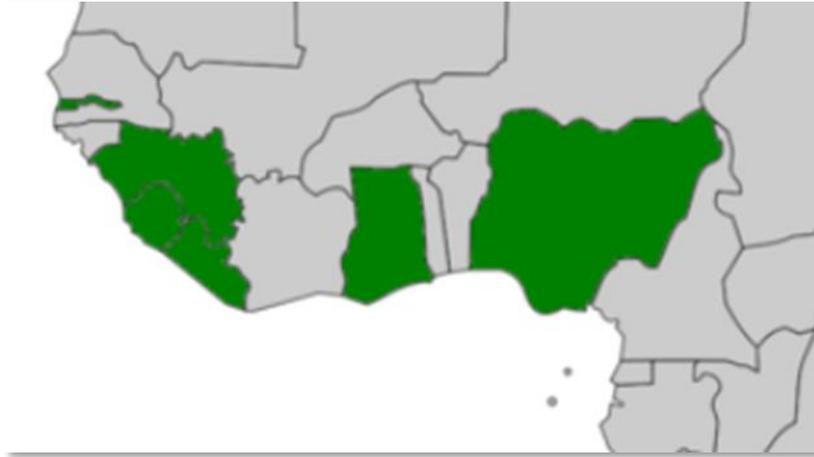


Figure 7 WAMZ (West African Monetary Zone) areas

The second group consists of the other seven member countries. Those seven countries are Liberia, Ghana, Nigeria, Gambia, Guinea, Cape Verde and Sierra Leone. They presently have their own currencies, but by 2015 will be grouped in one currency area called the West African Monetary Zone (WAMZ). Next, by 2020, the two areas UEMOA and WAMZ are expected to merge to create a single currency area and establish a single common currency. Moreover, ECOWAS Monetary Union is to be launched in 2020 with the establishment of the ECOWAS Central Bank and the introduction of the common currency. Then they will really have a single currency in the whole ECOWAS. From then on all nations of ECOWAS can use the same currency and trade more easily amongst themselves.

If ECOWAS reduces the obstacles that prevent market integration, they can trade more freely. The mentioned problems like the checkpoints on highways within ECOWAS or CET common external tariffs as well as the single currency are really serious and must be solved. Of course this is not an easy task. To solve such problems, harmony and cooperation among the member states is required.

Similar economic structures lead to the dilemma of market integration

After having introduced the obstacles briefly, there is another problem: Why is market integration in ECOWAS so difficult?

Therefore, we analysed one of the reasons for this from an economic structure's perspective and it will be helpful in understanding the current predicament of ECOWAS.

The following chart illustrates that most ECOWAS countries mainly rely on exporting one or two kinds of agricultural products. Furthermore, their main export goods are very similar.

| Country | Staple exported goods |
|-----------------------------|------------------------|
| Benin | Cotton |
| Burkina Faso | Cotton |
| Cape Verde | Bananas, Fishing |
| Ivory Coast | Cocoa beans, Crude oil |
| Gambia | Peanut, Fishing |
| Ghana | Cocoa beans |
| Guinea | Bauxite |
| Guinea-Bissau | Cotton, Fishing |
| Mali | Cotton |
| Niger | Livestock |
| Federal Republic of Nigeria | Fuel, Natural gas |
| Senegal | Peanut |
| Sierra Leone | Diamond, Rutile |
| Togo | Cotton |

Figure 8 Staple exported goods in ECOWAS member states

From the perspective of absolute cost and relative cost theories, ECOWAS has the potential of market integration, however, up until now, we ignored an important assumption: the existence of trade protection.

Benin and Burkina Faso, for example. We can see in chart 3 that for both, their main export product is cotton, so when the price of Benin's cotton is lower, Burkina Faso must be unwilling to import cotton from Benin, in order to protect their own products. This is what is called trade protectionism.

On the other hand, when the other countries, such as Germany, tend to import cotton from the ECOWAS member states, there will be an intense competition between them, so it is really not so easy to attain market integration in the short term.

Bridgehead Strategy

Creating a bridgehead is a way to keep costs under control until one has reference customers in place from which to expand the market position. The term bridgehead strategy in ECOWAS refers to the fact that when German companies choose a bridgehead country, a number of customers in the new territory will support further market penetration as references.

