ASSESSING THE EFFICIENCY OF TRADE IN ECOWAS SUB-REGION: A CASE OF LAND TRADE 1976 – 2014

Nseobong Ekong Nkanga
Department of History and International Studies
Nigeria Police Academy, Wudil Kano.
nsebassey26@gmail.com; 08061567824

Abstract

This paper discusses the trade efficiency in the Economic Community of West African States (ECOWAS) sub-region with particular reference to land trade from 1976-2014. The finding in the course of the study indicates among others that the Land Trade in ECOWAS sub-region is characterized by border trade and smuggling. This paper strives to examine the factors that promote such which include import barriers or high protectionist barriers of some countries, loopholes in ECOWAS treaty, protocol on inter-state (transit) goods and re-export goods and finally the geographical location of Togo, Benin Republic to protectionist country like Nigeria, Gambia to Senegal, Cote D'Ivoire to Burkina Faso and lastly Sierra Leone to Guinea. The paper also discusses the final destinations of the transit goods in Togo, Benin Republic and Nigeria in relation to Coastal and land locked countries in the ECOWAS Sub-region.

Key words: Economic Development, Nation Building, Economic Diplomacy and Trade

Introduction

ECOWAS was established in 1975 by the 15 Member countries in West Africa. The Nigeria's Head of State, General Yakubu Gowon who initiated the creation of ECOWAS commented on the policy thrust of his administration in this way:

> *As a young military Head of state, the government in 1966 introduced the "know your neighbor policy" which I saw myself visiting several neighbours of Nigeria and the purpose of cultivating good borderless*

integration and therefore, keeping the country from harm (Gowan, 2015).

This must have been the spirit of integration unhatched. However, on the motivation behind the formation of ECOWAS and the signing of the Lagos Treaty on 28 May, 1975 General Gowon, the then Nigerian Head of State recalled the diplomatic shuttle undertaken by officials of his government and other countries in the region after the Nigerian Civil War, and the need to scramble the various bilateral agreement among the countries into a single document that spoke of the needs and aspirations of the community (King, 1985). The West African leaders saw the need to be together and have trade dealings in form of regional block so as to have a mega force against the European market dictate.

And the year 1972 witnessed the initiative that culminated in the establishment of ECOWAS which was launched by Nigeria and Togo, and exactly three years after, on the 28 May, 1975 the treaty establishing ECOWAS was signed in Lagos by 15 Heads of State and government, with Mauritania signing shortly after to increase the number of member states to 16.

Prior to the creation of ECOWAS in 1975, there were intra-regional trading activities that took place in the region. There had been traditionally a considerable amount of trade in domestic produce in West Africa. One of the key focuses of the 1975 ECOWAS Treaty was the promotion of market integration through policy harmonization, coordination and the development of physical infrastructure (that is roads, airports, seaports telecommunication and energy) to facilitate market integration. It was with the intent of bringing together all the states in the West African sub-region in cooperating self-defence, share common socio-economic activities and also political advantages. In order to facilitate the free movement of goods and services, right from 1976 to 2015 ECOWAS has launched a lot of trade policies in order to harmonize trade in the sub region.

Conceptual Clarifications

Integration

The concept of integration in ordinary usage means unification or putting parts into a whole. In economic literature, the term "economic integration" is sometimes difficult to be given a precise definition. Some scholars include social integration in their conceptualization; others define integration from static or dynamic standpoints. From the static point of view, integration is considered as a state of affairs which would obtain at the end of a fairly long process leading to the complete emergence of national identities (Nweka, 1984). The dynamic view, on the other hand, sees integration as a process whereby discriminations existing along national borders are progressively removed between two or more countries.

Economic Integration

Economic integration connotes a level of economic intertwining in which through formal agreement of formal circumstances, the countries involved begin to surrender some degrees of sovereignty and act as an economic unit (Nweka, 1984). It also denotes a decision whereby two or more countries combine into a larger economic region by removing discontinuities and discrimination existing along national frontiers and establishing certain elements of cooperation between them.

