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## Denis Acclassato Intra West-African Trade

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## ***Intra West-African Trade***

### ***Introduction***

The theoretical justification behind economic integration is that participating countries are able to improve their competitiveness. Countries which are economically integrated are able to expand their market and utilize economies of scale in order to reduce costs. Regional integration derives from a more general practice called economic regionalism. Economic regionalism, according to Deblock and Brunelle (1993), refers to a form of compromise which reconciles the legitimate desire of neighboring countries to move closer economically and cooperate more closely on a regional basis through the liberalization of international trade.

Such regionalism creates spaces for *active* or *passive* economic integration. Passive integration, as conducted in the Economic Community of West African States (ECOWAS)<sup>1</sup> area, refers to the case where the integration project between participating countries is only committed to in principle. Integration is limited to the removal of measures which impede the free movement of goods and factors of production (Pelkmans, 1980). The objective is to establish a single market and integrate several distinct economies into a single economic unit. All forms of free trade fall into this category of regionalism<sup>2</sup>.

1 ECOWAS is an economic community of 15 countries which are Benin, Burkina Faso, Cape Verde, Ivory Coast, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo.

2 Integration is active when economic integration is seen as part of a political project that impedes upon national sovereignty of the participating states. In this case, economic integration is carried out in parallel with political integration, which will culminate in a staged, true common market and eventually the creation of a new political entity. In this case, it reinforces the economic interdependence between countries and creates new, corresponding regional institutional mechanisms. For more details, see Pelkmans (1980).

For Viner (1950), regional economic integration has two effects. It creates a new trade effect, where trade between member countries of the customs union intensifies and it also creates a trade diversion effect, where imports from the union will increase relatively to the rest of the world. Cooper and Massell (1965) pointed out the following advantages of integration in terms of expanding market share for each member: Integration induces changes in tariff structures and changes in relative prices which promote the optimal allocation of resources and improved well-being. These changes in price and quantity create incentives among agents and promote the development of trade between member countries. The development of trade with expanding markets through integration and shifting borders of trade, increases a country's capacity for exporting, improving the external account balance and well-being of the population (Mikesell, 1971).

In this sense, policies which promote the free movement of goods, people, capital investments, development of infrastructure, institution building and the erection of the common external tariff are defined. In West Africa, experts from different countries have developed corresponding measures which shall be adopted by a meeting of Heads of State after approval by the Council of Ministers of ECOWAS. All this work is coordinated by various permanent, thematic committees which develop the conventions and protocols of ECOWAS. The nine Commissioners and the Chairman of each Committee are appointed by the Heads of State.

For regional integration, the development of intra West-African trade is both a goal and an important proof of integration. The exploitation of productive complementarities within the customs union is essential in terms of synergies.

In Africa, even in the 90s, the expected incentives of intra-Community trade, or trade with the rest of the world were never decisive. Pricing policies and harmonized tax systems have not been developed, nor have exchanges and investment (Bekolo-Ebe, 2001). For Bekolo-Ebe, there is no trade diversion as the traditional bias towards developed countries remains and no new trade flows have been created. Intra-community trade remains marginal, despite the multiplicity of regional organizations such as ECOWAS, the Central African Customs and Economic Union (UDEAC)<sup>3</sup> and the Southern African Development Community (SADC).

3 From the French name "Union Douanière et Economique de l'Afrique Centrale"

In the last two decades, the promotion of integration among West African countries has been revived, particularly through the experience of ECOWAS. Several integration efforts aiming to strengthen economic exchange between ECOWAS countries are underway, for example the creation of a currency area and a customs union.

In this context, ECOWAS has initiated institutional reforms leading to the establishment of a regional organization which is more transparent and geared towards the needs of the population. Considered for a long time to be a Union of countries, it was created by the Treaty of Lagos in 1975 and entered into force in 1977. ECOWAS now intends to move towards a Union of people, where the real needs of citizens will be at the heart of institutional thinking. This new ECOWAS ambition was reaffirmed in 2011 in the regional integration strategy document for West Africa 2011-2015, which describes ECOWAS as an area without borders for people and goods. At the heart of this strategy is obviously intra-Community trade, including goods.

The purpose of this article is to evaluate whether the various policies and institutional reforms have improved the flow of intra-Community trade within ECOWAS, namely trade diversion and creation of new trade flows. The study is presented according to the following plan: a brief theoretical foundation of trade is presented followed by the manifestation of intra-Community trade in the ECOWAS area. The fourth section presents the barriers and constraints to intra-Community trade in ECOWAS. In section five, we present a strategy for further market integration in the Union. Section six draws final conclusions from the previous sections.

### ***Theoretical foundations of trade***

Integration analysis is based on neoclassical theory and market efficiency.

#### ***The Neoclassical trade framework and market efficiency***

Economic integration is a process that combines several economies into a single economic space, often at regional level, by eliminating tariff and non-tariff barriers to the flow of goods, services and factors of production. It is rooted in the neoclassical theory of international exchange, where the emphasis is on

the concept of comparative advantage. International exchange is the flow of goods, services and capital, which is realized between resident agents in one territory and the rest of the world. Regional integration aims to be as close as possible to the situation of free exchange. The virtues of free exchange are well highlighted, as protectionism is disparaged and countries are encouraged to specialize in sectors where they have comparative advantages. According to Smith (1776), it is in the interests of each country to specialize in the production of products where production costs are lower. The positive effects of the division of labor are thus raised and the opening of borders is profitable for each country. Indeed, specialization improves productivity and augments profits. The international division of labor increases specialization and is beneficial to the parties involved in the exchange.

