

ECONOMIC PARTNERSHIP AGREEMENTS AND THE NIGERIAN ECONOMY: A POLITICAL ECONOMY PERSPECTIVE

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Abstract

Economic Partnership Agreements (EPA) are contractual agreements between countries within the same region or different region to remove every form of barriers to trade between them in order to promote growth and development while also ensuring political and security ties among them. The integration of West Africa into World trade with the establishment of World Trade Organisation (WTO) in 1975 to coordinate world trading activities equally propelled the formation of Economic Community of West African States (ECOWAS) as a regional economic body with the aim of promoting trade and collaboration among members. Nigeria is party to major trade negotiation processes involving the World Trade Organization (WTO), trade agreements between the EU and the ACP countries, and most recently, Africa Continental Free Trade Area (AfCFTA). The EPA promises to be a major achievement from a trade and development point of view as it becomes the main tool through which the EU and ECOWAS countries renegotiate their trade and economic collaboration. The EPAs have an original aim of fostering free trade between the EU and six African Caribbean Pacific regions, covering goods, services and other trade-related issues, with added development support and political dialogue. This study examines the political economy dimension to economic partnership agreements by Nigeria and concludes that Nigeria trades more with the European and Asian countries than with the African countries. However, given the fact that Nigeria is the founding member of ECOWAS and African Union (AU), there is need for Nigeria to redefine her trade direction with a view to trading more with African countries and work towards establishing common market and economic union that would culminate in the creation of common currency to aid trade easily among African countries.

Introduction

Economic Partnership Agreements (EPAs) are legally binding contracts that are part of the scheme to create a Free Trade Area (FTA) between economic blocs such as ECOWAS (Umuteme, 2013; Uko and Paul, 2023). Free trade areas are reciprocal agreements among a group of nations, usually from one region of the world, to remove tariffs and other trade barriers affecting trade with each other. Each nation, however, remains free to impose any barriers or preferential treatments to other nations outside of the area (Cullen and Parboteeah, 2010; Uko, 2023).

Economic Partnership Agreements (EPAs) represent a fundamental shift in the trading relations between two parties, from a non-reciprocal preferential trading regime to one requiring reciprocity in liberalisation, albeit with a certain degree in asymmetry in commitments in line with rules of the World Trade Organizations (Bilal *et al.*, 2012).

Hussain and Shah (2017) asserted that Free Trade Agreements are one of the outcomes of global interactions between member countries to develop their economies. Nevertheless, countries seek to join trade agreement not only for economic reasons associated with trade and investment growth possibilities but also for political reasons. Political considerations also relate to enhanced security in the region. That is, some governments seek regional trade agreements to strengthen relationships among nations as a basis for increased security. In addition, regional trade agreements are often easier to create than the multilateral trade agreements favoured by the World Trade Organisation (WTO), meaning fewer countries, especially when they are located close to each other, have less trouble finding common trading grounds. However, the increased trade among Regional Trade Agreement (RTA) partners can also lead to potentially higher prices and less efficient use of resources and capabilities; and because RTAs promote free trade only with their members and not with outsiders, there is a chance that trade barriers with outsiders may block what might otherwise be the most beneficial trade relations (Uko, 2023). The major motivation however, is economic growth with access to larger markets, more foreign investment, and more efficient use of local resources (Cullen and Parboteeah, 2010). It should be noted that free trade agreements (FTAs), which are preferential trading agreements, have both favourable and non-favourable impact on the partner economies. This issue has immense importance from both theoretical and empirical aspects.

After World War II, nations were desirous of rebuilding world trade. As a result, several nations began negotiating to limit worldwide tariffs and to encourage free trade. Cullen and Parboteeah (2010) report that immediately after World War II, tariffs averaged 45 percent worldwide, adding a huge price increase for goods from other countries and severely limiting world trade. In view of this development, eight rounds of tariff negotiations reduced the average worldwide tariffs on manufactured goods from 45 percent to less than 7 percent. These negotiations were known as the General Agreement on Tariffs and Trade (GATT). During this time, world trade grew dramatically. GATT created the basic principle of non-discrimination with the intent to put all the signing nations on an equal footing for trade and to reduce trade barriers. The principle of non-discrimination requires that trade agreements between any two nations apply to all GATT signers, that is, signing nations must give to all other GATT members the same favourable treatment that they give to any other nation. This favourable treatment is now called normal trade relations, although it was once referred to as the most favoured nation treatment. Non-discrimination also means that participants must treat industries from other nations no differently than the same industries in one's own country. Once foreign products enter the market, they must be treated the same as domestic products (Cullen and Parboteeah, 2010).

Following the rising growth and integration of West African countries to the global economy, the European Union (EU) commenced an Economic Partnership Agreement (EPA) with 16 West African states via the Economic Community of West African States (ECOWAS), and the West African Economic and Monetary Union (WAEMU) (EU, 2016; EU, 2017; Acheampong and Ortsin, 2019). In the post-independence West Africa, EU-West Africa trade relations crystallized in 1975 upon the signing of the Lomé Convention. That same year, the Economic Community of West African States (ECOWAS) and the African, Caribbean and Pacific (ACP) group of countries were established. In view of the geopolitical dynamics of the period, the ACP countries that signed the 25-year Lomé Convention were able to negotiate a non-reciprocal trade agreement with their European counterparts. According to Article 1 of the convention, it was negotiated taking into account the respective levels of development of the European Economic Community (EEC) and the ACP member states.

In general, the aim of the convention was to ensure better balance in the trade between the Contracting Parties. Article 2 made provisions for ACP countries to export products into the EEC market free of customs duties and charges, having equivalent effect. On the flip side, article 3 enjoined the EEC member states not to

apply same to imports of products originating from the ACP states. Thus, the convention created a preferential trade agreement (PTA) between the EEC and ACP countries, lopsided in favour of the latter. The Lome Convention was reviewed every five years until it expired in 2000.