It could also be seen as a complex phenomenon that results from interaction and mutual strengthening of transnational trade and finance, of inter-governmental and non-governmental international organizations and transnational values and international law (Okuoma, 2009). Countries in the West African sub-regions that practice economic integration as encapsulated in ECOWAS adopted common and harmonized laws and regulations in free trade, free movement of goods and services, custom union and a common market. It also involves similar economic policies that made the creation of an African community from integrated regions. ECOWAS is an economic community in the sub-region that ensures mutual economic integration of member states (Okuoma).

Rules of Origin

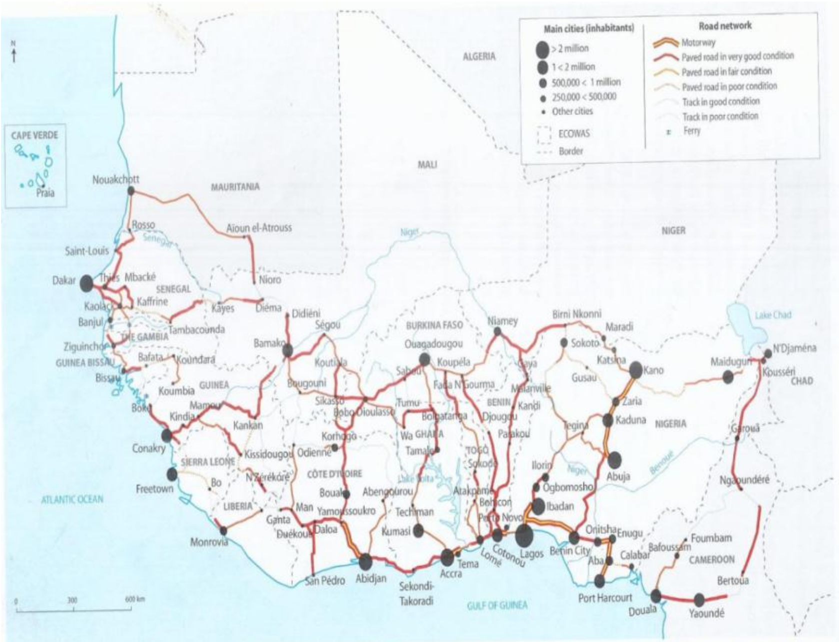
Rules of Origin (RoO) are those set of rules, which determine the country of origin of a product, traded in international commerce (Ukpe & Ken, 2009). Generally, rules of origin are classified as non-preferential and preferential rules of origin. The former defines the origin of a good for particular purposes such as import quotas, trade defense, origin labeling, etc. Once a product is wholly obtained or produced within a country, such product is deemed to originate from that country. Where production spans across more than one country, the product is deemed to originate from the country where the last substantial transformation took place. Substantial transformation is defined as using any of the following three criteria; change of tariff classification, value added criteria and specific processing rule (Ukpe & Ken).

The preferential rules of origin specifically are part of a preferential trade arrangement. It seeks to ensure that goods from countries which are not members of the arrangement do not pass through a preferential partner to benefit from the tariff concessions in the preferential arrangements (Ukpe& Ken), without them, imports would generally, seek entry through the country with the lowest tariff. Thus, the economic justification for preferential rules of origin is to curb trade diversion (Ukpe & Ken).

Trade Liberalisation

Trade liberalisation is the removal of all impediments to free mobility of factors of production as well as harmonization of national economic and fiscal problems of member states (Nwachukwu).It also means the establishment of a Custom Union and removal of non-tariff barriers and the establishment of Common External Tariff (CET) to protect goods produced in member states.

Map showing some Trade Roots in West Africa (2005).



Source: L. Bossard, Regional *Atlas on West Africa*, 2009, p. 128

Land Trade in ECOWAS Sub-Region 1976 - 1995

The land trade in ECOWAS sub-region is characterized by smuggling. Although, smuggling is pervasive in West Africa, but the most pronounced version of this is the development of 're-export states' in West Africa, notably Benin, Togo and The Gambia (Ukpe & Ken). This is so because most economic development strategies have been largely based on enhancing their attractiveness as trading hubs.