Nevertheless, this vision of Adam Smith relies on the assumption that each country is better in some production and thus, cannot justify trade for a country which would be better in all production sectors. This reasoning was enriched by Ricardo (1817), who preferred reasoning in terms of relative comparative advantage, as opposed to the absolute advantage of Smith. In the Ricardian model, comparative advantage is derived from differences in the productivity of production technology, here we speak of technological comparative advantage. Countries have an interest to specialize and exchange the products for which their productivity is relatively better, against products for which they are relatively less efficient. For Ricardo, the participation of countries in international trade requires that sectors which are characterized by low productivity are also characterized by low wages.

However, the Ricardian model only takes into account one factor of production, that of labor, and assumes that any comparative advantage arises from differences in relative labor productivity. However, international trade is not motivated solely by the difference in productivity of the labor force. It is for this reason that the Heckscher-Ohlin-Samuelson model (Perroux, 1971), states that comparative advantage stems from differences in the endowments of production factors from one country to another. International trade, the buying and selling of goods between national territories, finds its justification in the differences in resources between countries. Another criticism of Ricardo's model is that it underestimates the role of demand. According to Linder (1961), the exchange of manufactured goods, versus commodities, can only be explained by the relative endowment of natural resources. The volume of trade between two countries

then depends on the preferences of consumers. Individuals with the same income have similar consumption structures and regardless of the country they belong to, the distribution of income is the same in both countries (Foroutan and Pritchett, 1993).

Empirically, some studies show that countries with a similar per capita income tend to trade (Foroutan and Pritchett, 1993; Elbadawi, 1997; Agbodji, 2007). However, other variables could explain such a result. It may be the proximity of the countries (the distance variable seems to be relevant and meaningful to explain bilateral trade) or even membership of the same Free Trade Association (Limao and Venables, 2001; Soloaga and Winters, 2001).

Stolper and Samuelson (1941) focus on the role of relative price to determine the level of exchange. For these authors, any increase in the relative price of goods, for which a country has a comparative advantage, results in increased returns for these factors of production (hourly wages and cost of capital). Conversely, convergence in relative prices leads to a convergence in the remuneration of production factors. In the absence of exchange, significant price differences may exist between countries. Market integration makes prices less volatile, especially agricultural prices, and increases their informative value. According to Engle and Granger (1987), two markets are integrated when they communicate or when they mutually exchange various products. In an integrated market, lower volatility of agricultural prices means that price changes are no longer dependent on movements of supply and demand of peripheral markets, which are characterized by low trading volumes.

For Bonjean and Combes (2010), integration protects national local markets from idiosyncratic economic shocks and limits the consequences in terms of price increase (resulting from a collapse of local productive capacity) by connecting surplus and deficit areas.

Market integration has many other benefits. It enables better exploitation of national and regional economies of scale. Furthermore, it facilitates the diffusion of innovations, which are a source of externalities. Finally, integration removes barriers protecting markets and increases the degree of competition. However, market integration may also have complex distributional effects. There are benefits for producers of exportable goods who take advantage from better remuneration for their products, but there are disadvantages for producers of

import-substitution goods (Bonjean and Combes, 2010). This is the case for many agricultural and livestock sectors in developing countries which are relatively uncompetitive, compared to products from developed countries. Market integration can also be a source of tension when producers take advantage of new market opportunities by exporting to neighboring countries essential products such as food, which were initially destined for the domestic market.<sup>4</sup>

### *Theoretical approach for measuring market integration*

Several divergences arise in the analysis of market integration. For some authors, integration refers to the co-movements of prices and more specifically, the transmission of price signals through separate contracts on a given space (Goletti, Ahmed and Farid, 1995). Integration analysis in this way is used to identify groups of integrated markets. Firstly, to avoid duplication of interventions and secondly to know what level of price may be chosen in order to ensure the effectiveness of trade creation in the integrated area and to avoid misappropriation of trade flows to the rest of the world. If three markets A, B, and C are integrated, then a price policy can be focused on any market with effects on the price in the other two. The presence of a co-integration relationship between the prices of the same commodity in two different countries reveals a relationship of interdependence, while its absence indicates market segmentation.

According to Delgado (1986), a study of market integration ensures that regional balance occurs between markets characterized by deficits and those marked by surpluses. This assessment is supported and built upon by Ravallion (1986). According to him, if price transmission does not occur, intensive and localized scarcity can cause excessive pressure on populations and lead to outbreaks of tension and the instability of regimes. The identification of the structural factors that are responsible for market integration can help to improve policy-oriented market development. The study of market integration also attempts to characterize the degree of co-movement of prices in separate markets, within a given space.

According to Wyeth (1992), market integration is limited to the interdependence of price changes across spatially separated markets. Previous research has identified various measures of market integration, including correlation coefficient-

<sup>4</sup> In October 2007, India banned rice exports in order to protect domestic consumers.

ents (Farruk, 1970; Lele, 1972; Jones, 1972). Unfortunately, a comparison of various measures and an analysis of structural factors which affect these measures of market integration, has so far been neglected by these authors, with the exception of recent works by Goodwin and Schroeder (1991) and Faminow and Benson (1990).

Sexton, Kling and Carman (1991) have shown that the lack of market integration is the result of one of the following three factors. The first factor is related to markets in autarky, where no arbitrage is possible because marketing costs are very high compared to the price differences, or because markets are publicly protected. The second factor concerns obstacles which hinder the effectiveness of arbitration, such as trade barriers, imperfect information about markets or aversion to risk. The third factor is related to imperfect competition, where due to collusion or preferential access to scarce resources (transport, credit); there is a large excess and unjustified price difference between costs and marketing. It is often difficult in the analysis to take all of these factors into account. In addition, the presence of markets from different currency areas makes it difficult to measure market integration. Problems arise from fluctuations in exchange rates which may affect different intra-currency unions, for example, the West African Economic and Monetary Union (WAEMU) area and Nigerian or Ghanaian currency. To this phenomenon called “pass-through” or the relationship between the exchange rate and domestic price movements, another problem can be added. This problem is associated with exchange rate distortions which induce transactions between the foreign exchange market and the market for tradable goods, as is the case between Nigeria and the countries of the CFA franc zone (Bonjean and Combes, 2010).