Upon the expiration of the Lomé Convention in 2000, the EU came under intense pressure from some developing countries, particularly in Asia and Latin America, who argued that the provisions of the Lomé conventions were discriminatory and incompatible with Article I of the GATT decision which required equity in preferential treatment for all least developed countries (LDCs) and not just those belonging to the ACP nor those who had historical ties with European countries; this led to the signing of the Cotonou Agreement in 2000 that was intended to correct the situation. The Cotonou Agreement introduced the Economic Partnership Agreement (EPA) hinged on reciprocal trade between the EU and ECOWAS countries in alignment with World Trade Organization (WTO) rules. A transition period of 7 years (2000–2007) was specified in the Cotonou Agreement, which allowed the preferences to remain during that period. Negotiations for the EPA commenced in 2002 and it was expected to come into force in 2008. However, the negotiations were severally strained due to objections from the ECOWAS negotiators. This continued until February 2014 when a full EPA was agreed upon by all the negotiating parties. It is now awaiting ratification by the respective member states.

Nigeria, like other African countries, is party to major trade negotiation processes: a multilateral process involving the World Trade Organization (WTO), and another one concerning the trade agreements between the EU and the ACP countries, and most recently, Africa Continental Free Trade Area (AfCFTA). The EPA promises to be a major achievement from a trade and development point of view as it becomes the main tool through which the EU and ECOWAS countries renegotiate their trade and economic collaboration. The EPAs have an original aim of fostering free trade between the EU and six African Caribbean Pacific regions, covering goods, services and other trade-related issues, with added development support and political dialogue.

The West African regional agreement covers goods and development cooperation and includes rendezvous clauses providing for further negotiations on services and rules chapters. The preamble to the EPA reaffirms that the Agreement must be a development tool for promoting, in particular, sustainable development, increasing the production capacity and exports of the West African States and supporting the

structural transformation of the West African economies and their diversification and competitiveness, leading to the development of trade, technology, the creation of jobs in the West African States and attracting investment to them (EU, 2017).

The EPA is based on the principles and essential points of the Cotonou Agreement as set out in Articles 2, 9, 19 and 35 of the said Agreement. At its core, the Agreement states that trade relations between the two regions shall be based on reciprocity, taking into account the difference in levels of development. Thus, commitments undertaken in this regard are meant to comply with Article 34 of the Cotonou Agreement, which applies special and differential treatment to the two parties. The agreement enjoins ECOWAS and the EU to ensure that they take into account the vulnerability of the economies of the West African region, and that the liberalization process should incorporate the principles of progressivity, flexibility and asymmetry in favour of the West African region.

The title of Part I of the EPA (Economic and Trade Partnership for Sustainable Development) illustrates that the EPA is not a typical free-trade partnership. Indeed, the objectives of the Agreement, formulated in the first article, clearly indicate a double trade and development dimension.

They are as follows:

- to establish an economic and trade partnership to achieve rapid and sustained economic growth that creates employment in order to eradicate or reduce poverty, to raise living standards, to achieve full employment, to diversify economies and raise real income and output in a way that is compatible with the needs of the West African region while taking account of the Parties' different levels of economic development;
- to promote regional integration, economic cooperation and good economic governance in the West African region;
- to increase intra-regional trade and encourage the formation of a unified and efficient regional market;
- to contribute to the harmonious and progressive integration of the West African region into the world economy in accordance with its political choices, its priorities, and its development strategies;
- to strengthen economic and trade relations between the Parties on a basis of

solidarity and mutual interest in accordance with WTO obligations in a way that takes account of the significant difference in competitiveness between the two regions.

Apart from EU / WA economic partnership agreement to which Nigeria is yet to ratify, Nigeria currently is signatory to another economic partnership agreement – African Continental Free Trade Area (AfCFTA). On 21st March 2018, at the 10th Extraordinary Summit of the African Union in Kigali, forty-four (44) African countries signed the “Agreement establishing the African Continental Free Trade Area” thus, committing themselves to the establishment of an African Common Market. The initial forecasts for its entry into force was projected by January 2019 upon reaching the necessary number of ratifications (22 States as referred in the Agreement). Nigeria—the largest economy in Africa signed the AfCFTA on July 7, 2019, becoming the 34th member of the trading block (Africa Trade Statistics, 2019).

Within the broader framework of the Abuja Treaty which established the African Economic Community, the objective of initiating negotiations for the AfCFTA is to achieve a comprehensive and mutually beneficial trade agreement among the Member States of the African Union. The objectives of the AfCFTA are to:

- (i) create a single market for goods and services facilitated by the movement of persons in order to deepen the economic integration of the African continent and in accordance with the Pan-African Vision of “An integrated, prosperous and peaceful Africa” enshrined in Agenda 2063;
- (ii) create a liberalised market for goods and services through successive rounds of negotiations;
- (iii) contribute to the movement of capital and natural persons and facilitate investment building on initiatives and developments in States Parties and Regional Economic Communities (RECs);
- (iv) lay the foundation for the establishment of a continental Customs Union at a later stage;
- (v) promote and attain sustainable and inclusive socio-economic development, gender equality and structural transformation of States Parties;
- (vi) enhance the competitiveness of the economies of the States Parties within the Continent and global market;
- (vii) promote industrial development through diversification and regional value chains development such as agricultural development and food security;
- (viii) resolve the challenges of multiple and overlapping memberships and expedite

- regional and continental integration processes; and
- (ix) reduce dependence on exports of products and promote social and economic transformation for inclusive growth, as well as sustainable industrialization and development, as enshrined in Agenda 2063.

In principle, trade liberalisation and the increase in trade it induces are considered powerful means of reducing poverty and improving standards of living. In Article 52 of the Agreement, the parties recognise that improving access to the market of the European Union is not a sufficient condition for bringing about the profitable insertion of the West African region into world trade. An entire protocol entitled ‘The EPA Development Programme (EPADP)’ was therefore included in the EPA. The Agreement contains numerous commitments and items (i.e., Articles 52-61) relating to the development objective of the EPA, the EU's commitment to support WA in the implementation of an EPA focused on development, among others. Under an EPA, while the EU has agreed to grant full and immediate market access to ACP/African countries, those ACP who decide to enter an agreement have to remove tariffs on “substantially all the trades” between themselves and the EU “within a reasonable length of time”, to comply with Article XXIV of the General Agreement on Tariffs and Trade (GATT). This has been interpreted by the EU as meaning that the ACP/African countries have to liberalise at least 80% of the value of trade with the EU and tariff lines over a maximum transition period of 15 years.