These countries served as conduits for both legal transits to land-locked countries in West Africa such as Mali, Niger and Burkina Faso and illegal trade to more protectionist neighbours of Senegal and Nigeria). The re-export countries have deliberately sought to maintain low imports barriers to lower cost of importing and trans-shipping. Benin Republic and Togo were characterized by cross-border trade from time immemorial. They are small countries with population of about ten million and eight million respectively and are near to Nigeria (*http://www.afrrerjo.net*), the most populous country in Africa with a population of about 150 (One hundred and fifty) millions. Benin and Togo are also well placed to serve as gateways to land-locked Sahelian countries. Togo and Benin are members of the West African Economic and Monetary Union (WAEMU), a group of mostly Franco-phone countries and also of the largest Economic Community of West Africa State (ECOWAS) which encompasses both Franco-phone and Anglo -phone countries in West Africa (Ukpe& Ken).

WAEMU is a full- fledged customs and monetary union, whereas ECOWAS has until recently, made little progress in reducing barriers to promote intra and inter-regional trade, largely because of Nigeria's reluctance to liberalise highly protected industries.

The ETLS is the main ECOWAS operational tool for promoting West Africa region as a Free Trade Area (FTA). The scheme was aimed at systematically reducing and eliminating tariff and non-tariff barriers among member states, leading to the formation of not just a FTA, but characterized by free movement of goods and services. The scheme covered three groups of products, made up of traditional handicrafts, unprocessed goods and industrial goods (Ukpe & Ken).

When crossing border with smuggled goods, traders had to slip across through the villages on unbarred roads or canals to avoid being checked by customs officials. The evils of smuggling to any developing economy such as Nigeria and others have been well documented, and needless to recount or mention them here. Nigeria, no doubt, is a major trading partner in intra-West African trade, one of the greatest threats to economic liability of any nation is the unrestrained preference for consumption of foreign goods. When the reality of this type of economic pursuit dawned on the Nigerian government of the late 1970s, some goods were either placed on total prohibition list or their importation tied to issuance of approved import license (Golub).

Senegal also witnessed unprecedented smuggled trade items from The Gambia, and Burkina Faso had hers from Cote d'Ivoire and Togo, while countries like Guinea feed from Sierra Leone. On the whole, the total percentage of smuggled items into the rest of other countries in ECOWAS sub-region is unimaginably low compared to what arrived Nigeria (Golub). However, it was observed that the 1970s cross-border and smuggled trade activities to Nigeria was initiated and carried out by the Togolese and Beninoise, unlike the 1990s which was carried out by the Nigerian themselves.

Land Trade and ECOWAS Trade Policies in West Africa, 1996 – 2011

The trade policies in Benin, Togo and Nigeria largely dictated the trading trend within these three countries in the last twenty-three years. As already noted, Togo and Benin have deliberately maintained low import barriers to facilitate re-export role. With the implementation of the WAEMU Common External Tariff (CET) in 2000, Togo and Benin lost their competitive advantage just like other WAEMU countries. In addition, 18 percent Value Added Tax (VAT) and several other taxes and fees were (must be) paid on imports for domestic use (Ukpe, 2012). The CET, VAT and other taxes cumulated to a maximum of about 45 percent for final consumer goods (Ukpe).While CET appears to limit tax competition between Togo and Benin, Custom officials in both countries have historically exercised considerable discretion in the valuation of goods to alter effective rates.

Also, taxation on transit or re-export is not harmonized in WAEMU. Togo's taxes and fees are very low, well below Benin's, in an apparent effort to compensate for its geographical disadvantage in access to

Nigerian market. Unlike Benin and Togo, Nigeria has maintained a high tariff and has relatively developed, but often inefficient manufacturing and agricultural industries with powerful groups favouring protection hence encouraging smuggling.

Below are the selected import barriers in Nigeria, 1995 – 2007 (Tariff rates in % or bans.