As measures of market integration, which are based on prices, give no further information than a binary response, it is preferable to identify the determinants of trade among countries in the integrating area, instead of testing market integration. This implies using more data on trade flows or, in default, the costs of transactions. Gravity models can resolve this type of problem. In these models, trade depends positively on the size of the country, distance, common currency, trade agreements, and language and negatively on barriers to trade.

The gravity model is based on the theory of gravitation from Newton, which states that two bodies are attracted because of their proportional mass and due to the inverse square of the distance that separates them. In international trade,

the existence of tariffs, non-tariff barriers and other transaction costs, including those caused by different legal systems and regulations specific to each partner, contribute to the increase of transfer costs of manufactured goods (Prager and Thisse, 2010). The fact that two trading partners have a common boundary, or share a common language, reduces the negative impact of distance on their trade. The existence of strong correlations between distance and trade flows has been proven by Tinbergen (1962) using the gravity model, revealing the importance of border effects. The method of border effects requires data on trade flows within the entity in question (country, province) and comparable data on international trade. Wei (1996) proposes a method to overcome a potential lack of such data by using a country’s imports from itself which is defined as the difference between total production and total exports. Applied to OECD countries, the border effect is 9.7 for the period 1982-1994, which means that a country in the OECD trades with itself more than nine times. For example, in the European Union (EU), Fontagné, Mayer and Zignano (2005) found that an EU country trades twelve times more with itself than with a comparable partner in the European Union. The importance of distance for the exchange flow, shows that trade between neighboring countries will increase even faster. In fact, larger distances increase uncertainty about the reliability of commitments and assets. In this paper, we investigate the effects on trade flows created by ECOWAS. But before, we examine the trade policy of West African countries.

### ***Trade Policy in West Africa***

The presentation of the trade policy of ECOWAS starts with examining its context, before presenting the international commitments which affect domestic trade policies. We conclude this section by visiting trade policy instruments in the ECOWAS area. This section is primarily intended to highlight the poor performance observed in intra-Community trade.

#### ***The context of trade policy implementation in West Africa***

The strengthening of the regional integration process in West Africa within the framework of WAEMU and ECOWAS and the need to develop trade policies has imposed a context marked by the following (Rolland, Alpha and PPRI, 2010):

- The implementation of Structural Adjustment Plans since the early 1980s, resulting in a strong liberalization of economies in the region.
- The signing of the World Trade Organization (WTO) agreements by all countries of the region in 1994. Such agreements set the rules of international trade policy as a basis for trade liberalization.
- The proliferation of international agreements on free trade of a purely bilateral nature.
- The negotiating of an Economic Partnership Agreement (EPA) with the EU.
- The implementation of a customs union in the ECOWAS area.

The issue of public policy coherence, especially trade policy, is crucial in West Africa as countries wish to develop their regional trade while taking advantage of increasingly liberalized markets. To take better advantage of this and achieve global development goals, it is important to ensure the consistency of trade policy with other policies which have been implemented. However, international commitments form a significant part of the commercial policy in West Africa.

### *International trade policy commitments in West Africa*

Trade policy is the set of activities, tools and resources used for the exchange of domestic products or imported products. This definition according to Roland, Alpha and PPRI (2010) focuses trade policy on customs and tax policy, insofar as it deals with the protection of markets at national and regional levels. But a larger definition takes into account all activities which facilitate and expand trade, such as infrastructure, standards, etc. These and many others instruments are used when implementing trade policies. In West Africa, these frameworks are international agreements, bilateral agreements (on which we do not focus here) and regional agreements concerning WAEMU and ECOWAS, as well as national measures. The main international agreements that link the countries of WAEMU and ECOWAS are those of the WTO and EPAs with the EU.

Developing countries of West Africa enjoy in the WTO, in terms of market access, special and differential treatment (SDT), which allows them to consolidate their tariffs at freely expressed ceilings rates. Once these so-called ceiling bindings are reported to the WTO, they represent the maximum applicable rate. Least developed countries (LDCs) have no obligation to reduce their bound tariffs at the WTO, while developing countries (DCs) which are not LDCs must

commit to reduce their tariffs by 24% on average over ten years (1995-2004), with a reduction of at least 10% for each tariff line. In addition, developing countries usually have no right to use trade policy instruments other than tariffs (such as minimum import prices, quotas, prohibitions, variable levies) or must reduce their use. The fact that LDCs and non-LDCs are not subject to the same obligations of trade rules at the WTO indicates the difficulties in applying the common external tariff (CET) in WAEMU and ECOWAS. In addition to this, West Africa has two different CETs, one for WAEMU and one for ECOWAS. The ECOWAS CET differs from that of WAEMU by creating a fifth category called “band” which is taxed at 35% and protecting the Community production. The first four bands are taxed at 0% ad valorem for essential social goods (medicines, books), 5% for staple goods, capital goods, basic raw materials, 10% for inputs and intermediate products; and 20% for final goods.

The Economic Partnership Agreement (EPA) under the Cotonou Agreement between the African Caribbean and Pacific countries with those of the European Union, provides states with the opportunity to integrate into the global economy and strengthen the regional integration process already underway. Replacing the Lomé Convention, the Cotonou Agreement signed on 23 June 2000 covers the period up to 2020. Pending signature of the EPA, the states of ECOWAS are either under an interim-EPA, for example, Ghana and the Ivory Coast, beneficiaries of the EU-initiative “everything except arms” for LDCs, or under the generalized system of preferences as, for example, Nigeria.