Proponents of the FTA expect the AfCFTA to reduce poverty, increase firm competitiveness, and boost intra-African trade and investment. In fact, based on a recent survey of 1,804 Nigerian manufacturing enterprises, 6 out of 10 businesses expect the AfCFTA to lead to a reduction in material and labour costs, increase production capacity, expand market and consumer size, and reduce prices. Overall, Nigeria’s small and medium-sized businesses are optimistic about the opportunities created by AfCFTA, although with mixed feelings grounded in concerns about rising foreign competition and dumping of substandard goods (Maliszewska, et al. (2020).

While there is a general optimism around the promise of the newly in-force African Continental Free Trade Agreement (AfCFTA), like any other free trade agreement (FTA), it will inevitably create winners and losers. This unequal distributional impact is a function of many possible factors, including manufacturing capacity, domestic costs of doing business, firm productivity, infrastructural capability, AfCFTA awareness levels, and access to loans and financing. The serious gap in physical and technological infrastructure in many African countries has negatively influenced the

level of competitiveness and market efficiency in many of their industries. Whether due to firm-level inefficiencies, information frictions, or the suboptimal business environments, some firms—or even sectors—within a country may be unable to expand market opportunities as competition from other continental economies rises. When fully actualized, AfCFTA is expected to turn the whole Africa to a single continental market for goods and services including free movement of capital and business travellers. This will provide the necessary platform for the establishment of the Continental Customs Union.

It is believed that AfCFTA will address the long-standing economic fragmentation of Africa due to high trade barriers across the continent. Maliszewska et al. (2020) observed that Africa accounts for less than 3 percent of global trade and GDP, but 16.7 percent of global population. The signatory countries trade little with each other—less than 8 percent of their exports are directed to other prospective member countries. The establishment of a continental market, with a combined GDP of US\$2.2 billion and a population of 1.2 billion in 2017, is expected to grow at a substantial rate and reach \$2.5 billion by 2050, which will then host 26% of the world's working-age population, and experience economic growth at a rate twice as high as developed countries. It offers significant opportunities to intra-African trade. As a result, it should boost industrialization, competitiveness and innovation, accelerating Africa's structural transformation and enhancing the chances of its socio-economic development.

As laudable as the objectives of the EPAs may sound, it should be noted that, like many African countries, Nigeria ranks low in Global Competitiveness Index (GCI). Precisely, the country ranked 116th in the pool of 141 countries ranked in 2019 (African Statistical Yearbook, 2020). This is a reflection of the poor state of both institutional and physical infrastructure in the country. This infrastructural gap has affected the key sectors of the Nigerian economy especially the manufacturing and agricultural sectors. Consequently, the country has relied heavily on importation of consumable goods such as foods. Thus, the free trade agreement with countries that rank higher than Nigeria such as Egypt, Morocco, Algeria and South Africa may not be substantially beneficial to the Nigerian economy. This represents the fear and skepticism being expressed by the major players in the Nigerian industries. As a result of this, a study of this nature will provide shreds of evidence either to share their skepticism or give hope to this group of people.

The goal of the EPAs is to set up free trade areas (FTAs) to replace the non-reciprocal trade preferences currently in force, which have been accorded by the EU to the ACP countries within the framework of the Lome Agreement. Within academia and the international development community, there is ongoing debate on the desirability of trade and Free Trade Agreements in the quest for balancing sustainable development, promoting social development and ecologic objectives.

Nigeria has entered into different trade agreements with both developed and developing countries. Some of the recent trade agreements include Trade and Investment Framework Agreement (TIFA) with the United State, Global System of Trade Preferences among Developing Countries (GSTP) and EU - West Africa EPA. Despite all the trade agreements hitherto designed to better the welfare of the Nigerian populace, the country still houses the largest population of poor people not only in Africa but in the world. According to World Bank (2020), over 94 million Nigerians are estimated to be living in extreme poverty and this implies that extreme poverty in the country increases by nearly six Nigerian every minute. This places a huge burden on the government in terms of resources required to lift this population from extreme poverty. Thus, Nigeria, like any country within the Sub-Saharan Africa, needs to integrate trade policy issues in their development strategies and define possibilities to optimize the contribution of trade to national development objectives, including Free Trade Agreements. However, trade liberalization also bears risks - liberalization leads to increased competition, can threaten local production, and thus, leads to unemployment and social problems. Trade liberalization and agreements, therefore, do have to take into account the economic and social conditions of developing countries and contain instruments necessary to deal with that.

Karingi *et al.* (2005) observed that any benefits that EPAs are expected to generate for ACP countries are unlikely to materialize spontaneously or instantaneously. Moreover, the implementation of EPAs will impose a number of severe challenges for ACP countries that include: how to manage the expected losses of fiscal revenue in some ACP countries; how to cope with more competition expected to be entailed under the EPAs principle of reciprocity; how to ascertain net benefits from the EPAs, especially in LDCs, that is, how to deal with limited negotiations capacity because EPAs negotiations will stretch the already limited resources available to the ACP countries; and how to improve market access for agricultural and non-agricultural products that continue to impose difficulties in trade negotiations at the multilateral level.

Given the nature of Nigerian economy in comparison to the EU economies and other strong economies within Africa region, could economic partnership arrangement works in favour of Nigeria? Thus, how is Nigeria likely to fare in a bilateral trade liberalization scheme as governed by the EPAs reciprocity principle given some politico-economic elements within the polity? The establishment of EPA has always been premised on the issue of development. Previous EPA such as Common Market for Eastern and Southern Africa (COMESA) and Southern Africa Development Communities (SADC) has not shown significant impact on the development of those region. There is compelling reason to investigate if the proposed EPA for West Africa region and indeed Nigeria, will have a different outlook in comparison with previous EPA. Furthermore, this study is expected to provide insight to the policy makers and trade negotiators within the Nigerian polity on the likely economic partnership agreement to accommodate - whether EU-EPA or AfCFTA given the time frame involved.

The focus of this study is to theoretically examine the political and economic implications of the trade liberalization aspects of the EPAs on the Nigerian economy. Precisely, the study seeks to provide an exploratory assessment of the likely implications of the implementation of the EPAs establishing Free Trade Areas (FTAs) between EU and the various Regional Economic Communities (RECs) and Africa Continental Free Trade Area (AfCFTA) on the Nigerian economy.