Table 1: Selected import Barriers in Nigeria. 1995 – 2007 (Tariff Rates in % or Bans)

	1995	1997	1999	2001	2003	2005	2007
Edible oil	Banned	Banned	55	40	Banned	Banned	Banned
Poultry meat	Banned	Banned	55	75	Banned	Banned	Banned
Beer	Banned	Banned	100	100	100	Banned	Banned
Wine	100	100	100	100	100	20	20
Milk products	55	55	50	50	100	20	20
Tomatoes preserves	45	45	45	45	45	20	20
Used clothes	Banned	Banned	Banned	Banned	Banned	Banned	Banned
Tires	Banned	Banned	Banned	Banned	Banned	Banned	Banned
Wheat dough[a]	Banned	Banned	Banned	Banned	Banned	Banned	Banned
Used cars[b]	Banned	Banned	Banned	Banned	Banned	Banned	Banned
Sugar	10	10	10	40	100	50	50
Cloth and apparel	Banned	50	65	55	100	Banned	Banned
Tobacco and cigarettes	90	90	80	80	100	50	50
Rice	100	50	50	75	110	50	50

Source: S.S. Golub. *World Economy*, 2012, p.1144

Efforts to liberalise trade in the region since Nigeria has decided to participated in the negotiation. The Federal Government of Nigeria had, as far back as February 2004 announced her intention with the ECOWAS Common External Tariff (CET) and as such made provision for a 30% special tax to offer temporary protection to selected products for domestic industry (Ukpe). Nigeria had insisted on a fifth tariff of 50 percent (Ukpe). Whether or not, agreement will be reached and if so, how many products will be included in the fifth band and the extent of

Nigerian implementation will be crucial for the future of Togo's and Benin's transit and re-export trade. The call for fifth band immediately gained the support of prominent private sectors and civil society organization in West Africa. Unfortunately, this decision did not augur well with some parties in the sub-region, as this generated into controversies of some sort, hence, some countries indulged in conspiracy of silent. Notwithstanding, a fifth band at 35% was eventually adopted (Ukpe). This is shown in the table below,

Table 2: Distribution of products groups by tariff category

S/N	CATEGORIES	PERCENTAGE OF DUTIES	DESCRIPTION OF GOODS
1.	0	0%	Essential social goods
2.	1	5%	Goods of primary necessary raw materials and specific inputs
3.	2	10%	Intermediate goods
4.	3	20%	Final consumption goods
5.	4	35%	Specific goods for economic development

Source: ECOWAS CET: ECOWAS *Vanguard, Vol. 2.1 issue 2, December, 2012*, p. 5

In October 2008, Nigeria removed 25 products from its list of prohibited imports, including some meat products, flour, cassava, fresh and dried fruits, wheat, cocoa butter, biscuits, beer, some truck, tyres, selected textile products and bicycle frames. However, some items witnessed a lowered tariff including frozen poultry, textiles, clothing, footwear and used cars, although the allowed age used car imports was extended from 8 to 10years (Okpugie, 2010). For a number of other important goods such as rice, cigarettes and sugar, high tariff remained.

Similarly, the loophole in ECOWAS treaty lures Nigerian importers to neighbouring countries ports (Okpugie). The quest to take advantage of loophole in ECOWAS Customs agreements on inter-state road transit of goods has been discovered to be one major reason why many

Nigerian international traders now use the neighbouring countries ports to bring in goods into the country. Under ECOWAS Customs agreements on inter-state transit of goods by road, Nigeria bound goods imported through the neighbouring countries ports (ECOWAS member countries ports) and which are to be transported by road into Nigeria do not attract duties, and taxes in the country of import (ECOWAS Trade Regime, 1993). The customs service of the country of import only ensured that such goods which are cleared at their ports are not off-loaded or allowed to be sold in the country. For example, under transit ports servicing Land Locked Developing Countries (LLDCs) agreement, when land locked countries are making use of transit port facilities in coastal neighbouring countries, the goods imported by such countries like Niger, Mali and at times Chad through Nigerian ports, are allowed by the Nigerian Customs to be taken to those countries borders where the importer of the goods pay duty to the country which imported the goods, and not to Nigeria (ECOWAS Trade Regime, 1993).