Regarding EPAs, we must also add the African Growth and Opportunity Act (AGOA), a law initiated by the U.S. government in 2000 to encourage African countries to continue their efforts to open their economies. AGOA allows more than 6,800 African products to access the U.S. market on a duty-free basis (Adjovi, 2010). With the exception of the Ivory Coast, which was excluded from the list in 2005, all member states of ECOWAS are under the AGOA. They have until 2015 to access the U.S. market duty- and quota-free for different goods including agricultural products and textiles except clothing. In addition to these agreements, there are measures within WAEMU including a number of common economic and monetary policies (such as a single currency, economic convergence criteria such as budget standards, inflation rate, exchange rate policy, etc.) and specific measures within ECOWAS. It is in this context of specific measures related to WAEMU that in 1994 the CFA currency was devalued against the French Franc in order to restore the competitiveness of the WAEMU zone.

### *Trade policy instruments in the ECOWAS area*

The Treaty of 28 May 1975 which established ECOWAS has, among others, the objective to promote the integration of the region with a view of leading to an economic union. In this context, it is intended to create a common market based on (Adjovi, 2010):

- Free movement of persons and goods
- The removal of non-tariff barriers
- The establishment of a customs union in a pattern of trade liberalization and the establishment of a common external tariff (CET)
- The establishment of common trade policies

ECOWAS trade policy mainly comprises two instruments: the pattern of trade liberalization (PTL) and the CET. According to the PTL, local products and hand-made items are in free circulation within the Community as well as those that have undergone sufficient processing. Since 2006, the latter should be fully accredited to their country of origin and certified by a certificate of origin. The PTL was based on a timetable for the dismantling of tariffs on products originating in member states and a compensation mechanism for the loss of customs revenues.

The CET was established under the principle of extension of the WAEMU CET to the ECOWAS zone. In this context, ECOWAS like WAEMU includes three new accompanying measures: a degressive protection tax (DPT) limited in time to protect local manufacturing in West Africa, a tax backup for imports (TBI) to fight against spikes in imports and a countervailing duty to fight against unfair competition. TBI is a temporary surcharge to protect local production of volatile international prices and import surges. It should not be applied to inputs or final consumption products that have no local competitors.

However, the success of these policies is eroded by problems of inconsistency with the implementation of instruments from the trade agreements mentioned above, including those implemented in WAEMU, but also due to high volumes of informal trade and smuggling beyond official statistics. Further causes for the lack of success of trade and tax policies include: the misapplication of Community measures or the simple refusal to apply them, as well as delays in national implementation of the steps of regional integration (Rolland, Alpha and PPRI, 2010). One should also add non-tariff barriers to the entry for Community products on their territories (challenge to the origin of products, border closures, etc.).

As we will see, the low volume of intra-Community exchanges, despite the implemented trade liberalization scheme, can be explained by the inconsistency of trade policies at national and regional levels. This results in weak domestic production in the ECOWAS area, non-complementary and sometimes competing production among states. Only three countries provide essential intra-Community exports: Cote d'Ivoire, Ghana and Nigeria export a few (between one and three) primary products to the community such as oil, cotton, coffee, cocoa and fish. The following section further explores such intra-Community trade in ECOWAS.

### ***The manifestation of intra-community trade in the ECOWAS area***

The Regional Strategic Plan (2011-2015), results from the Vision 2020 of ECOWAS and is based, among other things, on the promotion of infrastructure development, the deepening of economic and monetary integration and the consolidation of integration mechanisms to the global market. The central priority is trade of goods and services which has always been considered a factor of integration. External opening of economies leads to favorable externalities for growth. Indeed, according to neoclassical theory, an open economy is more competitive, allocation of resource tends to be optimal in the medium- and long-term and market integration unifies economies. This preoccupation is back on the agenda because of the configuration of the global economy, which presents a multi-polarization of economies. ECOWAS Vision 2020 is focused upon the deepening of the integration process through the promotion of identity and community among West African people, through the erection of a border-free zone.

While the global economy was rapidly slowing down, economies in Sub-Saharan Africa were growing at around 3.3%, in 2010. The economies of the member countries of ECOWAS are in full recovery, after a downward trend over the period 2006-2009, with growth rates from 7.4 to 3%, which is above the average performance on the continent, of 2.5 %. Countries currently under reforms, such as Burkina Faso and Senegal, show much better rates: 3.5% and 3.4% respectively in 2010 and 4.6% and 4% in 2011. However, in all countries which are rich in natural resources and mining, trends are unstable. This is possibly due to the strong dependence of these economies on world raw materials prices. Nigeria for example, had the same growth rate of 5.4% in 2000 and 2005, but experienced erratic variations within this period: 1.55% in 2002, more than 10% between 2003 and 2004 and a rate of 3% in 2009. Sierra Leone had a

growth rate of 3.8% in 2000 and 7.24% in 2005, but experienced high volatility within this period, with 18.2% in 2001 and 27.46% in 2002, and finally 3.5% in 2009. This disparity in economic performance suggests an unevenly distributed exchange in the West African community (see Table A1 in the appendix).

The levels of trade between member countries remain weak and are increasing regional imbalances and strengthening loop effects. Overall, trade between ECOWAS countries is relatively low compared to regional trade with the EU. Numerical information for 2007 depicts this: Exports and imports within ECOWAS are about 10% and 11% of the total values, while imports from the EU are 23.2% and exports 42.1% (Diagne, 2011). Furthermore, the ECOWAS Community exchanges only 5.9% of exports and 4.4% of its imports with other African countries. This share is relatively low compared to other African countries (see Table 1). However, Burkina Faso and Sierra Leone conducted more than 47% of their trade within the ECOWAS area. In 2007, for example, Burkina Faso traded 93.7% of its exports within ECOWAS, against 50.8% of imports (Table 1).

