



ECONOMIC INTEGRATION AND ECONOMIC GROWTH IN ECONOMIC COMMUNITY OF WEST AFRICAN STATES (ECOWAS)

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Abstract: *The study focused on economic integration and economic growth in Economic Community of West African States (ECOWAS). The specific objectives of the study were to examine the impact of exports and imports trade on economic growth in ECOWAS. Data on GDP, exports trade, and imports trade from International Monetary Fund Direction of Trade Statistics of 2021 for the period 2000-2021. The data was analyzed using descriptive statistic and generalized method of moment (GMM) techniques. The findings revealed that a percentage increase in exports trade will bring about an increase in gross domestic product (GDP) in ECOWAS nations. Also, the results showed that a percentage increase in imports trade will decrease economic growth in ECOWAS nations. Based on the empirical findings, it was recommended amongst others that ECOWAS countries should try to improve in exports of manufactured or finished products and import less of manufactured products. Again, they should try diversifying their economy in other to be able to compete favourably with other advanced economy nations.*

Keywords: Exports, Imports, Real GDP, Economic Integration, Economic Growth

1. Introduction

The quest for regional economic integration in Africa in order to improve economic growth has made African countries to form trading blocs or economic communities to cooperate in eliminating barriers to engagement, and the flow of products, services, capital and people. Prior to the explorations of Africa by European merchants in the 15th century, the continent's traders and rulers had established trade links with the Indian Ocean region, western Asia, and the Mediterranean world. Internally, there were local exchanges among African communities themselves. In pre-colonial Africa, local manufacturers already made items of comparable quality to goods from pre-industrial Europe (Akpan, 2020; Jakoba, 2020).

The European traders who started trading along Africa's Atlantic coast found a long-established trading population controlled by powerful indigenous rulers. They rapidly built relationships with the indigenous leaders and built fortified warehouses in coastal areas to store goods. Some traders from communities like the

Portuguese settled near African rivers and coasts where they served as middlemen between African and European traders. Africans benefited from finished goods like cloth, copper, iron, jewelry, and mechanical toys while Europeans obtained textiles, gum, ivory, spices, and carvings. Within this period, they acquired African slaves to provide inexpensive and ready labor for their plantations back home, which gave birth to the Transatlantic Slave Trade (Jakoba, 2020).

Meanwhile, ECOWAS was created in the year 1975 to enhance trade, growth and development through regional economic integration. Thus, the economies and trade of ECOWAS were structured with the aim of serving as suppliers of cheap labor and non-value-added raw materials to the colonial economies and as markets for manufactured and value-added products. As such, trade in ECOWAS countries benefited the metropolitan nations while marginalizing and impoverishing African nations (Okoro, Ujunwa, Umar & Ukemenam, 2020). Nonetheless, the region has enormous opportunities which if properly utilized would positively change the socio-



economic landscape and improve the living standards of the citizens.

The drive towards economic integration has posed challenges; after 40 years of existence ECOWAS has moved to adopt a single-track approach towards economic integration by the year 2020. The West African Monetary Zone (WAMZ) comprising The Gambia, Ghana, Nigeria, Sierra-Leone, Liberia and Guinea was established in the year 2000 to fast-track the integration process. The countries were meant to satisfy both primary and secondary criteria towards currency convergence with the eventual convergence with the CFA of the Franco-phone countries.

Since the year 2017, most countries in the sub-region have been experiencing economic downturn due to the fall in the prices of export commodities. A country like Nigeria is in a recession. The signs of an impending economic slump were visible particularly with the Ebola epidemic. Similarly, most of the economies in ECOWAS are experiencing high rates of unemployment, declining productivity as well as rising inflation. Despite the formulation and implementation of reforms, the incidence of poverty continues to rise; there exist wide income inequality.

In its thirty years of existence, the Economic Community of West African States has undertaken many initiatives to stimulate economic growth through the integration of member states' economies. Some of these initiatives include the declaration of Free Trade Area (FTA), preparation for the adoption of custom union by end 2007 and adoption of common currency for the Anglophone countries in the region by the year 2009. In the revised treaty, the FTA was declared to remove all trade barriers among member states, but each member maintains its external barrier with countries outside ECOWAS.

