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# ECONOMIC GLOBALIZATION EFFECTS AND OPENNESS TO TRADE OF THE ECOWAS MEMBER STATES

**Summary:** This paper deals with effects of economic globalization on developing countries cooperating within the Economic Community of West African States (ECOWAS). West Africa is quite specific region of the world economy because of various reasons. The objectives of this paper are to evaluate openness to trade of ECOWAS members within the period 1980-2010 with primary aim to identify countries with the best position, with regard to applied statistical indicators, and to identify main causes and consequences of founded results. Detail analysis is focused especially on three countries, Cabo Verde, Cote d'Ivoire and Mauritania that were recognized as the most open countries with identified rising openness to trade within specified period.

**Keywords:** ECOWAS, globalization, openness to trade, trade liberalization.

**JEL Classification:** F6, F60.

## Introduction

Globalization is the most important phenomenon affecting human society since the second half of the 20$^{th}$ century. Because of its multidimensionality, its several dimensions are recognized, e.g. information, ecological, economic, financial, social, political or cultural dimension. Economic globalization is the process occurring in the contemporary world economy. Joseph Stiglitz [2007] defines it as the closer economic integration through the increased flows of goods, services, capital and labor force. Processes of economic globalization was accelerated especially in the 1980s and 1990s by the spread of neoliberal ideas and policies resulting in deregulation and in reduction or elimination of restrictions imposed earlier on trade and financial flows.

Trade liberalization has occurred both on multilateral level (represented by the General Agreement on Tariffs and Trade and later by the World Trade Organization), and bilateral or regional level (represented by various trade arrangements) since the end of the Second World War. However, the spread of neoliberalism after the crisis years of the 1970s stimulated increase in external openness of many countries. Therefore, economic globalization in its current wave is accompanied closely with the growth of international trade and international capital flows.

Increasing international trade is cause as well as effect of globalization. Ongoing globalization has put pressure on policymakers to launch market- and outward-oriented policies that foster also the growth of cross-border trade and accelerate international economic integration, represented in its highest phase by globalization.

## 1. Problem formulation and methodology

Generally, trade is considered to be one of the key elements in achieving long-term and sustainable development, in the case of developing countries its contribution to poverty reduction is highlighted. Great differences in involvement into international trade flows can be recognized in the group of developing countries. Southeast Asian countries made largest progress and they use maximally their trade potentials. However, sub-Saharan Africa's share in world's exports is insufficient for its further socio-economic development.

The research objectives of this paper are to examine the impact of economic globalization on openness to trade of the members of the Economic Community of West African States. The primary research aim of the paper is to identify countries with the highest openness to trade and to identify its main causes and consequences. Economic vulnerability, poverty, underdevelopment and traditional close relations with European countries are the main arguments, why this sub-Saharan Africa's region was chosen.

Analysis focuses on the period 1980-2010. Year 1980 was set as the beginning of the examined period because of the acceleration of economic globalization in the 1980s and because of the economic changes made in West Africa's countries in this decade[1] leading to introduction of export-oriented trade policies. The end of the analyzed period was set according to availability of statistical data. Data concerning the period 2011-2013 are added to the Table 1 in order to make the analysis actual, but they are based on different methods of calculation and they are not fully compatible with data of earlier periods[2]. Therefore, the core analysis is focused on the period 1980-2010.

The measurement of the globalization's impact on national economies can be based either on single (individual) indexes, or on composite indexes. Analysts using single indexes consider trade and finances as the most important dimensions of the economic globalization. In the case of trade, analyses are often based on the measurement of trade openness and average tariff rates[3]. Openness to trade is measured by the trade-to-GDP ratio. It reflects integration of an analyzed country into the world economy.

Presented analysis is based on time series of the openness to trade data that are available in database of the United Nations Conference on Trade and Development (UNCTAD). According to the UNCTAD methodology, openness to trade is calculated as follows:

Openness to Trade (TO):

$$TO = \frac{(M_t + X_t)}{Y_t} \cdot 100, \tag{1}$$

where:

$X$ – total exports of goods and services at time *t*,

$M$ – total imports of goods and services at time *t*,

$Y$ – nominal gross domestic product at time *t*.

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1 This economic turnover was caused mainly by:
- serious economic and debt crisis of West African countries in the 1980s,
- failure of earlier applied inward-looking policies resulting in great trade imbalances,
- application of the Structural Adjustment Programmes as a condition for the access to concessional lending provided by the International Monetary Fund and World Bank,
- new consensus on importance of trade liberalization and exports in growth strategies [Babatunde, 2006].