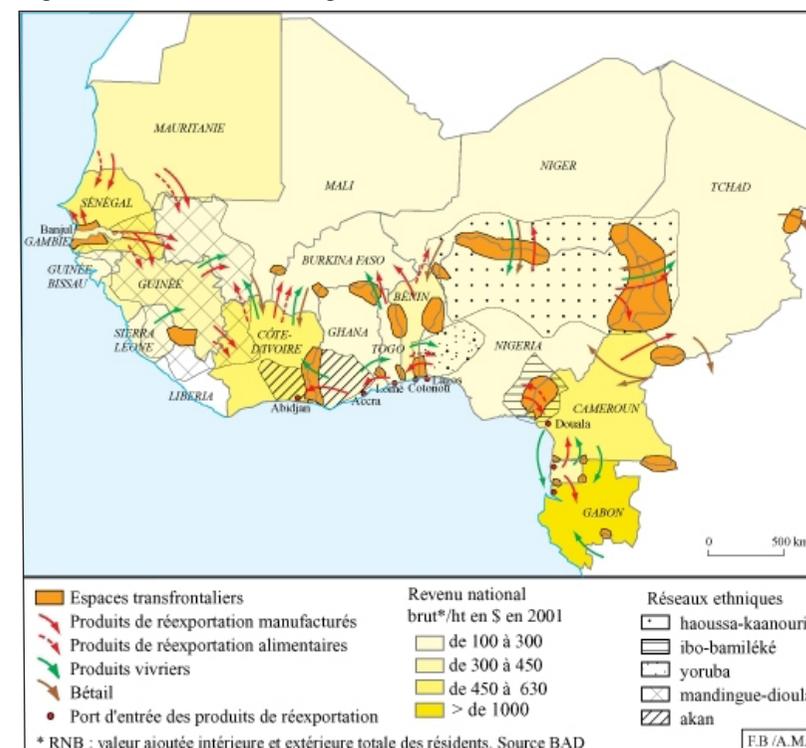
Table 1: Intra-ECOWAS trade in 2007

ECOWAS countries	Intra-ECOWAS trade in 2007	
	Exports	Imports
Benin	24.9	21.3
Burkina Faso	93.7	50.8
Cape Verde	14.9	4.1
Ivory Coast	28.7	5.9
Gambia	26.5	10
Ghana	32.1	10.4
Guinea	10.1	3.3
Guinea-Bissau	0.1	39.2
Liberia	n.a.	n.a.
Mali	23.7	35.2
Niger	31.3	23.5
Nigeria	4.2	2.3
Senegal	37.5	17.3
Sierra Leone	47.4	87.4
Togo	6	12.2
ECOWAS	10.8	11.4
Exchange of ECOWAS to other African countries	5.9	4.4
ECOWAS Trade with the EU	42.1	23.2

Sources: Diagne (2011), in ECOWAS annual report, p.12

The map below (Figure 1) shows trade flows in West Africa. The main products traded are foodstuffs and manufactured goods. Food commodities are oriented towards Nigeria, Burkina Faso and Mali. Manufactured products are directed towards Burkina Faso, Niger, and Mali. Second hand cars are sent to Niger and Nigeria. Livestock from Niger is exchanged with Benin and petroleum products from Nigeria to its immediate neighbors.

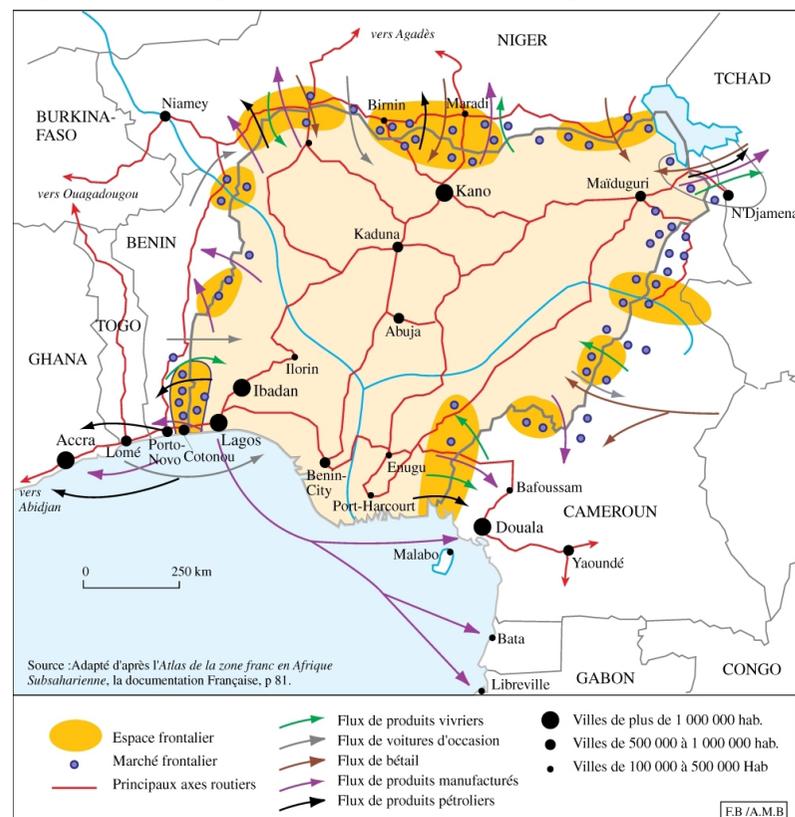
Figure 1: Networks and regional trade flows



Sources: Map adapted from Atlas of the franc zone in sub-Saharan Africa cited in Pourtier, R., 1995. French documentation, Paris, p.78 and map 9.3 from Damon and Igué (2003), p.256.

