

International Trade and Inclusive Development: Can the ECOWAS-EU Economic Partnership Agreement Deliver?

By

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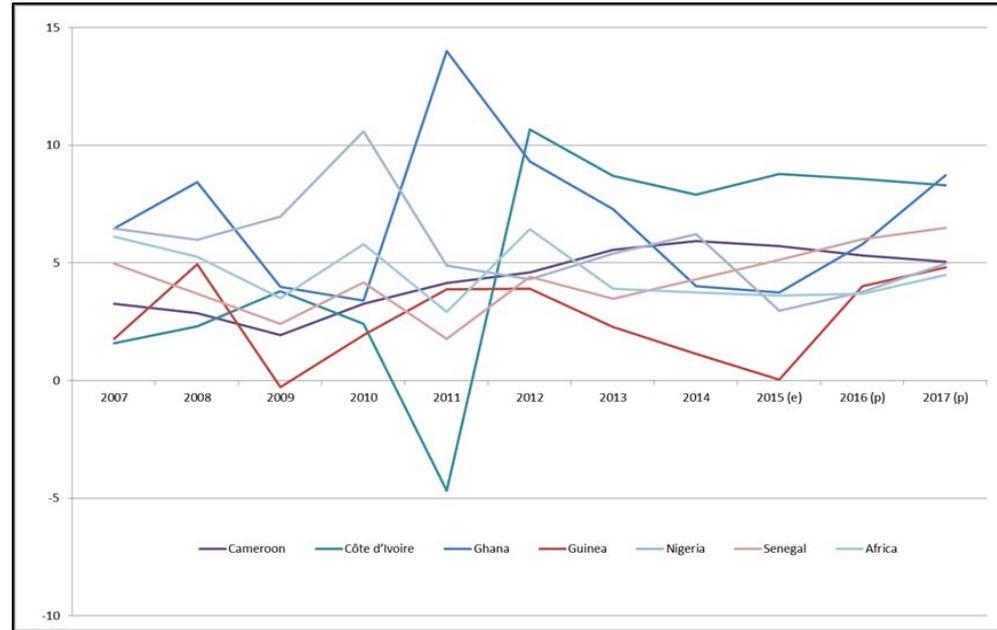
Presentation Outline

- Introduction
- West Africa-EU Trade Narrative
- Trade and Development Literature
- EPAs and Inclusive Development in West Africa
 - EPAs and West African Trade
 - Socio-Environmental Perspective
- Conclusion and Policy Recommendations



Introduction

- International trade has played an essential part in the growth and subsequent globalisation of the past three decades
- Many ECOWAS countries have experienced remarkable growth over the past decade
 - Growth in W. Africa averaged 4.8 percent from 2007 to 2014
- But this growth has not been without its challenges: earned the “jobless growth” tag within many development circles
 - Poverty rates declined but inequality still at an all-time high



We ask: can the ECOWAS-EU Economic Partnership Agreement Deliver on international trade and inclusive development?

Analyse the EPA from an economic, social and environmental perspective.

West Africa-EU Trade Narrative

- West Africa-EU trade developed against the backdrop of the colonial conquest
- Failure of the newly-independent states to pursue rigorous policies of industrialization → exports of raw materials and import finished products from Europe.
- Signing of the 25 year Lomé Convention in 1975
- Signing of the Cotonou Agreement in 2000
 - Argument that provisions of the Lomé conventions discriminatory and incompatible with Article I of GATT”