2 Data concerning the period 1980-2010 are based on Balance of Payments and Investment Position Manual No. 5 (BPM5) that is applied by the UNCTAD for the period 1980-2013. However, complete data for the years 2011, 2012 and 2013 were not available for all West African countries when the paper was prepared. Another part of the UNCTAD database offers data concerning trade for the period 2005-2015, but they are based on the BPM6 methods of calculation. Methods used in the BPM5 and BPM6 differ and in some cases lead to significant differences. For example, Mauritania's openness to trade in the year 2010 was about 149% for BPM5 and about 108% for BPM6. Complete data set for the years 2014 and 2015 was not available for all West African countries in the more actual part of the UNCTAD database when the paper was prepared.

3 For the review of the approaches to the measurement of the globalization impact on single national economy, see paper of Samimi, Lim and Buang [2011].

In order to identify five countries with the highest openness to trade, the simple average of annual levels of the openness to trade are calculated for each partial period, i.e. for periods 1980-1989, 1990-1999, 2000-2010 and 2011-2013. In each period, countries are sorted according to the average level of the openness to trade. Then, average rank for the whole period 1980-2010 is calculated as the simple average of assigned ranks. Further analysis is devoted to the five countries with the highest average ranks. Long-term trends in their openness to trade are identified with the use of graphical analysis, and main patterns of their foreign trade are briefly described.

This paper presents only partial results of the paper's author long-term research that is focused on the sub-Saharan Africa's socio-economic development, its position in the world economy and its relations with the European Union. Author's research is based on review of relevant literature and review of official documents, as well as on own data elaborating. In general, data are taken from databases with open access offered by the World Trade Organization, United Nations Conference on Trade and Development, World Bank, International Monetary Fund, European Commission and the United Nations Economic Commission for Africa.

## 2. Problem solution

Openness to trade measured by the trade-to-GDP ratio is one of the most frequent observed and evaluated indicators in the field of trade issues. It reflects countries' integration into the world economy. It is generally assumed that small countries are more integrated (because of their domestic market size) than large countries. However, countries' integration is influenced also by a large number of other factors, such as structure of the economy, stage of development, resources endowment, geographical conditions, history, culture, trade policy, etc. Therefore, better information value has identification of the long-term trends in openness-to-trade in the case of certain country than simple cross-country comparison.

Beginnings of the export-oriented reforms of West African countries' trade policies date back to the 1980s and 1990s when they superseded former inward-looking policies. This turnover in applied economic policies was caused by the confluence of external and internal factors (see Chapter 1). International trade flows have been increasing since the end of the 1980s but the dynamic of this rise was the highest in the late-1990s and first decade of the 2000s. In 1990, world's imports of goods and services counted for 19,9% of the total GDP, in

2008 it was 30,3%. Similarly, exports counted for 19,7% of the total GDP in 1990 and 30,8% in 2008. Therefore, we assume, based on these facts, that openness to trade of West African countries will have tendency to be higher especially since the mid-1990s. Further analysis should help us to accept or reject this research hypothesis.

## 2.1. Brief economic characteristics of West Africa

West Africa, consisting of 16 countries – Benin, Burkina Faso, Cabo Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone and Togo, represents one of the most underdeveloped regions of the world with majority of its population living in poverty. The average gross domestic product per capita in PPP was 2627 international dollars in 2015. Although 5% of the world's population lived in West Africa, its share in world's total GDP was only 0,86% and its share in world's total exports did not exceed 1% [World Bank, 2016a].

Majority of West African countries (WA countries) are highly indebted and very susceptible to coup d'états. They suffer from endemic corruption and ethnic divide [Porter, Osei-Hwedie, 2015]. However, region is richly endowed with natural resources, such as oil (Nigeria, Ghana), diamonds (Liberia, Sierra Leone), gold (Ghana, Guinea), but countries' long-term development shows typical symptoms of the natural resource curse[4].

Patterns of the West Africa's trade show weaknesses typical for all poor developing countries. Low commodity diversification, dominance of primary commodities in these exports and dependence on the demand of more developed countries are highlighted in the case of WA countries. Low diversification of exports is the result of various causes: lack of finances, existing barriers for market entrance, insufficient infrastructure, lack of skilled labor force, weak public institutions, corruption, etc. [World Bank, 2016b].