Additional maps show the trade flows from Nigeria to other countries in West Africa (see Figure 2). Here, we can see the economic dominance of Nigeria in ECOWAS. Border points show the concurrent exchange with neighboring countries. Foodstuffs, manufactured goods, livestock, second hand cars and especially petroleum are the most traded products. The illegal trade of petroleum products, which is smuggled to neighboring countries, constitutes an economic crime against Nigeria as it denies massive revenues to the Nigerian state.

Figure 2: Exchanges and border areas: the weight of Nigeria



Source: Extracted from West Africa in the global competition, what possible advantages?, cited in Damon J. and Igué OJ, 2003 Karthala, Paris, p.256.

### Barriers and constraints to intra-Community trade in the ECOWAS area

Bekolo-Ebe (2001) identifies three major constraints to the success of economic integration: inadequate structural production systems, the inability of economies to keep pace with changes in competitive global conditions and finally the persistence of irredentism.

The revival of regional integration remains fragile with no significant impact on economies. This is due to the fact that production systems have not fundamen-

tally changed in order to increase production and facilitate sector integration, both within each economy or between economies of the Union. Productive activity is concentrated around a few primary commodities in the agricultural and mining sector, which is inconsistent with the traditional division of labor. These products such as cotton, coffee, cocoa, groundnuts, and mining products do not favor market integration by strengthening productive sectors and integration of various economies. Moreover, such production does not take advantage of integration, as the products are not intended for the Community market.

Furthermore, the countries of the franc CFA zone continue to skew market integration in favor of strengthening relations with France, maintaining traditional choices of specialization, prioritization and resource allocation. This lack of restructuring of the production systems is reinforced by low productive investment, especially in new areas such as new information technology, which would concentrate the majority of global and/or regional demand. The crucial push expected from integration is low or absent in industrial and agricultural production. It is also weak in improving productivity and added value in ECOWAS economies. The integration strategy has not generated positive externalities such as a new sector that could foster the development of a strong industrial fabric or an agriculture taking advantage of industrial expansion (Bekolo-Ebe, 2001). For example, connections between industry and new information technologies have not been possible due to the lack of a critical mass of investment, which would provide access to these technologies.

Similarly, the at the least partial transformation of raw material production, in order to increase the value added, has remained marginal. There has been some coffee bean processing in Côte d'Ivoire, an oil refinery in Ghana and Nigeria and some ginning of seed cotton in Benin, Burkina Faso and Mali. As for transport, the lack of modern infrastructure such as roads, railways, airways and river transport remains a major barrier to regional trade. The main railway networks, which were inherited from colonization and have been maintained since, depart from the West coast to the hinterland. Thus, they follow the logic of exporting raw materials rather than facilitating intra-Community trade. Apart from the railways which link Côte d'Ivoire and Burkina Faso, all other railway projects to connect state capitals still remain at the early stages of the project.

The absence of massive investment into communication infrastructure has made it difficult to facilitate the management of a structural axis which is ne-

cessary to facilitate the mobility of production factors and the development of intra-Community trade. This is because economic and socio-political instability have limited foreign direct investment in the Union. Over the last decade, three out of fifteen ECOWAS member countries<sup>5</sup> have experienced or are still experiencing armed conflict and six have experienced political disorder or rebellion.<sup>6</sup> Foreign direct investment has experienced a downward trend, on average in 2010, with the exception of Liberia, Ghana, Ivory Coast and Sierra Leone. The loss of investor confidence was even more dramatic in Mali in 2010, due to the rise of radical Islamism (see table 2).

Countries	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Mean
Benin	2.49	1.75	0.43	1.25	1.61	1.25	1.19	4.60	2.54	2.04	1.69	1.89
Burkina Faso	0.89	0.33	0.49	0.72	0.07	0.59	1.27	5.48	1.83	1.26	0.42	1.21
Ivory Coast	2.25	2.59	1.85	1.20	1.83	1.91	1.84	2.16	1.91	1.65	1.82	1.91
Cape Verde	6.20	1.62	2.38	4.82	7.31	8.28	11.90	14.41	13.53	7.48	6.73	7.70
Ghana	3.33	1.68	0.96	1.79	1.57	1.35	3.12	5.62	9.52	5.48	7.86	3.84
Gambia	n.a.	n.a.	n.a.	3.57	9.59	8.43	12.32	9.38	7.58	4.01	3.56	7.31
Guinea	0.32	0.06	0.98	2.29	2.67	3.57	4.43	9.17	10.11	1.20	2.14	3.36
Guinea-Bissau	0.33	0.20	1.75	0.84	0.33	1.52	3.06	2.72	0.61	2.09	1.06	1.32
Liberia	3.93	1.61	0.52	91.01	16.14	15.28	17.86	17.81	46.38	24.77	45.79	25.55
Mali	3.40	4.63	7.29	3.03	2.07	3.55	0.81	0.75	1.51	8.01	1.57	3.33
Niger	0.47	1.18	0.11	0.55	0.86	1.29	1.39	3.01	6.34	15.52	17.50	4.38
Nigeria	2.48	2.48	3.17	2.96	2.13	4.44	3.31	3.64	3.96	5.08	3.07	3.34
Senegal	1.34	0.65	1.46	0.77	0.96	0.51	2.35	2.63	2.97	2.59	1.85	1.64
Sierra Leone	6.13	1.22	1.11	0.87	5.58	6.71	4.13	5.80	2.95	4.00	4.53	3.91
Togo	3.24	4.77	3.62	2.02	3.06	3.64	3.51	1.95	0.75	1.54	1.29	2.67
Sub-Saharan Africa	1.94	4.26	3.24	3.08	2.05	2.95	2.15	3.32	3.97	3.49	2.30	