But how does one choose this key country? In our opinion, German enterprises can get inspiration from the perspective of the market integration measures - the ECOWAS Trade Liberalization Scheme (ETLS). The following table shows ECOWAS's decisions from 1992.

| COUNTRY | Period within which tariffs are to be eliminated | Rate of reduction of Customs duties and taxes |
|---|--|---|
| G1 : :Cape Verde, The Gambia, Guinea Bissau, Burkina Faso, Mali, Mauritania, Niger. | 10 years | 10% reduction each year |
| G2: Benin, Guinea, Liberia, Sierra Leone, Togo | 8 yearsr | 12.5% reduction each year |
| G3: Ivory Coast, Ghana, Nigeria, Senegal | 6 years | 16.6% reduction each year |

Figure 9 Implementation of an ECOWAS Trade Liberalization Scheme (ETLS) for industrial products

According to their economic strength, member states are classified into 3 groups. Group 1 comprises Cape Verde, Gambia, Guinea Bissau, Burkina Faso, Mali, Mauritania and Niger. Group 2 includes Benin, Guinea, Liberia, Sierra Leone, and Togo. The other countries belong to Group 3. The countries of Group 3 have the highest economic development level; on the contrary, Group 1 contains countries with low development.

These 3 groups will, in different periods, reduce their tariffs on industrial products. For example, the countries of group 3 will reduce the tariffs by 16.6% every year and these industrial products will be tariff free within 6 years. This way, the tariff barriers will be eliminated faster in group 3. It seems that group 3 offers a good choice for a bridgehead country.

However, 23 years later, in 2015, the implementation of this scheme, unfortunately, does not meet the expectations. Not all of the industrial products are tariff free. Only when the enterprises and their products are approved by the National Approvals Committee and the ECOWAS Commission, will they obtain the Certificates of Origin needed for their products. The process of obtainment of Certificates of Origin is complicated but it seems encouraging that there have been a number of enterprises which fulfilled the criteria of the ECOWAS Trade Liberalization Scheme. Therefore, we will now analyse the current implementation status of this scheme and discuss whether the countries of group 3 are the best choice for the bridgehead strategy.

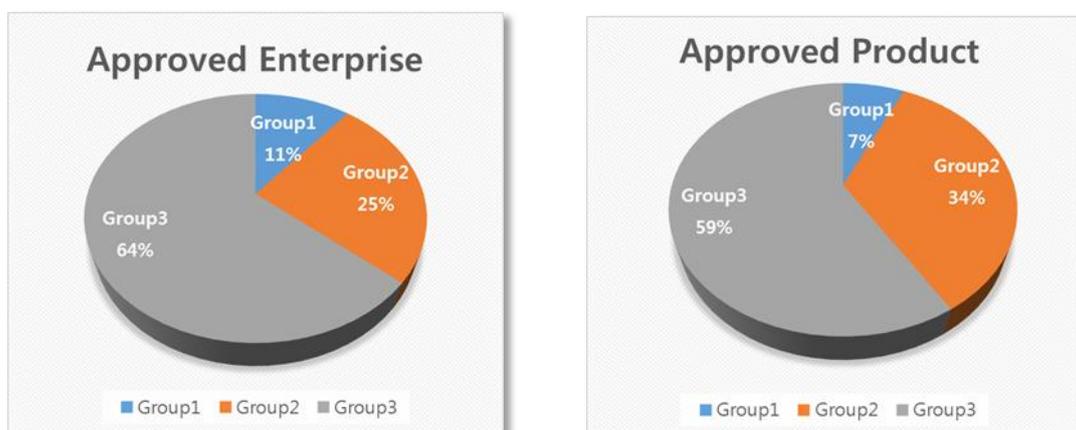


Figure 10 The share of 3 groups; approved enterprises and products in ETLS

It is very obvious that group 3 has absolute predominance in the Trade Liberalization Scheme. Group 3, representing 64% of the approved enterprises and 59% of approved products, ranks first among the 3 groups. All in all, group 3 countries have the most approved enterprises and industrial products and the economic development level is the highest. Taking this into consideration, we can reach the conclusion that from ETLs's perspective, group 3 can be the best choice for the bridgehead strategy.

Conclusion

Although there has been a lot of improvement, there are some problems which are still unsolved in ECOWAS. Through analysis, we also found out that the group 3 countries (Ivory Coast, Ghana, and Nigeria) are the best choice from the perspective of market Integration for German enterprises using the bridgehead strategy, so they can start from these countries and then explore other markets.

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Approved enterprises and products in ETLs - www.etls.ecowas.int/approved-products/