Regional Economic Integration and Trade Facilitation: The Case of ECOWAS

Keynote

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Structure of my intervention

- Obstacles to trade within the ECOWAS region
- Importance of trade and of reducing trade costs
- Trade and value chains
- Conclusions - what does this mean for policymakers?

1. **What are the obstacles to trade in the ECOWAS region?**

- Costs of trade procedures are very high in the ECOWAS region, although they are partly very different amongst member states.
- ECOWAS ranks quite low in most of the World Bank Doing Business indicators.
- Examples (World Bank, Doing Business 2014, regional profile ECOWAS)
  - number of documents to export: ECOWAS 7, best: 2 (Ireland)
  - time to export: ECOWAS 26 days (Niger 57, Senegal 12), best: 6 (5 economies)
  - number of tax payments/year: ECOWAS 45; best: 3 (3 economies, amongst: Hongkong)
- Problem: Time consuming procedures do not only reduce trade volumes, but they do reduce the probability that firms will enter exports markets for time sensitive products from the start. This is a point that might especially hamper agricultural exports.

- Costs of transport infrastructure are especially high within the region.

- Worse within the region: Cost of trading intra-regionally in Western Africa: three times the equivalent cost of shipping with external regions! Issue of poor infrastructure: Shipping a container to the EU is easier than transporting it across a land-border to a neighboring country.
  Additional burden comes from long waits and charges at intra-ECOWAS borders, partly arbitrary charges.

- ECOWAS and UEMOA have given special attention to integrating road transport in the sub-region and to improve the West African road network.

- Access to finance always a difficulty. Bigger difficulty for companies exporting to global markets which need more investment to comply with demanding technical and sanitary standards.

- Overall business environment and functioning of institutions, including the rule of law.

How much can be gained through trade facilitation? The OECD assesses the potential to reduce trade costs through comprehensive trade facilitation reform in SSA to be 17% - that is higher than in all other regions. For SSA countries, what matters most would be the simplification of trade documents.

2. Importance of trade and reducing trade costs within ECOWAS?

Trade is important for most of the Sub-Sahara African countries. External trade makes up the bulk of especially SSA economies with some countries share of external trade in GDP being more than 80% (eg. Ghana 89%)

1. The share of regional trade did not really change during the last decade. However, it did keep pace with the fast overall trade expansion. Since the year 2000, ECOWAS exports more than quadrupled.

1. Share of regional trade: about 10. But this figure hides big differences in the region. Whereas Nigeria, although an important regional exporter, in terms of trade share is less linked with the regional market, other countries trade much more intra-regionally, eg Ghana almost 20% and Burkina Faso more than 70%.

1. The composition of global in comparison to regional trade is very different for most ECOWAS member states (again: not Nigeria). The most interesting thing is, that overall, the share of manufactured goods is much higher in regional trade: About 30.6% in comparison to a share of 3,3 % in exports to the EU (2013) and similar to other external destinations. Given the dominance of Nigeria's oil exports in the overall figure, for some countries this percentage of manufactured goods is even much higher!

1. The reduction of trade costs by trade facilitation reforms would facilitate trade within the region and, such is the assumption, directly impact on a country's ability to integrate in global value chains.

3. Trade and value chains

1. Trade is not an end in itself. We want it to contribute to sustainable development, to contribute to create value added and decent jobs.

1. With regard to this point, it is important to note that the share of manufactures in ECOWAS internal trade is much higher than in external trade. Manufactures thus bear a higher potential for value added and job creation! This shows that the importance of the internal market for economic development is exceeding what the figure of the trade share indicates.

1. With globalization, since the end of the 1990s, new possibilities emerged for developing countries to integrate into global value chains. Production is today fragmented across borders and countries can take over small steps of global value chains lowering the need to invest in large production sites upfront.

1. The bad news is, that competition Intensified. The average tariff worldwide is below 10%. The bulk of trade costs depends on other issues like sanitary and phytosanitary standards, input costs, transport costs and other trade facilitation issues. So overall, the issue of competitiveness became more complicated.

1. There we are in the middle of the discussion about trade facilitation. But it deserves a closer look on what that means for individual countries and regions and especially for the issue of sustainable development.

1. The integration of a country or region in international value chains, however, is to quite a large extent determined by factors which cannot be changed in the short term. Country based specific characteristics are very important. An OECD Study 2015 mentioned size and geographical location as well as the share of manufacturing in GDP as important factors.