Source: World Development Indicators, Worldbank 2012,  
<http://data.worldbank.org/data-catalog/world-development-indicators>

5 Côte d'Ivoire, Mali, Sierra Leone.

6 Burkina Faso, Guinea Bissau, Guinea Conakry, Niger, Nigeria and Togo.

If one adds Africa's shrinking share in the provision of products whose demand is also greatly reduced (such as cotton, palm oil, coffee, bananas...), due to African suppliers being replaced by new suppliers from Asia, the mobilization of financial investments for structuring and integrating economic sectors remains very limited. Thus, the structural inadequacy of the productive factors greatly reduces the capacity of ECOWAS economies to cope with competition in international markets.

The profound changes that technological innovations have created for the structure of global supply and demand and affecting competitive relationships have made it harder for ECOWAS economies to cope with changes in competitive conditions. Indeed, it is no longer pricing policies which operate to maintain market share but rather quality standards, health and phytosanitary requirements, as well as product specifications (of a biological character or not) which are complementary instruments for capturing or maintaining market shares. Economic unions provide the framework for the development of these strategies that not only emphasize the economic space of the Union, but also target new markets. Negotiation skills, the imposition of new rules, standards of competition and charm diplomacy conducted by the Heads of State or Governments are central to this strategy, which is governed by the permanent arbitration of the WTO.

The economies of the Union, despite the revival of integration, are out of sync with the changes in competitive conditions (Bekolo-Ebe, 2001). The inadequacy of production and integration strategies in the Union can then not dampen losses or create a market substitute, due to the dismantling of traditional preferences along the axis of the EU and African, Caribbean and Pacific Group of States (ACP). The Union has not yet provided member countries with greater negotiating capacity and the stalled negotiations of the Doha round, on the removal of subsidies to cotton cultivation in Western countries, reveal this weak negotiating capacity, despite the presence of large countries such as Brazil. The weakness in capital investment, due to the lack of an investment-friendly savings rate, has failed to satisfy investment demand even within the Union. Without investment, production chains gradually lose their competitiveness.

Furthermore, the agricultural and livestock production chains cannot be maintained by only the protection of relative market isolation (Bonjean and Combes, 2010). Integration does not always offer economies the ability to adapt to chan-

ges in global supply and demand or to adapt to competitive conditions.

Irredentism, as described by Bekolo-Ebe (op. cit.) is a set of behaviors that tend to reinforce the logic of balkanization and fragmentation of states, while somewhere else large groups are formed and consolidated over the world. Armed conflicts, insecurity and expulsion of migrants contribute to disintegrating economies. The free movement of goods and people within the Union is still facing the risk of irredentism, invasion and/or migration from neighboring countries. This results in an increase in exception clauses in ECOWAS laws and treaties that allow an avoidance of the surrender of sovereignty, or to preventing the application of Community rules. Furthermore, the red tape and customs hassles of the road networks of the Union, the poor condition of roads and the lack of warehouses are increasing transportation costs and accentuate the low capacity to supply of goods within the Union. The fragmented nature of markets, which occurs even within states, reinforces the argument of Chedanne and Perrin (2006) that multiple market failures which exist in developing countries seriously compromise the boosting of trade. Here, institutions have an important role to play. According to De Melo, Panagariya and Rodik (1992) social, political and economic institutions can have a positive and significant impact on trade flows if they are credible and able to strengthen cooperation.

### ***Strategies for market integration in the Union***

The low degree of integration reveals a fragmentation of markets and explains the low level of trade which can be observed. The weak trade relations between the countries of the region are not favorable for strong and vibrant regional integration. Avom (2007) considers that the first wave of regionalization has been largely dominated by neoclassical static analysis of customs unions, focused on the pioneering distinction of Viner (1950) between “creation” and “misappropriation” of trade flows. Economic integration that benefits members must eliminate barriers to free trade because ensuring the free movement of goods (consumer goods and production), improves the rational allocation of resources and activities. The virtues of the market (the ability to self-regulate, to achieve optimum, etc.) are pointed out at the expense of the productive sphere. Each factor of production is oriented towards the best returns. The principle of the complementarity of economies is essential to the success of integration.

Williamson (2000) offers a different perspective and recommends first focusing on the integration agreements between the North and the South, rather than South/South. In the second phase, the role of institutions in the integration process increases. Integrating the North and South through factors and technology mobility, facilitates higher productivity levels which increases the capacity of Southern economies as new technologies are transferred. Once their capacity has been strengthened, Southern economies can more easily integrate with moderately elevated levels of productivity and can facilitate the mobility of the factors of production. However, this strategy has the major risk of perpetuating the traditional division of labor, without improving the productivity of the Southern economies. Current experiences of exchanges with partners in the North tend to confirm the absence of productivity gains in the economies of the Southern countries.

Finally, Henner (1980), in his approach to monetization of the Ricardian model, shows that wages and the exchange rate are determined in conjunction with production conditions and the range of exportable products of each country involved in international trade. Indeed, the relative wage rates and exchange rates can strengthen or reduce the comparative advantages arising from higher labor productivity. According to Henner (2001), the static analysis of Viner is based on the simplified assumptions that markets have perfect competition, a partial equilibrium, constant returns to scale, the absence of agglomeration and polarization effects, etc. However, these assumptions are challenged by the development of endogenous growth theory, which takes into account economies of scale, but also agglomeration effects developed by new economic geography. This is why the work on economic integration in Europe has quickly highlighted the fundamental role of dynamic effects in the success of the EU. According to Henner (2001), the analysis of agglomeration effects may reveal more growth poles in accordance with Perroux's (1968) strategy and allow the concentration of activities in the appropriate local economies. The idea is that some heavy industries can play the role of a motor for development; a concept based on the idea of growth poles developed by Perroux.