Despite all these efforts, economies in the region remain weak, trade imports and exports of goods and services continue to fluctuate and there is significant amount of trade diversion. In the consideration of these debate, this paper decided to look at trade in imports and exports-

oriented way, by examining the impact of imports and exports trade on economic growth in the ECOWAS.

2. Regional Economic Integration

Regional economic integration has enabled countries to focus on issues that are relevant to their stage of development as well as encourage trade between neighbors.

There are seven main types of regional economic integration.

1. Free trade area: This is the most basic form of economic cooperation. Member countries remove all barriers to trade between themselves but are free to independently determine trade policies with nonmember nations. An example is the North American Free Trade Agreement (NAFTA). Free trade areas is Free trade of goods and services, removing tariffs and quotas within the group (Jakoba, 2020).

2. Partial trade- Free trade in the outputs of one or a few industries.

3. Customs union: This type provides for economic cooperation as in a free-trade zone. Barriers to trade are removed between member countries. The primary difference from the free trade area is that members agree to treat trade with nonmember countries in a similar manner. Customs unions Free-trade area including common tariffs for countries outside the group (Urata, 2002; Gerber, 2013; Palánkai (2014)

4. Common market: This type allows for the creation of economically integrated markets between member countries. Trade barriers are removed, as are any restrictions on the movement of labor and capital between member countries. Like customs unions, there is a common trade policy for trade with nonmember nations. The primary advantage to workers is that they no longer need a visa or work permit to work in another member country of a common market. An example is the Common Market for Eastern and Southern Africa (COMESA).

5. Political union: This involves the gradual transfer of power and legislative authority (parliament, government, jurisprudence, etc.) to the community level. It assumes the establishment of 'supranational structures' which can



make decisions which are mandatory for all the member states (Palánkai, 2014)

6. Economic union: This type is created when countries enter into an economic agreement to remove barriers to trade and adopt common economic policies. An example is the European Union (EU). Economic union Common market including the unification and harmonization of economic policy, which, in its final phase, can lead to the unification of domestic economic policies at the community level (Gerber, 2013).

7. Single market: This represents a complete liberalization, that is, 'internal market' conditions, with the removal customs tariffs and quantitative restrictions, on one hand and all restrictions of a 'non-tariffs' nature on the other.

3. Theory of Regional Economic Integration

The study relies on the traditional theories of economic integration which explain Static and Dynamic analysis of benefit of international trade.

Static analysis

Research of trade integration and the explanation of theoretical issues related to preferential trade agreements are based on the seminal book by Jakob Viner (1951) on "The Customs Union Issue" which is often referred to as the first study of the benefits of economic integration that analyses them critically from an economic point of view (Catudal, 1951, p.210; Salera, 1951, p.84).

Viner's study is the first one to define specific criteria for the distinction of the pros and cons of economic integration. His so-called static analysis of economic integration distinguishes the now well-known effects of trade creation and trade diversion.

One speaks of trade creation when with signing a trade agreement between two countries trade is shifted from a higher cost producer to a lower cost producer among member-states. Trade diversion occurs when imports are shifted from a lower price producer from a third country, which is not a part of the integration agreement to a higher price producer from a member-state. This happens when a common custom tariff is applied if the integration agreement protects the higher cost supplier from a member-state.

Viner claims that trade creation increases a country's welfare while trade diversion reduces it. When speaking about the role of Customs unions on increasing economic welfare he says: "...customs union is only a partial, uncertain, and otherwise imperfect mean of doing what a world-wide non-discriminatory reduction of trade barriers can do more fully, more certainly, and equitably..." (Viner, 1951). What Viner's theory practically means is that countries would have motivation to participate in integration if it would possibly bring more benefits than costs, or, in other words – when integration leads to more trade creation than trade diversion.

Many research add on to Viner's static analysis by addressing different issues of integration effects. All of them concluded that no one-sided answer could be given to the question of whether customs unions increase global welfare or not. As Meade says, "Our main conclusion must be that it is impossible to pass judgment upon customs union in general. They may or may not be instruments for leading to a more economic use of resources (Meade, 1955).