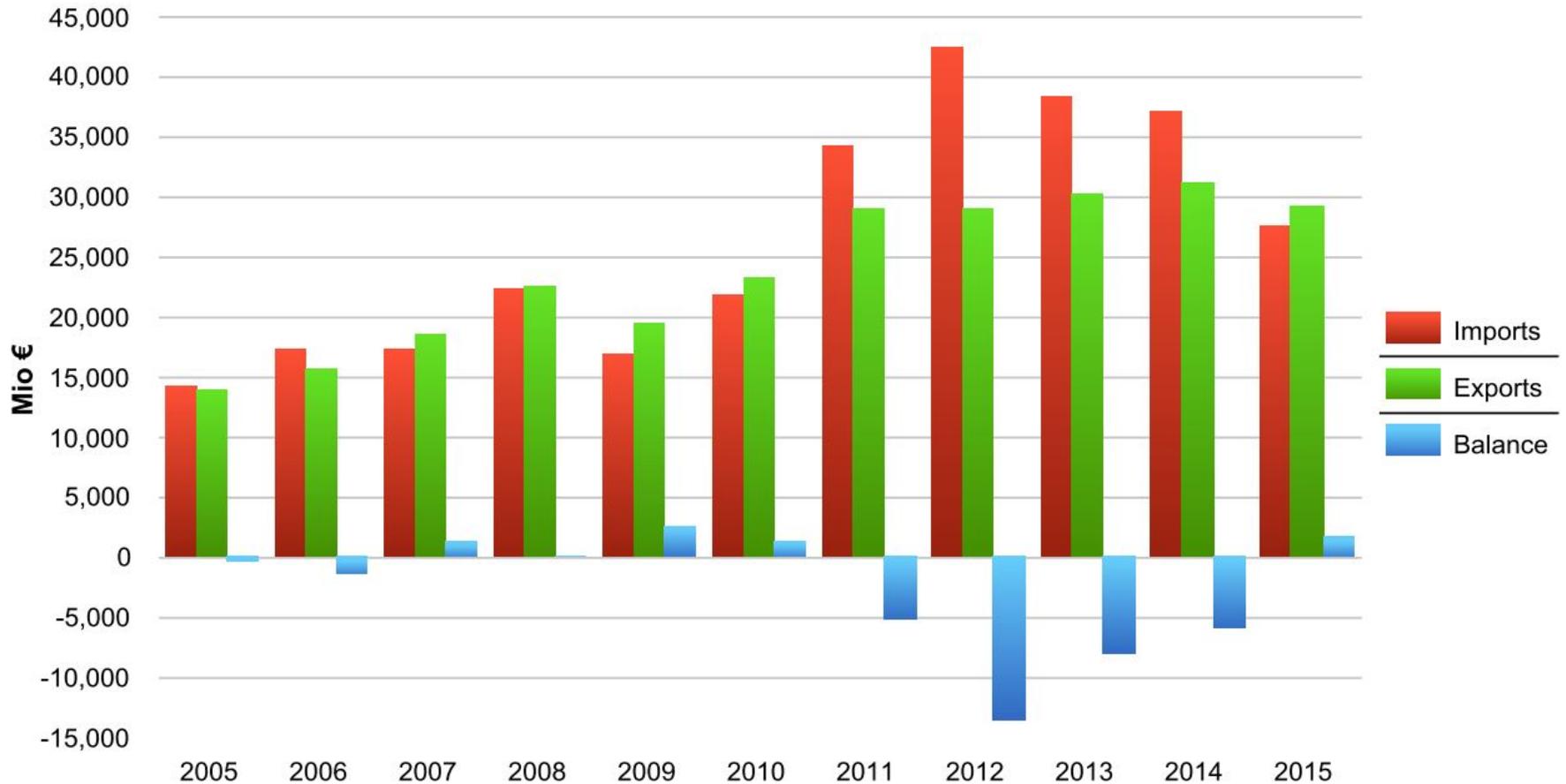
| | Central Africa | EAC | ECOWAS | ESA | SADC | CARIFORUM | Pacific |
|---------------------------------|----------------|----------|----------|---|--------------------------------|-----------|-------------------------|
| No. of EPA countries | 1 out of 8 | 5 | 16 | 4 out of 11 | 6 | 15 | 2 out of 14 |
| Degree of liberalisation | Cameroon: 80 % | 82.6 % | 75 % | Madagascar: 81 % Mauritius: 96 % Seychelles: 98 % Zimbabwe: 80 % | SACU: 80 % Mozambique: 81 % | 86.9 % | Fiji: 87 % PNG: 88 % |
| Time frame | 15 years | 25 years | 20 years | 10 years | 12 years | 25 years | 15 years |

- Cotonou Agreement introduced the Economic Partnership Agreement (EPA) based on the “*reciprocity principle*”
 - Transition period of seven years (2000-2007)
 - Negotiations and iEPAs covering Cote d’Ivoire and Ghana
- Full EPA was agreed upon by all the negotiating parties in 2014 – subject to ratification by ECOWAS member countries

