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THE ECONOMIC PARTNERSHIP AGREEMENT BETWEEN THE EU AND WEST AFRICA : ARE THERE REALLY BENEFITS FOR WEST AFRICA?

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Neo-classical economic theory contends that trade is an engine of growth and free trade agreements are the catalyst towards achieving that growth. The Economic Partnership Agreement (EPA) negotiated between West Africa and the EU proposes a free-trade regime between the two regions. But, is this EPA really beneficial for West Africa? This policy brief seeks to answer this question by bringing evidence on macro and micro impacts of such an agreement generated using a dynamic multicountry Computable General Equilibrium model (CGE). Our empirical estimation indicates that opening African markets for European products at a level that reach 75 percent of the tariff lines will have a bad impact on the economies in West Africa, especially when there are no accompanying programs.

INTRODUCTION

In principle, Free Trade Agreement (FTA) is welfare improving. This positive outcome holds under the assumption that its members are major trade partners and the agreement is reciprocal. Then, FTA is not necessary welfare improving. To increase the likelihood of positive aggregate effect two conditions need to be respected: first, the trade creation should

dominate the trade diversion; second, import prices should not increase. The European Commission puts forward a number of seemingly positive points, in favour of the ECOWAS: free access for West African goods to the EU market: support of the regional integration process; program aid to West African states; the coherence with the policy space. Thus the questions addressed by this policy brief are: Why should a poor region such as ECOWAS sign the free-trade agreements with a region that has the most advanced industrial economies in the world? What implications does this new trade regime really have in West Africa in terms of external trade, tax revenue, growth and poverty?

EVIDENCE AND ANALYSIS

The EU-WA EPA: what is it about ?

The Cotonou Agreement concluded in June 2000 between the European Union (EU) and the African, Caribbean and Pacific (ACP) group of States ended successive Lome regimes and paved the way for the conclusion by 31 December 2007 of an Economic Partnership Agreement (EPA) consistent with the World Trade Organization (WTO) trading rules. After more than 10 years of difficult negotiations, the two parties agree in June 2014, on the elimination of West African customs duties for 75% of the tariff lines in a period of 20 years. Before application, this formal conclusion of the EPA negotiations must be signed and ratified, after a vote of parliaments in West Africa and Europe

. The aim of the EPA is to make EU and ACP trade relations consistent with WTO legal requirements. The EPA aims to create a Free Trade Area (FTA) between West Africa (WA) and the European Union (EU). Thus, countries in the sub-region are expected to open their domestic market to almost all EU products over a period of 20 years. Apart from the gradual removal of barriers to trade, EU and ECOWAS agreed within the framework of EPA to design development programs to enable the region to adapt to the new trade environment created by the liberalization of trade with Europe. The liberalization scheme proposed by the Economic Community of West African States (ECOWAS) was established by distinguishing four groups of products: products to be liberalized immediately or very quickly after signing the agreement (Group A); products to be liberalized over a period of ten years after a partial moratorium of five years (Group B); products to be liberalized over a period of 5 years at the end of the Group B process (Group C); and finally, sensitive products excluded from the liberalization (Group D).

What matters for West Africa with this EPA?

EPA raises several concerns amongst West African countries. First, even if they could benefit from a greater access to EU markets, the concentration of West African exports in agricultural products; the low diversity of their production and their limited capacity to respect European standards quality limits in reality their access to European market. Second, there is a considerable difference in the levels of development of the two trading partners. The EU is the largest economy in the world, the biggest exporter and importer, leading investor and recipient of foreign investment. With just 7 % of the world's population, it accounts for over one quarter of the world's wealth. The EU exports more manufactured products and the economies of its members are very integrated. EU accounts for 22.8% and 23.5% of ECOWAS total imports and exports respectively. In contrast, West Africa is very poor. Of its 16 countries members, 12 are classified as Least Developed Countries (LDC). West African countries export mainly agricultural product. The level of integration is very low. ECOWAS countries represent only 0.5% of the EU total imports and exports. ECOWAS countries have unilateral access privileges to EU market since 1975. Under this non-reciprocal preferential regime, most

ECOWAS goods already enter into the European market free of duty. Therefore, for ECOWAS, the EPA will be more an import-liberalization policy than a free-export opportunity towards EU countries. Third, cutting tariffs for EU products will result in a sizeable loss of tariff revenue that will hurt ECOWAS countries public budgets and social expenditures as a consequence with possibly detrimental impacts of poverty reduction. Finally, with the Development program (PAPED in French), the EU undertakes to provide funding to cover the fiscal impact for the period of tariff dismantling. However, the financial contribution is well below the needs estimated by the West African region. Moreover, this European contribution mainly consists of funding that is already planned in the European Development Fund (EDF) and in the budgets of the EU member states.