Although the Economic Community of West African States (ECOWAS) was founded already in 1975, significant progress in integration cooperation was made in the 1990s after the review of the founding Treaty of Lagos. This revision reaffirmed Trade Liberalization Scheme (created in 1983), introduced im-

4 The concept of so-called natural resources curse is based on a large number of observations and studies that confirm the fact that countries rich in natural resources tend to perform badly (in terms of economic growth and socio-economic development). For more details, see paper of Sachs and Warner [2001].

portant changes in structure and character of the cooperation and reacted on shifts in the world economy and on market-led processes of globalization[5].

## 2.2. Openness to trade of West African countries

Fifteen West African countries are observed in following analysis. We have to exclude Liberia because data about its foreign trade are not available for the period 1990-1999. On the other hand, we include Mauritania to our analysis although it is not the member of the ECOWAS nowadays (it withdrew in 2002).

Comparison of the countries' openness to trade is based on their average rates of the openness to trade and countries' sorting from the most open country to the least open one. This approach makes it possible to provide not only cross-country comparison, but also comparison between partial periods quickly. In order to show the results more visible, we use also 3-point color scale. Results of our analysis are displayed in Table 1.

**Table 1.** Countries ranks in partial periods and average rank in period 1980-2010

| Period | 1980-1989 | 1990-1999 | 2000-2010 | 1980-2010 | 2011-2013 |
|---|---|---|---|---|---|
| Benin | 9 | 6 | 11 | 8,7 | 13 |
| Burkina Faso | 11 | 14 | 15 | 13,3 | 12 |
| Cabo Verde | 2 | 4 | 2 | 2,7 | 2 |
| Cote d'Ivoire | 3 | 3 | 4 | 3,3 | 5 |
| Gambia | 10 | 7 | 5 | 7,3 | 8 |
| Ghana | 15 | 12 | 8 | 11,7 | 6 |
| Guinea | 7 | 10 | 10 | 9,0 | 7 |
| Guinea-Bissau | 14 | 15 | 13 | 14,0 | 14 |
| Mali | 6 | 9 | 9 | 8,0 | 10 |
| Mauritania | 4 | 5 | 1 | 3,3 | 1 |
| Niger | 8 | 11 | 12 | 10,3 | 11 |
| Nigeria | 12 | 2 | 6 | 6,7 | 15 |
| Senegal | 5 | 8 | 14 | 9,0 | 9 |
| Sierra Leone | 13 | 13 | 7 | 11,0 | 4 |
| Togo | 1 | 1 | 3 | 1,7 | 3 |

Notes:
Rank scale: 1 – the most open country, 15 – the least open country.
Color scale: light grey – 5 most open countries, dark grey color – 5 least open countries, white color – countries with medium results.

Source: Own calculation based on data from UNCTAD [2016].

[5] Similar revision process occurred also in other integration organizations of developing countries. Analysts usually speak about so-called new regionalism, which started in 1980s and became widespread worldwide in the 1990s, as about a response to globalization governed by neoliberalism [Porter, Osei-Hwedie, 2015].

In Table 1, we see that some countries belong to the group of the most open countries for the whole period 1980-2010 (Cabo Verde, Cote d'Ivoire, Mauritania and Togo) or to group of the least open countries (e.g. Burkina Faso and Guinea-Bissau). In the case of Sierra Leone, founded results reflects progress, in comparison to other countries, in its openness to trade. Results for Senegal show that its trade performance is getting worse, in regional comparison. Similar results are indicated also in the period 2011-2013 although the UNCTAD applied different methods of calculation of the countries' openness to trade (see explanation in first point).

Following the methodology stated above, we aim in identification of five countries that are the most open to trade within the core period 1980-2010. We use simple mean of assigned ranks in order to recognize them. Togo, Cabo Verde, Cote d'Ivoire, Mauritania and Nigeria reach highest scores. Nigeria as the economic hegemon of West Africa (its share in the total WA countries' GDP was 76% in 2015) obtains the fifth highest score. However, this country has the largest domestic market with more than 180 million inhabitants and second highest average standard of living measured by GDP per capita (nearly 6000 USD in 2015).