West Africa-EU Trade Narrative – cont'd

Total goods: EU Trade flows and balance, annual data 2005 - 2015

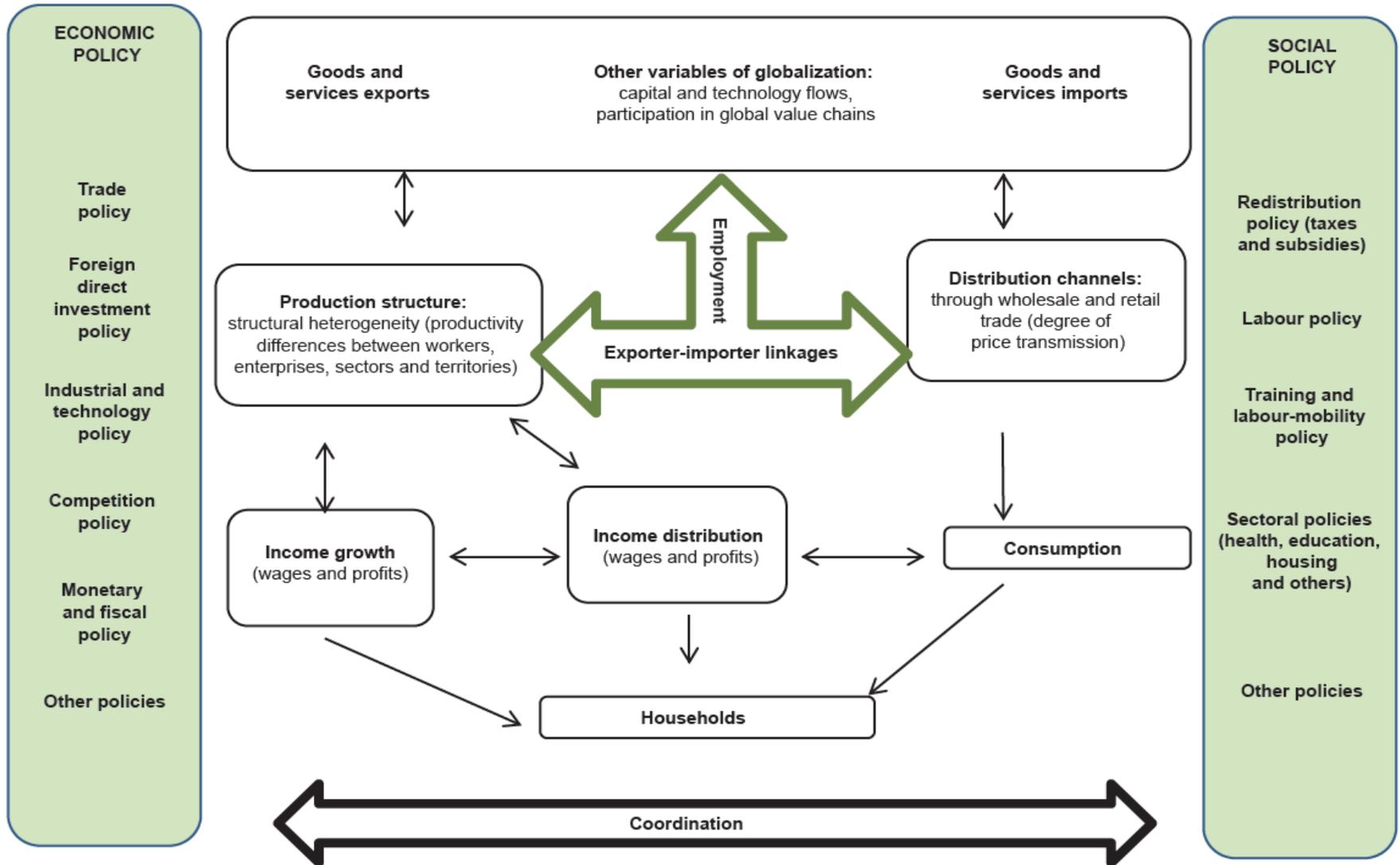
Source Eurostat Comext - Statistical regime 4



Trade and Development Literature

- International trade and trade liberalisation stimulates economic growth (Tahir and Khan, 2014; Yusoff and Febrina, 2012; Gries and Redlin, 2012; Sinha and Sinha, 2002)
- But link between international trade, economic growth and development is highly variable and complex
 - Operates through changes in export, import and technology flows (ECLAC, 2014)
 - Production structure in all ECOWAS countries suffer from structural heterogeneity
- Empirical Evidence: two paradoxes on growth debate – (1) mixed growth outcomes in developing countries and (2) differences over data, econometric techniques, and model specifications
 - Some protectionist measures may be growth enhancing in some developing countries (Yanikkaya, 2003)
 - Effect of trade openness on economic growth may depend on complementary reforms (Chang *et al.*, 2009)
 - Openness has a strong positive impact on both economic growth and human development in Asia (Mustafa *et al.*, 2013)
 - Trade openness positively impacted manufacturing growth in Malaysia (Chandran and Munusamy, 2009)