This study is divided into four sections.

II. Literature review

Conceptual clarifications

The significance of trade to any economy is premised on the belief that trade creates jobs, expands markets, facilitates competition, disseminates knowledge; and raises income both to individuals and government (Oyejinka and Adegboye, 2017). For centuries, international trade has brought together the remote parts of the world and different civilizations, thereby helping to shape the course of regions and nations.

Acheampong and Ortsin (2019) asserted that international trade has played an essential part in the growth and subsequent globalization evidenced by the increased flow of goods, services, capital and information among countries. Economists have been interested in factors which cause different countries to grow at different rates and achieve different level of wealth. One of such factors is trade liberalization. International trade and trade liberalization have been argued to stimulate economic growth, which in turn benefits the poor on average, as one of the pathways that trade

liberalization impacts poverty. In addition, trade liberalization helps to stimulate production, promote efficiency and reduce cost of production and thus, increases international confidence in market mechanism of an economy. Furthermore, foreign trade enlarges the market for a country's output as export may lead to growth in national output (Oyejinka and Adegboye, 2017).

Trade liberalization has been praised for its beneficial effects on productivity in various sectors of the economy because it enhances the use of better technology and promotes investment which are mediums for stimulating economic growth. In addition, trade liberalization may generate significant gains that enhance a country's economic improvement. This suggests that trade encourages lower prices of imported goods and services, and prevents price increase which in turn prohibits monopolies. Mhonyera (2020) opined that international trade has increasingly become an important part of almost all the nations around the globe and has been utilised as a significant mechanism for economic modernisation. It should be noted, however, that engaging in international trade does not merely lead directly to economic growth, but also leads to advancements in the level of efficiency and to promote entrepreneurial initiatives aimed towards development of new products and services. Thus, advocates of free trade perceive international trade as a central engine of economic growth and development. Therefore, promoting freer international trade is favourable to stimulating economic growth as well as the expansion of an open economy.

With regard to international development, it has been argued that international trade increases the availability and brings down the prices of better-quality goods and services which hitherto were not available to the poorest population growth. The fall in prices leads to increased consumption and is one of the most direct links between the international market and the poorest population groups. Overall well-being thus increases as many of these low-income sectors that are able to obtain goods that were previously inaccessible.

The channels for the transmission of trade benefits to production and social structures are many. The most important for the EPA regarding fostering inclusive development is the nexus that exists between trade and income growth via the production structure and distribution channels through exporter-importer and employment linkages (Acheampong and Ortsin, 2019). These are important because the EPAs, at their core, seek to increase the production and supply capacity of West African countries by promoting structural processing and economic diversification of their economies

while supporting regional integration. This way, the EPAs become instruments of development and anchor for a regional integration agenda.

It has been shown in the literature that the link between international trade, economic growth and development is a highly variable and complex one. It operates through changes in export, import and technology flows. Exports do stimulate growth but for them to stimulate development, the local content levels must be high. With regard to imports, technology imports embodied in goods can raise competitiveness which in turn lowers unit production costs for in-country consumption as well as for exports. According to Helpman and Grossman (1991), access to a large variety of intermediate goods and new final products will affect a country's productivity growth. Also, a related indirect channel of international trade is the inducement of competition among firms in export-oriented countries. These pro-competitive gains from trade might force domestic firms to innovate by encouraging specialization that would have been unprofitable in smaller markets.

Regional integration appealed as a concept that helped promote growth, well-being and economic development among members (Gammadigbe, 2019), may also foster a variety of non-economic objectives, including promoting regional security and political coordination among members. In Africa, regional integration is seen by policymakers and academics as a relevant strategy to raise the level of intra-regional trade, boost economic growth and ensure the integration of African countries into the global economic system. It can also be a lever for accelerating the structural transformation of African countries through economies of scale, improved competitiveness, more efficient resource mobilization and the promotion of regional value chains. Regional trade integration (RTI) can also promote the dissemination of knowledge and technology and facilitate the design of new products (Gammadigbe, 2019).

The recently launched African Continental Free Trade Area (AfCFTA) by the African Union which is believed to be the largest free trade area in the world in terms of countries composition is aimed at establishing a single market for goods and services across 54 countries, allows the free movement of business travellers and investments, and create a continental customs union to streamline trade and attract long-term investment. Whereas the AfCFTA could significantly boost intra-regional trade in Africa and promote economic growth, it can also entail costs, and its benefits may not be necessarily uniformly distributed between and within countries. Therefore, leaders often have legitimate concerns that further trade integration of

their economies with those of other countries may benefit some industries and penalize others, may have negative effects on profits and employment prospects in some sectors and skill levels, and may reduce fiscal revenues (Gammadigbe, 2019). This highlights the need to examine the potential effects of the AfCFTA on growth and income conversion.

Omolehinwa et al. (2020) assert that regional economic integration, even at its most elementary stage of Free Trade Area, has been identified as an important platform that countries can leverage to accelerate economic growth and improve standards of living through increases in productivity. Furthermore, regional integration efforts culminate in the formation of economic or monetary union, which offers prospects for member states to strengthen macroeconomic conditions by meeting a range of convergence criteria such as inflation, budget deficits, central bank financing and foreign exchange reserves. Through regional integration arrangements, member states can strengthen trade and financial linkages, which promote the development of the domestic financial markets and facilitate cross-border financial flows, thereby contributing to enhancing productivity and economic growth of member countries and the region at large.

In recognition of the potential benefits of regional integration, several scholars have conducted research to identify the channels through which economic integration could influence productivity and economic growth in member states. The empirical literature, however, shows mixed evidence on the growth effects of regional integration. From a theoretical point of view, economic integration may have both positive and negative impacts on growth. The traditional Solow growth model holds that an open economy cannot gain a long-run growth effect from economic integration. According to Solow growth theory, investment in capital has diminishing returns under a constant rate of depreciation, resulting in a distinctive ratio of capital to labour where the economy is going to grow again. Since the size of the capital stock determines the level of national income of an economy, the exogenous rate of technological change could be the only factor to determine the long-run growth. However, if the factor employment becomes more efficient in the production process, the equilibrium of the labour–capital ratio will be altered and the temporary higher growth rates will be generated until a new steady state is obtained. In this way, neoclassical growth theory argues that the long-run growth of one country cannot be affected by any form of economic policies, including economic integration, and thus can induce only a level, not a scale effect.