The former Comptroller of Customs in charge of Import and Export at the Customs headquarters and later the Assistant Comptroller General, Investigations and Inspection, Mr. Julius Nwagwu, once told the public hearing organized by the Joint Senate Committees on Industry and Agriculture that, smuggling remains a big business in Nigeria because it is aided and abetted by top government officials. He declared further that "Wives of influential people travel to overseas to import all kinds of goods and on arrival, their husbands call the custom officers informing them of the arrival of their wives who had travelled. We all are guilty", Nwangwu added that: "customs perspectives rest on smuggling" (Okpugie). He posed questions such as "We are not here to say there is no smuggling, there is a lot; but who does the smuggling? It is done by Nigerians and with the tacit support of Nigerians" (Okpugie).While he lamented that some officers had lost their jobs doing the right thing, Nwangwu added that, "there is the problem of lack of sincerity on the part of Nigeria's neighbouring countries.

Transit Goods in Togo, Benin and Nigeria: A Case of Coastal Versus Land-Locked Countries

Goods imported into Benin and Togo are rarely ordered by the final consumers of these goods into the ports of Cotonou and Lome to sell to domestic and regional buyers (ECOWAS Trade Regime, 1993). Only when goods are purchased are declared under one of three main Custom's regimes: -Mis-a-la Comsomma (for domestic use), transit, and re-export. If declared for domestic use, the importer must clear all import taxes, Customs duties VATs and several other miscellaneous taxes, unlike the case of transit of goods for re-export which attract minimal or no charges at all (ECOWAS Revised Treaty, 1993). The land – locked countries in West Africa are Niger, Mali and Burkina Faso. But in Benin, goods declared for domestic use or transits are quite often smuggled to Nigeria, because Nigeria's protection is so high. Besides, it is lucrative to smuggle products banned in Nigeria such as frozen chicken, cloths and rice back to Nigeria.

There are two main types of official transshipment of goods in Benin, Togo and Nigeria. They are transit and re-exports. The classification into these two categories is a complex one. This is because, these two rubrics include a variety of goods into these categories based on practices that have evolved overtime. The distinction mainly involves two key dimensions: firstly, whether the goods are initially placed in domestic customs regime upon arrival at the ports, secondly, whether transshipment is by sea or air or final destinations of the land-locked countries. These are difficulties in defining precisely and Customs officials themselves sometimes struggled to explain why some goods were placed in one category or the other. From an economic point of view, whether goods are classified as re-exports or transit does not matter much as the difference between the two are quite small and then effect, they have on the domestic economy is similar. One thing is basic; both are taxed much more lightly than domestic goods. What matters most is the extent to which there is value addition and employment creation from handling the goods when they are in transit.

It is interesting to note that, most goods in transit in Benin are declared for Niger and Burkina Faso in Togo, but it is widely known that most windup in Nigeria (Golub). This is reflected in Togo’s Customs data, which indicate that only one percent of imported vehicles in transit are for Nigeria but on a visit to the car parks in Togo and Benin confirmed that buyers of vehicles were mostly Nigerians. Traders in Benin and Togo reported that the majority of other goods imported in transit or re-export status ended in Nigeria as their final destination. In the case of Benin, various international and local press came out with reports on observed smuggling from Benin, Togo to Nigeria (http://www.agricnomy.com/new/smugglers-to-supply).

Although the goods are usually imported legally, transit and re-export trade are dominated by informed or semi-formal operators, both foreign and domestic, once the goods are sold and exit the port, smugglers took over smuggling largely controlled by sophisticated and well-organized networks, with many small operators involved (Foula, 2015). For bulk items such as rice, wheat and sugar, importers purchased directly from international brokers with whom they are in regular contact. For some products such as cigarettes, foreign companies have local representatives in Benin and Togo. Importers of second – hand goods, such as used cars often travel abroad or have foreign correspondents, providing information about sourcing opportunities and a few large wholesalers dominate imports of frozen poultry in Benin. On the whole, traders display a remarkable flexibility in adapting to changing market opportunities.