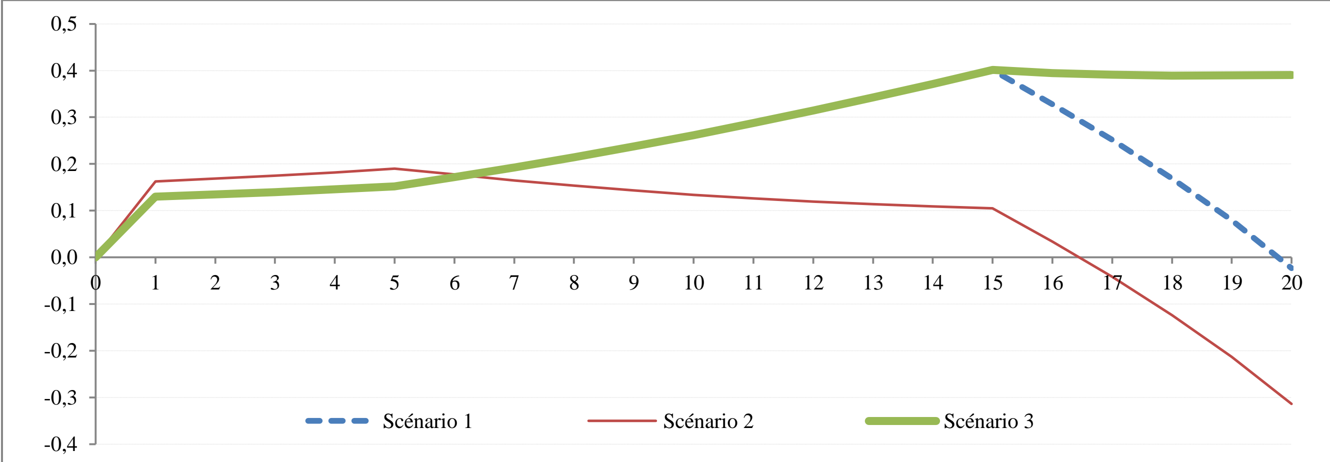
Does the FTA really benefit for West African countries ?

We investigate the effects of three market access offer scenarios. First, the liberalization of 75 percent of imports from the EU over a period of 20 years, with 45 percent during the first 15 years (named "**Scenario 75s**" hereafter). Second, the liberalization of 75 percent of imports over a period of 20 years, with 64 percent over the first 15 years (named "**Scenario 75a**" hereafter). Third, the liberalization of 65 percent of imports over a period of 20 years with 45 percent during the first 15 years (named "**Scenario 65s**" hereafter).

Growth Impact

The liberalization of the sub regional market to EU products shows mixed results as depicted by Graph 1. The liberalization of a maximum of 65 percent of imports from EU accelerates slightly economic growth in the region. Beyond this threshold, a significant reduction of growth is observed at the end of the liberalization period. The liberalization of product groups A and B contributes to the acceleration of economic growth in the sub region; on the other hand, that of group of products C leads to a slowdown of economic growth.

Graph 1: Change in ECOWAS GDP, compared to the reference scenario (%)



A marginal increase by 0.2 percent in the overall subregional GDP is observed in phase 1, corresponding to the liberalization of group of products A. Indeed, local products in this group do not currently compete directly with the European products and remain mostly protected. Consequently, their liberalization is beneficial to the ECOWAS economies through the price effect. The GDP is still on an upward trend under phase 2 when group of products B starts to be liberalized. The sub region's GDP grows more under the free trade scenarios than in the reference scenario, reaching an additional 0.4 percent in year 15 of liberalization under scenario 75s and 65s, and 0.1 percent under scenario 75a during the same period. The liberalization of the group of products C start under phase 3, that is after year 15, leads to a significant reduction in GDP by 1.0% and 1.5% is observed under scenario 75s and 75a,

respectively. Since the products belonging to this group are in direct competition with European imports they are more protected than those of groups A and B. They also account for a great proportion of imports and tax revenues for the sub region.