## 2.3. Long-term trends in openness to trade of selected West African countries

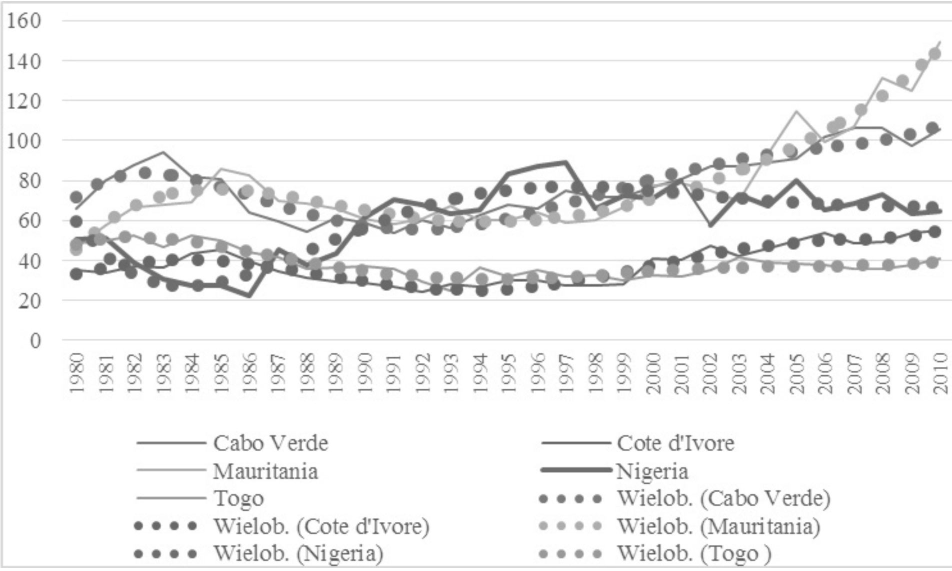
As it is explained above, level of the countries' openness to trade is significantly influenced by a large number of internal as well as external factors. Therefore, it is more information valuable to identify long-term trends in these levels within specified period. In order to find them for the five monitored countries, we apply graphical statistical analysis based on identification of polynomial trends (order five)[6] in annual levels of the openness to trade observed by the UNCTAD.

Identified long-term trends (see Figure 1) in the case of Mauritania, Cabo Verde and Cote d'Ivoire show clearly that annual levels of the openness to trade started to increase in mid-1990s and has grown by the end of observed period. The strongest growth trend is recognized in Mauritania. Nigeria's long-term trend in openness to trade reflects its worsening position (it is indicated also in

[6] Graphical analysis is done with the use of standard statistical tools available in Excel. Correlation coefficients ($R^2$) for estimated polynomial trends: Mauritania $R^2$ = 0,93; Cabo Verde $R^2$ = 0,90; Nigeria $R^2$ = 0,84; Cote d'Ivoire $R^2$ = 0,90; Togo $R^2$ = 0,85.

Table 1). With exception of Nigeria, countries' openness to trade declined in the early-1990s in comparison with the 1980s.

**Figure 1.** Long-term trends in the openness to trade in period 1980-2010




* Note: Abbreviation Wielob. is used for identified polynomial trends.

Source: Own calculation based on data from UNCTAD [2016].

Founded results allow us to accept the research hypothesis (that openness to trade of West African countries will have tendency to rise especially since the mid-1990s) for three of five monitored countries. They also indicate possible influence of ongoing economic globalization on the countries' openness to trade. However, we do not take into account other variables with significant influence on countries' openness to trade.

Taking into account the limited size of this paper, we try to examine main causes and consequences of founded results for three countries with rising rates of the openness to trade, namely Mauritania, Cabo Verde and Cote d'Ivoire.

Mauritania faced authoritative political regime for nearly twenty years – from 1984 to 2005. In 2007, first free presidential elections were organized. Only one year later, military council government took the power. Nowadays, Mauritania is considered to be the country with the worst situation in the field of human rights violations in the world. Its economic performance is based on natural resources and agriculture. Natural resources are also dominant source of export revenues. Country suffers from high unemployment, poverty (in 2008, 42%

of its population lived under national poverty line) and low standard of living. Mauritania also belongs to the least developed countries recognized by the UNCTAD. In 2000, Mauritania's exports counted for 343 million USD, but consisted of only 12 products. In 2010, its exports were 725 million USD. Long-term, it has negative balance of trade. Rise in country's openness to trade between years 2005-2010 was caused especially by the increasing trade with China. In 2005, China did not belong to top 5 trading partners of Mauritania, but in 2010, 19% of its exports went to China. In 2014, even 33% of Mauritania's exports was realized in this Asian economy [World Integrated Trade Solution, 2016]. Mauritania served especially as the supplier of raw materials for rapid growth of Chinese industry. Share of raw materials in total exports was 92% in 2005. Traditionally, iron, oil, copper and gold were exported unprocessed to Europe and since the mid-2000s to China. However, in 2010, share of raw materials in total exports declined to 40%. In the same year, intermediate goods counted for 52%, which was partly caused by government's efforts to export advanced processing goods.