Dynamic analysis

As at the 1960's, it becomes clear that static analysis of trade creation and trade diversion is not sufficient. Static effects analysis cannot fully assess the impact of integration on welfare; thus Bella Balassa introduces dynamic effect instrument to analyse the effects of economic integration on welfare. A main thesis in international economics is that free trade on competitive markets enables production and consumption efficiency globally as well as in every single country (Sheer, 1981). Balassa (1962) defines the main dynamic effects of integration: "large-scale economies, technological change, as well as the impact of integration on market structure and competition, productivity growth, risk and uncertainty, and investment activity". So far a number of recent studies (Lawrence, 1997; Jakoba, 2020) have referred to the static effects and developments of the theory of economic integration as "old regionalism", while "new regionalism" is represented by dynamic effects such as increased competition, investment flows,



economies of scale, technology transfer, and improved productivity” (Hosny, 2013).

Dynamic analysis of the effects of economic integration comes from the characteristics of today’s free economy. Because of their deeper scope dynamic effects have a larger impact on economic processes than static ones. The dynamic effects of economic integration can be summarized as follows: increase of investment expenditure, sustainable increase of demand, consolidation of production and increase of its specialization, improvement of the organization and management of production and production technology, rationalisation of territorial distribution and utilization of resources, increase of production efficiency, creation of economic growth, etc. (Marinov, 1999).

A particular union or regional body will there be fully integrated when all the processes of economic, social and political integration are effective and fully functional. It is, however, worthy to note that integration may occur in one aspect without being functional in the other fields or aspects of regional integration. The theory of ‘integration’ can therefore be used as a theoretical guide to highlight the observed plethora of challenges that seem to be derailing efforts at full integration in all aspects within the sub-region. The theory will help bring into perspective because there seems to be no ‘spill-over’ effects despite relative advancements in implementing some aspects of the protocols across the sub-region.

4. Empirical Literature

Kamau (2011) examined how economic growth was impacted by regional integration among Common Market for Southern and Eastern Africa (COMESA), East African Community (EAC), and Southern African Development Community (SADC) over 1970-2008 and found a positive correlation between economic growth and regional integration.

Plummer (1997) assessed the dynamic effects of regional integration in the ASEAN. He concluded that the ASEAN Free Trade Area (AFTA) and additional measures for a deepen regional integration will continuously be of beneficial for ASEAN countries. Hence, it will boost the flow of investment, stabilize the

macroeconomics environment, and promotes the transfer of technology.

Berthelon (2004) developed a new way to measure the regional trade agreements (RTAs) by combining the membership of a country with the share of partners’ world Gross Domestic Product (GDP). His findings suggested that RTAs are positively related to economic growth. Particularly, the north-north agreement had a positive growth effect while that of the south-south agreement was ambiguous and that of the north-south agreement was not clearly defined. His study started from 1970 to 1990.

Vamvakidis (1998) studied how regional integration impact economic growth for 138 countries across the world. He concluded that regional integration has a positive effect on economic growth for large, open, and developed neighboring countries while there is no growth effect for closed, small, and less developed neighboring countries.

Ogboabor (2019), performed a study about the relationship between the West African Monetary Union (WAEMU) and economic growth in the region throughout 2000-2015. Their findings suggested that the WAEMU did not have a significant impact on economic growth in the region. Meanwhile, they found that WAEMU was stimulating economic growth by physical and human capital accumulation, Foreign Direct Investment (FDI), and the quality of the public institution.

5. Methodology

This study was based on secondary data gathered from various sources. Gross Domestic Product is a stable function which is dependent on a relatively small number of economic factors like export, and import. This study attempted an empirical estimation of the impact of our explanatory variables on the dependent variable using Generalized Moment Method (GMM) approach. Through the various statistical test, check whether or not export, and import have any significant influence on gross domestic product on the ECOWAS economy.



Model specification

Thus far, we want to find out whether a relationship exists between gross domestic product and export and import. The functional form of the model is: $GDP = f(EXP, IMP)$

Where: GDP = Gross Domestic Product, EXP = Export, IMP = Import.