However, Zaman et al. (2021) assert that the degree of progress in any economy cannot be completely inspected without a detailed understanding of the involvement of capital formation in its economic progress. Capital formation typically affects the acquisition of a new factory, along with machinery, equipment, and all productive capital goods. It logically plays a key role in economic growth. It has consistently been viewed as a planned development appealing player. It impacts the public ability to create, which further influences economic development. The lack of capital development has been referred to as the most genuine imperative to maintainable financial development.

Several studies have reported a casual positive relationship between economic integration and economic growth (Ibrahim, Mazlina, Azman–Saini, and Zakaria, 2016; Campos, Coricelli, and Moretti, 2018). Conversely, negative relationships were recorded between economic integration and growth level from works done by Ahmed (2013; 2016). A few studies have shown that the growth effects of financial integration may not be linear and depends on domestic absorption capacity such as the level of financial development (Coulibaly, 2015).

Ma (2022), however, observed that the global economy in the second half of the 21st century has experienced rapid development of economic integration and that trade liberalization has contributed to regional and global economic integration in a process of reducing tariff/nontariff and investment barriers, and boosting trade and investment among members economies; thus, it can be viewed as an effective way to have an impact on economic growth. Shah (2021) remarked that the idea of pursuing international trade became globally after World War II. Furthermore, when global coordination fails, regional integration becomes the option in building up the process of liberalization.

In another dimension, Baajike et al. (2022) note that the high levels of unemployment, poverty, and income inequality, and the low level of quality infrastructure in the sub-Saharan African (SSA) region, particularly in the West African sub-region, have attracted the attention of local governments and international organizations. These necessitated these countries to put in place policies with a view to achieving sustained economic growth and development in addition to improving the living conditions of their citizens. The signing of economic partnership agreements is therefore, an effort at bringing the local economy into global limelight to enhance competitiveness in the production of goods and services and to improve citizens' welfare.

Theoretical framework

The theoretical basis for this study is the theory of economic integration. The theory of economic integration and the explanation of theoretical issues relating to preferential trade agreements are based on the seminal work by Jakob Viner, “The Customs Union Issue” (1950), which is often referred to as the first study of the benefits of economic integration as it analysed them critically from an economic point of view (Marinov, 2014). Prior to the seminal work of Viner, it had been assumed that a move to a customs union would be an unambiguously good for the world welfare since it resulted in the removal of some tariffs. In contrast, Viner demonstrated that the welfare effects from creating a customs union depend on the net impact of *trade creation* and *trade diversion* (Karakaya and Cooke, 2002). While working on Viner’s work, Meade (1955) highlighted the role of prices and international terms of trade for achieving and maintaining equilibrium in international trade and payments under economic integration agreements. Assuming fixed patterns of production, Meade emphasised the effects of substitution in consumption. He showed how the formation of a customs union could alter relative prices and as a result, change consumption patterns, thereby leaving the volume of trade among countries to vary. Since this may give rise to both trade expansion and trade contraction, an increase in welfare will be possible only if there is a net increase in the volume of trade. The net effect on welfare would depend on the level of pre-union tariffs and demand elasticities. In conclusion, Meade argued that while trade creation in a customs union is welfare improving, a trade-diverting customs union might or may not improve welfare depending on the aforementioned factors (Shah, 2021).

Given the increased amount of regional trade agreements (RTAs) in recent years, the question of whether multilateralism should be promoted or regionalism enhanced, has gained significant attention in international trade (Herz & Wagner, 2010). As opposed to regionalism, multilateralism is concerned with integration at the global level, that is, to enhance trade at global level. But regionalism, in general, debates about increasing trade among few neighboring countries. The argument for regionalism or RTA comes from gravity model of trade which asserts that the lesser the distance, the greater is the opportunity for trade. Countries form RTA because it reduces transaction costs as well as tariff barriers. RTA helps an economy to achieve economies of scale as demand does not remain constrained only by domestic market, therefore enabling the firms to operate under a larger market.

However, Viner (1950) demonstrated that trade agreement can be beneficial, but at the same time, it can be harmful for the society's welfare. His analysis is based on two effects of trade - trade creation effect, and trade diversion effect. Trade creation effect is observed when a potential upside of trade agreement lies in the fact that a country may import goods and services more cheaply from the partner country which can replace the domestic production that is much more expensive. On the other hand, trade diversion takes place when production is shifted from external producers who are efficient, to the members who are inefficient. The overall effect depends on which one is stronger. If trade creation effect is stronger, it will stimulate welfare, but if trade diversion is stronger, then it is more likely to be harmful to the society's welfare (Raihan, 2012).

Viner's study based on static analysis is the first to define specific criteria for the distinction of the pros and cons of economic integration. His static analysis of economic integration distinguishes the now well-known effects of trade creation and trade diversion. Viner claimed 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, 1950).

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, if integration leads to more trade creation than trade diversion.

Viner's approach known as static analysis, has been criticized on the ground that this welfare approach cannot fully capture the effects of integration on welfare and can be referred to as "old regionalism," whereas new regionalism, known as dynamic analysis, is concerned with "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" (Shah, 2021).

Dynamic analysis of economic integration spearheaded by Balassa (1961) sees economic integration both as a process and as a state of affairs. Described as a

process, economic integration requires eliminating discrimination between economic units that belong to different nations and as a state of affairs, it requires elimination of different forms of discrimination between the country nations. Balassa described five stages of economic integration in his original work. The 1st stage is “Free Trade Area” (FTA) where products are allowed to cross borders without any import tariffs or any other barrier between the countries involved. The 2nd stage obviously involves more integration than the first stage by eliminating trade barriers internally and setting a common external tariff (CET). This stage is called “customs union” where countries behave like a single entity. The 3rd stage is common market which includes the previous two stages as well as factors of production such as labour and capital, which can also move freely. Economic integration is the 4th stage of integration where labour, capital, and products can move freely. It also requires common external policy and currency. Some amount of sovereignty has to be sacrificed at this stage as it requires common fiscal, economic, social, and monetary policy (Balassa, 1961). The 5th stage involves total/complete economic integration. However, Balassa’s stages now have been extended to include political union as a further development to the integration process.