Although Togo is less reliant than Benin on the Nigerian market, this analysis suggests that Nigeria is also a significant destination for much of Togo’s imports of used cars and some other consumer goods. More still, the increase in Togo’s transit and re-export trade in 2003, mirrored a large decline in Benin's. Benin raised transit taxes and fees in 2003, and there was also a serious border dispute between Benin and Nigeria in 2003, both of which opened the door to increased shipments from Togo to Nigeria at the expense of Benin (ECOWAS Revised Treaty, 1993).

Table 3: Selected Key Imports in Togo and Benin, 2012 (Billions of CFA Francs)

	Benin			Togo		
	Imports for Domestic Use	*Transit and Re-export*	*Total*	*Imports for Domestic Use*	*Transit and Re-export*	*Total*
Good facing import bans in Nigeria						
Cars	25.7	398.7	424.4	10.9	69.7	80.6
Cotton cloth	17.9	350.5	368.4	2.3	30.4	32.7
Frozen chicken	58.6	0.0	58.6	4.4	0.0	4.5
Clothing	17.6	19.1	36.7	15.2	20.9	36.2
Used clothes	22.4	33.1	55.4	4.0	6.0	9.9
Medicine	18.8	10.2	29.1	17.7	15.5	33.2
Palm oil	35.0	27.2	62.1	3.5	6.6	10.1
Vegetable oil	0.3	11.7	11.9	1.1	6.6	7.8
Goods facing high tariffs in Nigeria						
Rice	88.4	43.7	132.1	4.2	8.7	12.8
Sugar	7.8	8.2	16.0	2.1	7.2	9.3
Cigarettes	2.6	19.2	21.9	8.8	11.9	20.7
Goods facing lower tariffs in Nigeria						
Frozen fish	4.6	0.7	5.3	2.1	4.9	7.0
Motorcycles	5.1	0.8	5.9	5.1	3.3	8.4

Source: S.S. Golub. –World Economy, 2012.P. 1150.

These developments gave rise to smuggling is bang encouraged and indeed increasing while touts learnt more devious and deadly tricks as well as dangerous ways of circumventing the borders. In doing so, government also ends up losing tariff. Cross border trade characteristically involves by passing border posts, concealment of goods, under – reporting, false classification, under – involving and other similar tricks. In addition to seeking to evade taxes, or fees imposed by governments, traders also try to avoid administrative formalities in areas such as health, agriculture, security and immigration which are perceived as costly complex and time consuming (ECOWAS Revised Treaty, 1993). More still, crossing formal borders can take days at times and costs of clearance, processing fees, tariffs and taxes are generally above the value of goods being traded informally due to poor infrastructure. Inadequate border infrastructure including proper warehousing facilities, community markets, transport networks and especially functional and adequately staffed border institutions and agencies makes it unattractive, inefficient and sometimes downright dangerous to trade via formal routes (Okpugie).

Conclusion

This paper discussed the characteristics of land trade in ECOWAS sub-region. Over the years, ECOWAS has launched and implemented series of trade protocols in order to promote trade and economic integration within the region but it seems such efforts have developed some grey hairs. It is believed that if ECOWAS checks the activities of the West African Economic Monetary Union (WAEMU), discourage the numerous check points manned by unscrupulous security officials along ECOWAS highways, maintained a good paved road network and creating awareness of the existing trade protocols to the users would help enforce some of the laid down protocols of the bloc. This paper has also discussed the transit and re-exports goods provision of ECOWAS protocols in Togo, Benin Republic and Nigeria into the land-locked countries of the region. This of course was to alleviate the problems faced by those countries when trying to import goods from oversea countries and the final destinations of goods earmarked for land-locked countries is to be verified by the official of the ECOWAS bloc.

As a recommendation, ECOWAS should ensure that security is made available along regional trade routes such that there should be cooperation among the member states and adequate coordination among the security forces. This will ensure stable flow of goods and services and reduce incidences of illegal trade routes and proliferation of smugglers along the region. It is observed that those in authority mostly compromise where their relatives, associates and friends are involved in cross-border trade, thus creating avenues for illegal trade since it will yield high profits. It is therefore advisable that a policy should be put in place to prohibit relatives of such individuals especially those in power, from participating in cross-border trade.

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