The econometric form of the model is specified thus:

$$GDP = b_0 + b_1EXP + b_2IMP + U$$

Where: b_0 = intercept, b_1 , b_2 = coefficients of the independent variables, U = stochastic term

Presentation and analysis of result

The model expresses GDP as a linear function of export (EPT), and import (IMP).

Description of variables in the estimated model

Gross Domestic Product (GDP): Gross domestic product (GDP) is the total monetary or market value of all the finished goods and services produced within a country’s borders in a specific time period. GDP can be expressed in nominal or real terms. Real GDP takes the value of goods and services produced in the country, but it takes into account changing prices to remove the effect of rising prices over time, otherwise known as inflation.

Imports: Imports are the goods and services that are purchased from the rest of the world by a country’s residents, rather than buying domestically produced items. Imports lead to an outflow of funds from the country.

Exports: Exports are goods and services that are produced domestically, but then sold to customers residing in other countries. Exports lead to an inflow of funds to the seller’s country since export transactions involve selling domestic goods and services to foreign buyers.

5. Results and Discussion of Findings

Table 1: Descriptive Statistic Result

	GDP	EXP	IMP
Mean	2.610000	7724.150	7097.150
Std. Dev.	0.985446	3588.293	2396.309
Skewness	-1.402261	0.479369	-1.011291

Kurtosis	6.919795	3.028392	2.536446
Jarque-Bera	21.29429	0.843320	3.946908
Probability	0.000024	0.655957	0.138976
Observations	22	22	22

Sources: Authors’ Computation from E-view 12

The analysis of descriptive statistics of the series in Table 1 indicated that; the approximate mean of real gross domestic product (GDP) is 2.6percent; while the corresponding standard deviation is 0.99percent, On the other hand, the approximate mean of exports (EXP) is ₦7724billion while the corresponding standard deviation is ₦3588billion. Also, imports (IMP) is approximately ₦7097billion, while the corresponding standard deviation is ₦2396billion. Based on the analysis above, the standard deviation of all the variables converged around their respective means (meaning that they were within their respective means); it therefore denoted that, all the variables used for the estimation were normally distributed.

The Skewness test result showed a mixture of negative and positive values for the variables. Specifically, GDP and imports were negatively skewed. But the independent variable (EXP) has positive skewness. Thus, positive skewness means that the mean and median will be greater than the mode. Moreover, the analysis of the kurtosis test showed that, only import is platykurtic relative to normal, since the approximate value of kurtosis is less than 3 bench mark for kurtosis. This suggested that the variable has short and thin tail, and its central peak is lower and broader. Meanwhile, GDP and Exports have leptokurtic distributions relative to normal, since their approximate values for kurtosis are more than 3. This indicated a flatter than normal distribution and the variables have large tails. That is, their central peaks are higher and sharper. Therefore, the study concluded from the statistical properties of the time series that the variables were to some extent normally distributed.



Table 2: Empirical Generalized Method of Moments Regression Result

Dependent Variable: GDP				
Method: Generalized Method of Moments				
Date: 07/08/22 Time: 20:22				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(EXP)	0.376926	0.947713	0.397722	0.6950
LOG(IMP)	-0.675695	0.948821	-0.712142	0.4846
R-squared	-0.695925	Mean dependent var		2.610000
Adjusted R-squared	-0.616721	S.D. dependent var		0.985446
S.E. of regression	1.017791	Sum squared resid		20.71796
Durbin-Watson stat	2.498153	J-statistic		1.915906
Instrument rank	3	Prob(J-statistic)		0.166309

Sources: Authors’ Computation from E-view 12

The dynamic model presented on Table 2 showed that the coefficient of determination (Adjusted R-squared) is 0.6167. Meaning that, the dynamic model is a good fit. Thus, the variation in real gross domestic product brought about by the explanatory variables is about 62percent. Therefore, the explanatory power of the estimated model is 62percent. Moreover, the approximate coefficient of the Durbin Watson (DW) test is 2.4981 which is not too far from 2.0; based on rule-of-thumb implies that, the model is free from positive first order correlation. Thus, the explanatory variables in the model are not serially dependent (correlated). Therefore, the model is valid for policy making and implementation.