From the foregoing, it becomes clear that static analysis of trade creation and trade diversion is not sufficient. Viner comes to the conclusion that an unpreferential trade policy (free trade) is a far better way to liberalise trade than a customs union, or in other words, the better allocation of resources is no longer applicable as a rationale for the creation of a customs union. Static effects analysis cannot fully assess the impact of integration on welfare. Thus, Bella Balassa introduction of dynamic effect analysis is considered a better means of explaining the reasons and economic rationale behind the creation of customs unions and economic integration schemes as a whole. 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. At first, the creation of preferential trade agreements motivated by the ideas of static effects analysis is viewed as a shift towards free trade and thus is perceived as a tool to increase real income. However, this turns out not to be true – this type of analysis does not give simple answers and principles, thus the attention should be put on the dynamic analysis of economic integration (Sheer, 1981).

Many researches add to Viner’s static analysis by addressing different issues of integration effects. All of them come to the conclusion 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. It all depends upon the particular circumstance of the case” (Meade, 1955).

Regarding the overall welfare effects of a customs union, it is argued that even when some members of the customs union lose by joining the union, the welfare of the customs union as a whole might still be positive if the other partner countries gains are substantially high and outweighs the losses of the remaining members. By allowing transfer payments between countries, Kemp and Wan (1976) argued that a customs union would always be welfare-improving. Any customs union is potentially favourable for all countries considering participation since even if there is loss, they can be compensated. Then, as the argument goes, customs union among n members could be extended to $n+1$ countries, which implies that with expansion, there is an incentive to form and enlarge the customs union until the world becomes a customs union.

The comparative static studies reviewed above simply compare two equilibrium positions (before and after). They ignore the *process* by which the new equilibrium comes about, involving such issues as changing capital stocks (human and physical), levels of industrial concentration or technological innovation. Yet, it is argued that all of these may be influenced by the formation of the customs union. The standard argument that an economic integration can affect the rate of output growth is realised through a faster growth of factor inputs, particularly return on investment in human and physical capital, and through increases in the growth of total factor productivity (Baldwin and Venables, 1995 and Romer, 1994). Baldwin and Venables stated that the former might be transient and associated with the medium-term effects, while the latter has permanent effect.

Recent theoretical works and empirical evidence suggest that regional economic integration can provide an important stimulus not only to trade, but also to foreign direct investment (FDI) within the region concerned. The experiences of Spain and Portugal (upon joining the European Commission) and Mexico (following its decision to negotiate the North America Free Trade Area), suggest that joining a regional economic integration scheme can provide an impetus to inward foreign direct investment. This raises the question of whether these increases in incoming FDI affect the flows of direct investment going to other potential host countries that did not offer the advantage of belonging to the regional integration scheme concerned. Baldwin, Forslid and Haaland (1995) suggested that the creation of the Single Market in the EU probably led to investment diversion in the economies of the European Free Trade Association (EFTA) and investment creation in the EU economies; the latter being particularly prevalent in Spain and Portugal. Brenton

(1996) also found that the EU Single Market programme led to a significant increase in investment by EU firms in other EU countries in the late 1980s. An important issue is whether economic integration fosters growth through changes in return on investment among the countries concerned. In this context, factor accumulation may be of crucial. Much of the effect of trade policy on growth may well work through the domestic rate of physical investment, which is a determinant of economic growth in a nearly tautological sense (Baldwin and Seghezza, 1996).

Regional economic integration typically encompasses reductions in regional trade barriers and investment restrictions. Baldwin and Venables argued that factor prices in member and non-member countries could be affected with economic integration. With the assumption of imperfect competition, this could result in an increase in demand for capital within the union, and a decrease in it outside the union. Assuming capital is perfectly mobile internationally, this will lead to investment inflows into the region from non-member countries. These capital flows might lead to an increase in GDP and consequently, in GNP in member countries unless the capital owners remit their earnings. Even if there is no capital inflows, it is also possible that there could be growth effects that occur as the initial gains in efficiency and output raise factor rewards and generate new savings and investments that contribute further to output growth (Baldwin, 1989).

III. Economic Partnership Agreements and the Nigeria Trade Relations

While the objectives of EPAs include promoting trade, the very nature and overall objectives of the EPAs as ‘trade and development’ agreements are still under discussion, particularly, the relationship between trade and development (Gahamanyi, 2017). Bilal (2021) notes that The Economic Partnership Agreements (EPAs) between the European Union (EU) and African, Caribbean and Pacific (ACP) states have been a long saga, which has attracted over the last two-decades, a lot of attention and some controversies. While some of the ACP states have ratified the agreement, not all ACP states concur with the European Commission’s perspective on EPAs as promising instruments to promote development. Critics averred that premature trade liberalization endangers domestic industries and, more generally, industrialization efforts through unregulated exposure to more advanced European competitors (Langan, 2014; Hurt, 2016; Berthelot, 2017).

The highly controversial nature of the EPAs generated substantial debates in the academic literature, particularly in view of the EU’s supposed normative power. It is argued, for example, that the EU’s external relations are not primarily influenced by traditional concepts of power, but by a set of norms such as human rights, democracy,

rule of law, and poverty eradication. This normative conception is also noticeable in the EU's justification of the EPAs which have been described by EU representatives such as the former Trade Commissioner, Peter Mandelson, as tools for development.

In practice, the negotiations of the EPAs have proved much more complicated and controversial than expected. Many, including the ACP countries and civil society organisations feared that the opening of ACP economies to EU products in an FTA would expose them to an excessive competition from the EU, with the risk of undermining local production and development efforts. They complained about the lack of level playing field. They also insisted that regional markets and rules had to be set first, by concerned ACP countries, before engaging with the EU.

Moreover, the overlapping of regional groupings, with ACP countries particularly in Africa, belonging to an average of three regional groupings, for historic, political and economic reasons, was not necessarily conducive to negotiating on a regional basis with the EU. Besides, the EU was also accused of bypassing the WTO, and pushing under the EPAs issues (Singapore issues) that were rejected at the WTO. Finally, many ACP countries, particularly those of the West African region, asked for additional development assistance to accompany the EPAs – additional to the EDF – and in line with the additional costs required to address the necessary adjustment to the EPAs and be able to effectively take advantage of the new trading arrangement.