Trade and Development Literature – cont'd



EPAs and Inclusive Development in West Africa

- Several arguments have been made for and against the EPA
 - Arguments against the EPAs includes (1) loss of fiscal revenues from import duties, (2) unfair competition from subsidized EU goods (3) Crowding out of small businesses
 - Biggest criticism of the EPAs – enforcement before adequate supply-response and adjustment mechanisms have been built (Nwoke, 2009)
 - EPA prohibits the use of import duties and export taxes as a policy tool for industrial development (Bagooro, 2014)
 - Full liberalisation in less than 20 years will significantly affect manufacturers in the light industrial sectors
- However, we argue that the biggest threat to the industrial sector in ECOWAS countries remains:
 - Cheap imports from Asia
 - Supply side and technological constraints

EPAs and Inclusive Development in West Africa – cont'd

- The EPA, *effectively implemented*, presents a number of good opportunities
- Potential to achieve the development objectives by improving livelihoods and thus inclusive development
- Aggressive export-led growth. For the manufacturing and agricultural value chain in ECOWAS countries
 - Potential to increase access to the EU market for exporters especially for burgeoning non-traditional exports (NTEs) and agro-processed goods
 - NTEs sector in Ghana ↑ US\$500 million to >US\$2 billion between 2001 and 2012
 - Growth in sector due in major part to the preferential trade terms given under the Cotonou Agreement and other government-donor led reforms
 - Simpler and improved 'rules of origin' - Superior to Cotonou Agreement and even under GSP+
 - Flexible rules of origin will benefit companies in agri-food, fishery and industrial sectors

EPAs and Inclusive Development in West Africa – cont'd

- Asymmetric liberalisation: Most agro-products exempt from liberalisation
 - ECOWAS countries can still impose already existing tariffs or even increase them for anti-dumping reasons
 - 1,038 items excluded from liberalization under Ghana-Cote d'Ivoire iEPA
 - 33% of these agric products and 85% of excluded items attract the highest tariff band of 20%
- A note on import substitution vs. export promotion
 - Evidence points to slower growth with import substitution industrialization (ISI) strategies than export-promotion policies (ECLAC, 2014)
 - Latin America vs. East Asia



Socio-Environmental Perspective

- EU as part of the EPA deal is pledging financial assistance under “Aid for Trade” scheme
 - €11.7 billion funding respectively to support its aid for trade programme in 2013. 55% to SSA
 - €6.5 billion in development assistance to ACP countries for 2015/16

- Aid for trade is designed to provide support for developing countries to develop and expand their trade as leverage for growth and poverty reduction.

- The areas categorized for assistance include:
 - Trade policy and regulation, Trade and development, Trade related infrastructure, Building productive capacity, etc.



Conclusion and Policy Recommendations

- Ratifying the EPA is not the end of the process, but the beginning
 - EPAs will pose a number of policy challenges for ECOWAS countries
- But also provides opportunities to fast track global trade and the regional integration agenda in West Africa
 - The real test is how the EPA provisions are interpreted and applied!
- Need to address issues of concern – e.g. sanitary and phyto-sanitary (SPS) and technical barriers such as standards
 - Cost of compliance with standards can erode any gains (non-trade barriers)
- Need for greater private sector participation through various ECOWAS-EU EPA structures and committees
 - Address issues that could inhibit capacity to derive max benefits in ECOWAS States
 - Understand the design and application of EU food safety – including animal and plant health standards

Conclusion and Policy Recommendations – cont'd

- Need to support ongoing and planned strategies to enhance domestic production and value addition
 - Policy instruments such as infant industry protection and the limited application of import-export taxes to generate value addition
- Need to establish regional and national implementation forums to mobilise all stakeholders and expertise to continuously monitor EPA issues
- Sustainable development imperative – focus on upholding social and environmental standards
 - Consultation procedure for environmental or labour issues
- Fair conditions in agri-food trade: SADC-EU Agreement first to eliminate the possibility for the EU to use agricultural export subsidies.
 - Advocate same for ECOWAS-EU EPA

Thank You