The presence of several currency areas is both an advantage and an obstacle to trade. In the integration process of the EU, the single currency has played an important role in integration. In the ECOWAS area, the CFA-Franc has already gathered eight countries in an economic union, the WAEMU. Current strategies of integration include the creation of a second monetary zone, with a harmoni-

zation of tax, fiscal and economic policy. This process should lead to a convergence of the two monetary zones and the allocation of monetary sovereignty to a central bank. The resulting single currency will facilitate intra-Community trade and factor mobility of goods and people. However, this must be supported by political will at the State level, which is necessary for the lifting of the many trade barriers outlined above. Trade development needs infrastructure such as good roads, railways and secure warehouses along corridors and in border areas. Such infrastructure requires significant investment in West Africa. Funding can be mobilized through public-private partnerships at the regional level. However, these partnerships are only possible if the macroeconomic environment is stabilized and property rights are guaranteed first. The works of North (1990), Williamson (2000), La Porta, Lopez-de-Silanes, Shleifer and Vishny (1998), Acemoglu and Robinson (2008) emphasize the role of institutions in development and provide a list of appropriate institutions which are capable of sustaining growth. These institutions are necessary for generating, regulating, stabilizing or legitimating the market and are able to strengthen cooperation and impact positively on trade flows (De Melo, Panagariya and Rodik, 1992).

### ***Conclusion***

Trade in West Africa, particularly in the countries of the ECOWAS zone, remains marginal between States and is around 11%. The obstacles are numerous and range from the lack of political will for integration, to a real weakness in infrastructure. Market integration can be one of the main drivers of regional integration. However, this requires the coordination of monetary, fiscal and trade policy in the member states of the Union. ECOWAS offers an opportunity and framework for research about and dialogue on various integration strategies. Efforts are currently underway to merge currency areas, to further implement the customs union and convergence towards a common external tariff area. However, negotiations are often too slow and too long because of the whims of irredentism; whilst, on other continents, large groups are formed and further consolidated.

The formation of clusters may enable the creation and development of sources of competitiveness in specific sectors. A cluster can be seen as a center of excellence, an urbanized area which accumulates expertise in a technical field. Such clusters can provide a competitive advantage in the area of integration

and globally when the accumulation reaches a critical mass of expertise. Knowledge can thus spread and ultimately cause significant positive externalities in terms of know-how in the area of integration. Clusters can help increase and strengthen the negotiating capacity of States, which leads to a diversion of trade flows and the conquering new market shares. West Africa has strengths but must prioritize actions that commit to this path of further economic integration. In order to achieve harmonization of legislation and trade policy instruments, ECOWAS must strengthen its policy competence at national and regional levels. Second, the need to improve and increase dialogue to resolve inconsistencies between policy measures remains valid. For this purpose, the skills of public policy and negotiation play a big role. If ECOWAS continues, as it has undertaken over the last decade, to involve private operators in the development and evaluation of trade policies, it will manage to build an efficient and stimulating framework to trade.

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## Appendix

Table A1: Evolution of the growth rates of ECOWAS countries (2000-2009)

Countries	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Mean
Benin	5.80	5.00	4.50	3.90	3.10	2.90	3.80	4.60	5.10	3.00	4.17
Burkina Faso	1.84	6.65	4.70	8.00	4.60	6.35	5.50	3.60	4.46	3.00	4.88
Ivory Coast	-3.70	-0.02	-1.43	-1.55	1.79	1.25	0.68	1.71	2.21	3.90	0.48
Cape Verde	6.60	3.80	4.60	6.20	-0.71	6.53	10.80	6.94	5.95	3.60	5.43
Ghana	3.70	4.00	4.50	5.20	5.60	5.90	6.40	6.09	6.20	4.80	5.24
Guinea	1.88	3.97	4.18	2.04	2.70	3.32	2.16	1.50	8.39	4.70	3.48
Gambia	5.50	5.80	-3.25	6.87	7.05	5.11	6.55	6.30	5.89	0.60	4.64
Guinea-Bissau	7.50	0.20	-7.10	-7.14	-0.62	2.21	3.46	0.60	2.70	2.90	0.47
Liberia	25.69	2.90	3.70	-31.30	2.59	5.30	7.79	9.40	7.10	4.40	3.76
Mali	3.20	12.10	4.15	7.44	2.18	6.07	5.30	2.79	5.00	4.40	5.26
Niger	-1.41	7.10	2.90	4.40	-0.82	7.41	5.80	3.30	9.50	-0.90	3.73
Nigeria	5.40	3.10	1.55	10.30	10.60	5.40	6.20	6.45	5.28	3.00	5.72
Senegal	3.20	4.58	0.65	6.66	5.90	5.62	2.39	4.66	2.49	1.50	3.76
Sierra Leone	3.80	18.17	27.46	9.28	7.51	7.24	7.34	6.84	5.06	3.50	9.62
Togo	-0.78	-0.18	4.13	2.70	3.00	1.20	3.90	1.90	1.10	2.20	1.91
ECOWAS	4.55	5.14	3.69	2.20	3.63	4.79	5.20	4.44	5.09	2.97	4.17

Source: Construction from Africa Development Indicators, World Bank, 2010.

Available at: ><http://data.worldbank.org/data-catalog/africa-development-indicators><

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