The process and outcome of the EPA negotiations has been somewhat mixed and complex. However, the successful conclusion of the negotiations only means that the negotiators from all parties agreed and initialed the agreement, and does not necessarily mean then the signing and ratification of the agreement. Out of the three regions, only the South African Development Community (SADC) EPA Group managed to be signed by all parties on 10 June 2016, and provisionally applied since 10th October 2016. Angola was asked in 2020 to accede to the SADC EPA, a process currently ongoing.

In East Africa Commission (EAC), all EU member states signed the EPA, while only Kenya and Rwanda signed it on 1st September 2016, and only Kenya ratified it on 21st September 2016. The EAC- EPA could therefore not be implemented. But Kenya, having signed and ratified it, has been allowed by the EU to benefit from duty free quota free (DFQF) market access. In June 2021, the EU and Kenya agreed to engage towards implementing bilaterally the EPA on modalities to be determined (European Commission 2021).

In West Africa, the regional EPA was signed in December 2014 by all parties except Gambia and Mauritania – which signed on 9th August 2018 and 21st September 2018, respectively – and Nigeria, which remains the last of 16 West African countries not to have signed the agreement, *de facto* preventing the adoption of the regional EPA. This is the reason why Côte d’Ivoire and Ghana have gone forward with their respective bilateral EPA. In Central Africa, only Cameroon signed (on 15 January 2009) and ratified the regional EPA in July 2014.

Finally, in Eastern and Southern Africa (ESA), five countries (Comoros, Madagascar, Mauritius, Seychelles and Zimbabwe) referred to as ESA-5 – have signed and ratified the regional EPA. Mauritius, Seychelles, Zimbabwe and Madagascar signed it in 2009, and the ESA EPA has been provisionally applied since 14th May 2012. In 2017, these four countries indicated to the EU their interest to engage in a more comprehensive EPA. Following the ratification and provisional application of the EPA by Comoros in February 2019, the negotiations on the deepening of the ESA-5 EPA started in October 2019.

The asymmetrical and reciprocal liberalisation of trade in the WA-EU EPA is based on a tariff dismantling schedule covering a period of 20 years. Compliance with the market opening commitments under the EPA should be assessed product by product according to the adopted dismantling schedule. The preferences will (with the exception of a list of products excluded from the process) be granted in the form of customs duties (at *ad valorem* rates).

The proposed liberalization scheme by ECOWAS was established by distinguishing four groups of products. Products to be liberalized immediately after signing the agreement (Group A); products to be liberalized after a period of ten years after a partial moratorium of five years (Group B); products to be liberalized after a period of ten years at the end of group B process (Group C) and finally, sensitive products excluded from the liberalization (Group D).

Group A covers essential social goods, basic necessities, basic commodities, capital goods and specific inputs. Those products are currently at 0 or 5 % under common external tariff (CET) - mostly at 5%. They will be liberalised after the 5th year of application of the EPA. Group B includes mainly inputs and intermediate goods. Those products are currently at 0, 5 or 10 % under CET - mostly at 10%. They will be liberalised between the 10th to 15th year of application of the EPA. Group C covers some final consumption goods. Those products are currently at 5, 10 or 20 % under CET - mostly at 20%. They will be liberalised between the 10th and the 20th year of application of the EPA.

Group D covers sensitive products: agriculture/fishery products and sensitive final consumption goods (i.e. those produced in West Africa or intended to be produced). Those products are currently at 0, 10, 20 or 35 % under CET - mostly at 20 or 35%. Those products will not be liberalised under the EPA, and will therefore, still be subject to tariffs under the ECOWAS CET (no standstill clause so CET tariff may also increase).

All West African products (except arms and ammunitions) are going to be liberalised from the first day of entry into application of the EPA (duty-free quota-free). The EPA will therefore, prolong for an unlimited period of time the duty-free quota-free market access granted by the EU to West Africa's Least Developed Countries, and to Ghana and Côte d'Ivoire under the interim EPAs. It will improve market conditions for Nigeria and Cape Verde's exports (the two West African countries which are listed as "middle income countries" and not yet under an EPA).

Nigeria currently benefits from the General Scheme of Preferences (GSP) of the European Union, which is granted unilaterally by the EU to developing countries. As a general rule, the EU is already setting very low tariffs or zero duty for raw materials, but higher duties for transformed products. GSP is decreasing tariffs on around 2/3 of EU tariff lines, and the EPA will remove all tariffs, except on arms and ammunitions.

Table 1: Products with tariffs under GSP which Nigerian products currently need to pay when entering the EU market and which will be removed under the EPA.

| | Export volume NG-EU (in T€-Average 2014-2016) | EU MFN rate | EU GSP rate | EPA rate |
|----------------|---|-------------------|-------------------|-------------|
| Frozen shrimp | 42,082 | 12 | 4.2 | 0 |
| Coffee beans | 300 | 0 | 0 | 0 |
| Coffee roasted | 2 | 7,5 | 2.6 | 0 |
| Cocoa beans | 399,747 | 0 | 0 | 0 |
| Cocoa butter | 60,668 | 7.7 | 4.2 | 0 |

| | | | | |
|--------------------------|-----------|-----|-----|---|
| Cocoa paste | 8,131 | 9.6 | 6.1 | 0 |
| Chocolate | 0 | 8.3 | 4.8 | 0 |
| Sauces, mixed condiments | 485 | 7.7 | 4.2 | 0 |
| Natural gas | 1,139,332 | 0 | 0 | 0 |
| Skin of sheep | 46,810 | 0 | 0 | 0 |
| Leather | 12,634 | 6.5 | 6.5 | 0 |
| Leather belts | 0 | 5 | 1.5 | 0 |
| Single cotton yarn | 2,210 | 4 | 3.2 | 0 |
| T-shirt | 15 | 12 | 9.6 | 0 |
| Motor car | 521 | 10 | 6.5 | 0 |

Table 1: Products with tariff under EU GSP and EU MFN rate

Source: Extracted by author from EPA document

As a member of ECOWAS, Nigeria has applied the five-band (zero, 5%, 10%, 20%, and 35%) Common External Tariff (CET) since April 2015, though with a certain flexibility. In 2017, Nigeria's average applied MFN tariff rate was 12.7%, up from 11.9% in 2011. Its final bound tariff rates averaged 117.3% and the tariff binding coverage remains low at 19.2% of total lines. Low binding coverage and high average bound rates leave ample margins for tariff changes, thus rendering the tariff regime less predictable.