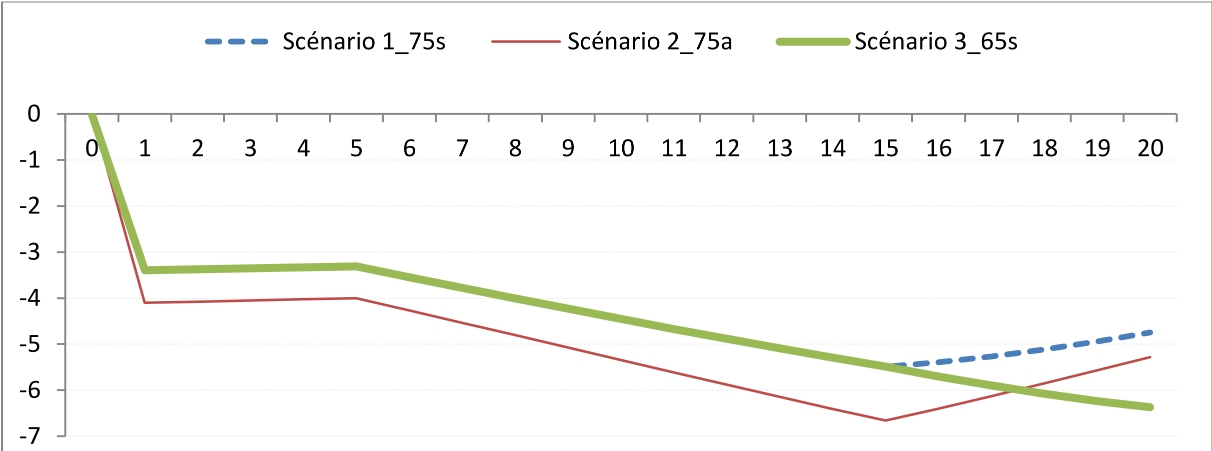
Impacts on trade

Greater opening of the sub regional market to European products leads to 2% to 3% increase in total imports for West Africa. The increase in European imports reached about 9% at the end of the period in the case of 75% Offer of Market Access.(scenarios 1 and 2), while opting for a relatively smaller opening of 65%, it reaches only 6 %. The imports from European Union increases due to a greater opening of the subregional market to European products. On the other hand, imports from ECOWAS and others countries remain
constant. he increase in imports puts downward pressure on the real exchange rate and slightly increase the exports towards European Unionto the detriment of those to the West Africa and the others partners...

Impact on tax revenues

The opening of the WA's market to European products led to a loss of customs revenue under the three free trade scenarios (Graph 2). During the first 5 years of liberalization, West Africa will lose about 3 to 4 percent a year in fiscal revenue. Beyond this period, government custom revenue loss grows rapidly to reach at 5 to 7 percent.

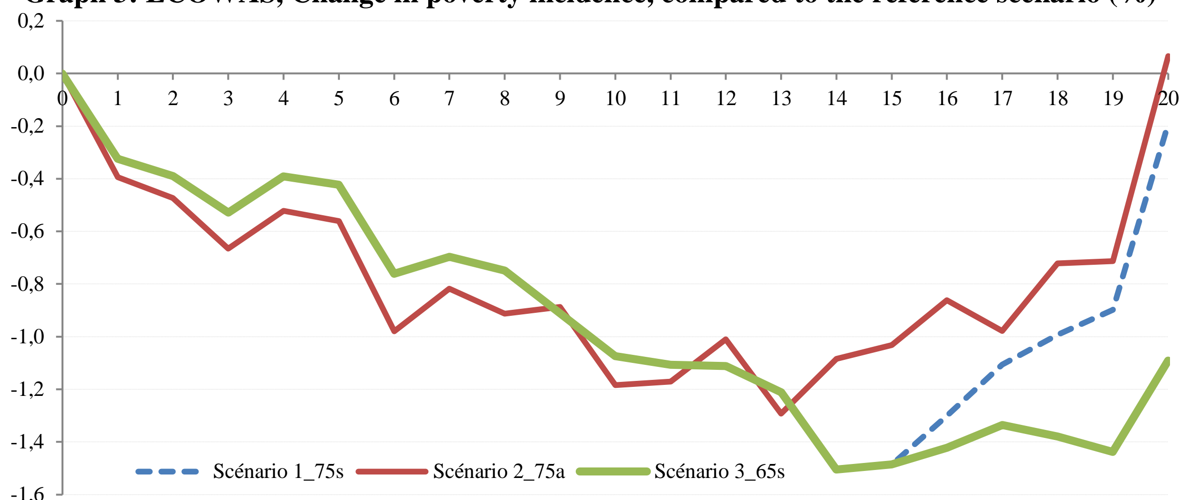
Graph 2: ECOWAS, Change in customs revenues, compared to the reference scenario (%)



Poverty Impact

The decreasing trend of the number of people living below the national poverty thresholds is accelerated over the first 15 years after the implementation of the FTA.

Graph 3: ECOWAS, Change in poverty incidence, compared to the reference scenario (%)



The accompanying fund with internal resources trough taxation for transport and energy boost growth and reduce poverty in the region particularly with the options of financing through a Community tax and a hydrocarbon export tax with pooling of resources give the best results.