In the meantime, the coefficient of export (EXP) is positively related with real gross domestic product but statistically not significant. This means that percentage change in exports will increase real gross domestic product by 37.69percent. Also, given that the probability value of the t-statistic (0.6950) for the coefficient of exports is less than the p-value at 5%; the study concludes that, there is no significant relationship between exports and real gross domestic product growth during the period of study. Thus, the null hypothesis of no significant relationship was accepted. The implication of this result is that the positive contribution of revenue from exports has positive impact on increase in real gross

domestic product growth in the Nigerian economy. The finding is in line with the empirical work of Abogan and Akinola (2014) in their study on exports and economic growth in Nigeria between 1980 and 2011, averred that there is a direct nexus between exports and economic growth in Nigeria.

Meanwhile, the coefficient of import (IMP) is negatively related with gross domestic product but statistically not significant. This means that percentage change in imports will increase gross domestic product by 67.56percent. Also, given that the probability value of the t-statistic (0.7121) for the coefficient of imports is less than the p-value at 5%; the study concludes that, there is no significant relationship between imports and gross domestic product growth during the period of study. Thus, the null hypothesis of no significant relationship was accepted. The implication of this result is that the positive contribution of revenue from exports has positive impact on increase in real gross domestic product growth in the ECOWAS economy. The finding negated with the study of Omes, Ngoko and Ordu (2020) that concluded that imports revenue contributes positively and significantly to economic growth and development of Nigeria in both short and long run perspective.



6. Concluding Remarks

The importance for regional economic integration in developing countries with a look on ECOWAS member country cannot be over emphasized. It has since become apparent that most countries cannot always have all the resources or know-how to cope with the increasing complex global environment from internal resources; hence, the need to come together in an economic alliance or network based on cooperation, flexibility, and shared interests and objectives.

Regional economic integration undoubtedly has a potentially important contribution to make the growth and development in ECOWAS countries. However, in view of the blatant failures of African integration schemes in the past, it is important that useful lessons are drawn from earlier experiences to ensure success. Against this background, countries in West Africa began to look at the possibility of a regional market as a way out. With the declaration of the New International Economic Order based on the principle of collective self-reliance the whole process gathered momentum. In other hand, the regional cooperation initiated, and consultations spearheaded by Nigeria and Togo led to the formation of Economic Community of West African States (ECOWAS) in 1975.

This researcher reviewed the theory of economic integration, preconditions for smooth regional economic integration, effects of economic integration on economic growth and the need for regional economic integration. Also, it looked at ECOWAS in its totality from objective, organs, achievements, and problems. Empirical evidence proved that import has indirect relationship with the gross domestic product, while export has direct relationship with the dependent variable (GDP). From the foregoing, import and export have no significant impact on the nation's output, contrary to import that has a negative effect on gross domestic product.

Given the findings above, the following policy recommendations were advanced: (i) the development and encouragement of manufactured exports predicated on a strong production base rather than production of primary goods which will enhance the nation's output.

(ii) Exports should be encouraged while imports of certain products should be discouraged to achieve a favourable balance of trade which will lead to balance of payment surplus that will culminate into an increase in the nation's output.

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Appendix: Research Data

YEAR	GDP	EXP	IMP
2000	2.31	2715	2474
2001	2.31	2242	2696
2002	2.3	3136	2478

2003	3.6	3037	3293
2004	3.6	4366	4719
2005	2.3	5498	5835
2006	2.3	5902	6392
2007	3.6	6717	7281
2008	2.3	9355	10142
2009	4	7312	7950
2010	2.3	7895	8458
2011	2.26	8187	8850
2012	2.26	7798	8419
2013	2.3	7960	8575.667
2014	2.3	7981.667	8614.889
2015	2.26	7913.222	8536.519
2016	2.3	7951.63	8575.691
2017	2.62	16524.54	8575.7
2018	3.5	10796.46	8562.636
2019	3.5	11757.54	8571.342
2020	-0.7	13026.18	8569.893
2021	3.9	11860.06	8567.957