1. For Sub-Sahara Africa, this means, that the prospects from the start are not very good. First, it's remoteness, expressed by a lack of and poor quality infrastructure is a critical factor that impedes further participation in global value chains. Second, its trade structure neither is a good starting position: For 15 countries in sub-Sahara Africa one or two commodities make up more than 75% of their exports. Africa's share in world trade decreased from around 6% in 1980 to less than 2% in 1998 and has remained low since then.

1. Second, most African countries still rely heavily on agriculture. The industrial sector's share of employment is only 9%. Family farming is the largest source of employment, household enterprises outside of agriculture are second. Urbanization has occured in Africa without industrialization. With regard to the possible contribution of African countries in global value chains, the large discrepancies between cities and the remote rural areas are especially important: It is possible to strengthen international linkages with urban, coastal areas and areas which are well linked to international production, eg traditional food crops. But this should not go at the expense of the integration of different regions *within* African countries and of the integration between coastal, urban areas and the hinterland.

4. Conclusions - what does this mean for policymakers?

4.1. Addressing the spatial divide within trade facilitation measures

1. The African Economic outlook this year underlined the **importance of addressing the spatial divide** in African countries and better taking into account the relationship between the countryside and the cities. Peaceful and sustainable development demands to build on Africa's strength: The changing and very important role of agriculture, local resources, the integration of a rapidly growing work force (which will increase by 910 mio. people by 2050). All this demands

for taking into account rural and remote areas and better linking rural regions with the cities.

1. Trade facilitation can play an enormously important role in that regard. I highlighted before, that trade costs are especially high within the ECOWAS region. But still, the share of manufactures traded is higher that in external trade. That shows, that there is an enormous potential for creating value added and promoting development by reducing trade costs internally in the region.

1. Of course, trade facilitation can also play an important role for expanding external trade and integrating in international value chains. Many policy reforms are suited to support regional and external trade at the same time. That accounts for easing administrative burdens, fighting corruption, and improving the investment climate in general.

1. However, when it comes to the infrastructure and services part of trade facilitation - TF in a broader sense, it might well be necessary to decide on priorities: Which roads have to be build or improved first? Which will be the groups that can benefit from this decision? Will it contribute to integrating rural areas oder rather strengthen traditional export routes based on primary commodities?

1. The African Economic Outlook mentions the danger of the possible „tunnel effect" of economic corridors: They might wipe out local firms that could be competitive by adjusting their operations, but are not fully aware of the consequences of the infrastructure investment nor included in policy decisions. Corridors thus can cut trade costs and increase efficiency, but careful planning is required, including all relevant stakeholders.

4.2 Tapping the potential of Regional integration:

1. Addressing regional disparities calls to a large extent for regional approaches, common efforts across borders. The point on high regional trade costs and the large potential that internal regional trade bears for trade expansion especially with regard to value added, even make a stronger argument for regional integration.

1. The discussion on trade facilitation demands another look at the regional integration agenda: Trade facilitation in a narrow sense, but also policy issues like government procurement, IPR, quality infrastructure or competition can have an enormous impact on trade costs. in many cases, it might make sense to work within regional frameworks or on strengthening regional institutions instead of national ones.

1. This demands well functioning regional institutions and a clear devision of labour between the national and regional level. Regional secretariats are often important drivers of regional processes. To fulfill that role, they need the necessary mandate and leeway.

4.3. **Another role for trade policy:** The emergence of global value chains and decreasing import tariffs led to a situation where other issues play a much greater role in determining the competitiveness of a country's exports. Competitive exports today also depend on access to competitive imports and services. That also demands a closer look at the role of trade policy.

1. That is the reason, why today almost all bilateral Free Trade Agreements include provisions not only on trade facilitation, but also on other issues. Often, they are referred to as WTO+, since the WTO does not demand Free Trade Areas to include chapters on these issues. These are above all Trade Facilitation and services liberalization. Additionally, often Investment rules, Intellectual Property Rights, Competition Policy and Government Procurement are also covered. The Transatlantic Trade and Investment Partnership between the EU and the US is a case in point, where negotiations on rules and regulation play a much bigger role than negotiations on tariffs. ECOWAS covering some of these issues in its regional integration process.

1. Overall, trade facilitation with a view to sustainable regional development is not an easy task, but a high potential is there that should be tapped.

Thank you for your attention.