The issues under negotiations include a wide range of issues such as agriculture, technical barriers to trade (TBT), customs and trade facilitation (C&TF); sanitary and phytosanitary issues (SPS) and rules of origin (ROO), as well as new issues such as trade in services, investment liberalization, digital trade and so on.

Nigeria's trade policy within the ECOWAS area

Created in 1975, ECOWAS set itself the goal of setting up a customs union between its 15 member states within a period of ten years. This union would naturally be characterized by the complete abolition (by the end of this period) of customs duties and any other tax that had an equivalent effect on the import of products from the Community by a member state. The same provision applied to non-tariff barriers such as quantitative restrictions, limits on quotas, and other administrative obstacles to trade between the member states. The ECOWAS customs union is also composed of a single market within the Community, where the principle of free trade area is observed; and by 1st January 2015, a Common External Tariff (CET) was applied at

the borders of the member countries of ECOWAS. Given the imbalance in the level of development between the ECOWAS member states, and given also the fragile nature of their economies and the uncertain nature of their financial resources, the founding treaty allows the member states to take safeguard measures under certain conditions. By way of accompanying measures, ECOWAS has planned for financial compensation for the losses in customs receipts and for development actions and programmes. To this effect, the Community created the Fund for Cooperation, Compensation and Development, whose capital and intervention fund were funded by member states from their budgets before the ECOWAS Community Levy is instituted. Generally speaking, Nigeria's trade policy within ECOWAS is marked by points of agreement, and points still to be negotiated between ECOWAS and the EU.

Nigeria's Trade Policy within SSA

Focusing on trade, Nigeria can be regarded as a small open economy with trade openness of about 31.91% from 1960 - 2017. However, the country still under-trades compared to the openness of 52.3% for entire Sub-Saharan Africa. As of 2017, Nigeria enjoyed a trade relationship with a large number of countries, imported from 199 and exported to 116 countries across the world. During the same period, the country imported a total number of 4010 products and exported 116 products as compared to 4636 products imported and 4571 exported in SSA. This is a reflection of a weak export base of the country and the extreme penchant for importation. The country also has an index of export market penetration of 2.74 compared to 10.93 of South Africa, 5.72 of Egypt and 6.00 of Morocco. Also, the country majorly exports fuels while major import involves consumer goods. Fuels products contributed 96.03% of export and 27.95 of import while consumer goods contributed 14.8% of export and 41.79% import (World Integrated Trade System (WITS, 2019).

Nigeria's trade partners are largely dominated by countries outside the African region. Major export destinations are India, United States, Spain, Netherlands and France while import destinations are China, Belgium, United States, Netherlands and France. These export and import destinations contribute 56.74% and 53.63% of Nigerian export and imports markets. In terms of African trade, total Nigerian import from SSA countries was \$873,738.42 in 2017 which represents 2.79% of total import, and entire North Africa contributes about 0.07% to Nigerian imports and summarily, Africa as a whole contributed 2.86% of Nigerian import during this period out of which South African share alone was almost 50%. On the other side, Nigeria has substantially exported to African markets. Nigeria's total export to SSA markets stood at \$5,048,181.03 in 2017 and accounted for 11.35% of Nigeria's total

export, and this almost represents the total value of entire exports to SSA countries as there was no substantial export to North African countries.

In more recent time, Nigeria's world exports rose by 30% precisely between 2017 and 2018. This has also impacted on the volume of intra-Africa exports by 41% increment. The increase in exports can largely be associated with a 50% increment in exports of crude petroleum oils and a 101% increment in exports of floating structures for breaking up. Exports to South Africa rose by 84%, while exports to the Ivory Coast rose by 81%. Between 2017 and 2018 world imports rose by 26%, while intra-Africa imports rose by 25%; imports of petroleum raised by 187%; imports from South Africa and Egypt rose by 24% and 73%, respectively. Considering Nigeria's total intra-Africa trade (exports + imports), Nigeria largely trades with South Africa (46% of total intra-Africa trade), Ivory Coast (15%), Togo (12%) and Senegal (7%). Intra-ECOWAS exports account for 45% of Nigeria's intra-Africa exports and for only 16% of intra-Africa imports (Africa Trade Statistic Yearbook, 2020). It is obvious from the stated data that Nigeria's trade relations within Africa's sub-region is not evenly spread. While Nigeria is favourably disposed to trade with some regions, it likely does not consider with some partners as essential. For a free trade area to be effective within African landscape, there is need for a customs union.

IV. Summary and Conclusion

Economic partnership Agreement is a free trade arrangement in which countries from different regional blocs agree to remove barriers to trade between them. Generally, EPA is believed to be growth and development driven. However, it has been noticed that apart from growth and development agenda enshrined in the agreement, countries engage in partnership for political and security reasons based on colonial ties. Nigeria trade relations had been skewed in favour of European and Asian countries. This has made Nigeria's trading relations with African countries (especially in terms of import), very scanty. The recently launched AfCFTA is directed at ensuring economic integration and promotion of common markets among African trading partners. The extent to which this partnership will go in shaping Nigeria's trade landscape remains to be seen. However, given the direction of flow of trade between Nigeria and European blocs; and between Nigeria and African countries, one could conclude that Nigeria is favourably disposed to trade with European Union than with African Union. But the fact that Nigeria is yet to ratify her economic partnership agreement with European Union still remains a puzzle. It should be noted that trade in whatever form stands to benefit some parties and disbenefit others. There is need therefore, for countries to weigh their relative

strength and weakness in terms of comparative advantage so as to ascertain items to negotiate for in the partnership agreements. Going by the terms of establishment of AfCFTA, Nigeria as a signatory to pan African movement that envisaged the formation of common economic bloc among African nations, should reconsider her trade relations with other African countries and ensure the establishment of a common market and an economic union among African countries in addition to creating common currency to facilitate exchange among African countries.

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