Cabo Verde became independent state in 1975. Since 1990, country has had multi-party political system and has had stable democratic government. Its economy is service-oriented and three-fourths of its GDP counts for such services as commerce, transport, tourism and public services [CIA, 2016]. In 2000, its exports counted 49 million USD, but next year they declined by 39 million USD. They started to grow again between 2004-2005, from 9,7 million USD to 89,4 million USD. Cabo Verde is oriented especially on exports of consumer goods, in 2000 their share in total exports was 61%, in 2005 58% and in 2010 40% [World Integrated Trade Solution, 2016]. Due to its location, important part of country's export consisted of re-exports. Its imports are long-term higher than exports. European countries, such as Spain and Portugal, are the most important trading partners.

Cote d'Ivoire was one of the most prosperous WA countries in the 1960s and 1970s. Its prosperous years were ended by economic crisis in the 1980s. In 2015, 46% of its population lived bellow national poverty line and life expectancy at birth was only 51,6 years. In early 2000s, country was affected by regime change and civil war. Cote d'Ivoire is the world largest producer and exporter of cocoa and important producer and exporter of palm oil and coffee. In 2000, raw materials counted for 44% of country's exports and consumer goods for 32%. In 2010, share of raw materials in total exports rose to 50% whereas that of consumer goods declined to 22% [World Integrated Trade Solution, 2016]. European countries are the most important trading partners for Cote d'Ivoire.

## 3. Discussion

There is a great discussion about the importance of trade in overcoming underdevelopment of the world's poorest countries. However, it is widely considered that trade is better in this effort than international aid [Hopper, 2012]. Integration of developing counties into the world economy through trade enable them to sell their products on wider markets, to obtain resources and commodities offering there and to increase their investment attractiveness.

Positive impact of trade on development can be seen in the case of some countries in East and Southeast Asia, which turnover towards export-oriented trade policies led to their prosperity. On the other hand, only trade liberalization did not bring them new economic perspectives. Trade liberalization was connected with introduction of the principles of developmental state with mass state incentives provided to domestic producers resulting in rapid reorientation on exports of manufactures.

In the case of West African countries, growth of their industrial potential is really limited by ongoing orientation on extracting industries and agriculture, lack of finances, insufficient infrastructure, lack of skilled labor force, inefficient public instructions, corruption, interests of foreign investors, etc. Therefore, simple trade liberalization did not bring wider prosperity to this region and in many cases, involvement into global value chains promoted their dependence on unilaterally focused exports.

## Conclusions

Economic globalization is essentially connected with the liberalization and deregulation of international trade and capital flows. Therefore, its acceleration in the 1980s and 1990s intensified international trade interconnections in the world economy. World's trade started to rise rapidly especially in the mid-1990s because of many bilateral and multilateral trade arrangements facilitating it.

This paper dealt with the effects of economic globalization on member states of the Economic Community of West African States. It observed and analyzed openness to trade of 15 countries from this region. Cabo Verde, Cote d'Ivoire, Mauritania, Nigeria and Togo were identified as countries most open to trade in the period 1980-2010 (with regard to applied methodological approach). Level of the openness to trade has risen long-term since the mid-1990s only in Cabo Verde, Cote d'Ivoire and Mauritania. Countries' trade patterns revealed weaknesses typical for all poor developing countries – low diversification of exports and important share of primary commodities in these exports. However, we observed some improvements in this field, especially in the case of Mauritania.

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### EKONOMICZNE SKUTKI GLOBALIZACJI I OTWARTOŚĆ NA HANDEL PAŃSTW CZŁONKOWSKICH ECOWAS

**Streszczenie:** Artykuł dotyczy efektów globalizacji gospodarczej w krajach rozwijających się i współpracujących w ramach Wspólnoty Gospodarczej Państw Afryki Zachodniej (ECOWAS). Afryka Zachodnia jest dość specyficznym regionem gospodarki światowej z różnych powodów. Celem niniejszego artykułu jest ewaluacja otwartości na handel w państwach ECOWAS w okresie 1980-2010, a przede wszystkim zidentyfikowanie krajów o najlepszej pozycji przy wykorzystaniu wskaźników statystycznych, a także zidentyfikowanie głównych przyczyn i skutków ustalonych wyników. Analiza szczegółowa koncentruje się w szczególności na trzech krajach: Republice Zielonego Przylądka, Wybrzeżu Kości Słoniowej i Mauretanii, które uznano za najbardziej otwarte na handel w badanym okresie.

**Słowa kluczowe:** ECOWAS, globalizacja, otwartość na handel, liberalizacja handlu.