Distributional impact across West African Economies

The simulated FTA scenarios have quite diverse impacts on West African States. During the first period, growth accelerates in all countries. The liberalization of Group B products in phase 2, though generally favorable to the region, starts to create disparities among economies. It is mainly favorable to Côte d'Ivoire, Ghana and Niger, while Senegal and Nigeria are the big losers depending on the scenario. Phase 3 that covers Group C products amplifies these disparities with Côte d'Ivoire, Ghana, Niger, and Benin appearing as the winners and Nigeria, Senegal, Togo, Cape Verde, and Guinea-Bissau the losers. Economic growth stagnates in Burkina Faso, Mali, and Guinea.

Table 1: Comparing Changes in specific Countries' GDPs, comparison with the reference scenario (%)

Pays	Scenario 75s			Scenario 75a			Scenario 65s		
	Year 5	Year 15	Year 20	Year 5	Year 15	Year 20	Year 5	Year 15	Year 20
Nigeria	0.0	-0.1	-2.8	0.0	-0.8	-3.2	0.0	-0.1	-0.9
Ghana	0.3	1.0	3.2	0.4	2.2	3.5	0.3	1.0	3.1
Cote d'Ivoire	1.2	2.9	8.0	1.6	4.6	8.8	1.2	2.9	7.7
Senegal	0.1	-0.8	-2.8	0.1	-1.0	-3.6	0.1	-0.8	-2.7
Burkina Faso	0.0	0.0	-0.4	0.0	0.0	-0.3	0.0	0.0	-0.3
Mali	0.0	-0.1	-0.3	0.0	-0.1	-0.4	0.0	-0.1	-0.2
Benin	0.2	0.3	2.1	0.2	0.4	2.1	0.2	0.3	1.7
Guinea	0.0	-0.1	-0.3	0.0	-0.1	-0.5	0.0	-0.1	-0.3
Niger	2.6	10.8	35.8	3.0	13.8	43.5	2.6	10.8	35.3
Togo	0.1	-0.2	-1.0	0.1	-0.2	-1.6	0.1	-0.2	-1.1
Cape Verde	0.2	-0.2	-0.9	0.2	-0.1	-1.6	0.2	-0.2	-0.9
Guinea-Bissau	0.1	-0.3	-1.1	0.1	-0.3	-1.6	0.1	-0.3	-1.1
All countries	**0.2**	**0.4**	**-1.0**	**0.2**	**0.1**	**-1.1**	**0.2**	**0.4**	**0.4**

The number of poor decrease in Ivory Cost, Ghana, Capo Verde; Niger and Benin while it increase in Nigeria; Senegal and remains relatively constant in the other countries:

POLICY IMPLICATIONS

More appropriate aid for West Africa

In order to achieve positive outcomes for West Africa, the European Commission should align the EPA with the real development needs of West African countries. Through the 'West Africa EPA Development Program' (usually referred to its French acronym PAPED) that is an accompanying program of EPA, the EU "undertakes to provide funding to cover the fiscal impact". However: the financial contribution of € 6.5 billion for the first 5 years is well below the needs estimated by the West African region of € 9.5 billion. Moreover that contribution is not new money but mainly consists of funding that is already planned in the European Development Fund (EDF) or in the budgets of the EU member states. The uncertainty of adequate additional financing is aggravated by the fact that the Cotonou Agreement, which is the basis on the EDF and the financing of PAPED, will expire in 2020. What will happen after 2020? Then efforts much be done by the EC to reconsider his contribution. Innovative mechanisms and the financing through various forms of public-private cooperation might be useful..

Accompagning programs on transport and energy

Considerable efforts must be done in the field of infrastructure of transport, telecommunications and energy production which are the two bottlenecks of West African manufacturing sectors. In this side, a regional initiative consisting of the creation of a Transport and Energy Infrastructure Financing Fund is underway at the ECOWAS level. Such a fund would pool resources and help the private sector improve its competitiveness, .stimulate trade performance, boost growth and improve socio-economic conditions in West Africa.

More integrated regional markets –in West Africa

The west African region consists of countries with a relatively comparable level of development. Regional integration is a major instrument boosting trade between neighbouring countries and improving the living conditions of the West African population.

More reforms to improve the business environment and develop regional programs

African countries need to implement reforms that improve the business environment and the attractiveness of investments. This will enable them to exploit potential gains in manufacturing and agricultural production. This can lead to sustainable growth and poverty reduction.

RESEARCH PARAMETERS

The elimination of tariffs and implementation of the EPA agreement will be done gradually over a period of 20 years. Consequently, the impacts will be felt not only in the short term but also in the medium to long term. Taking advantage of the dynamic modelling framework, general equilibrium analysis allows assessing the short and long term effects of the EPA agreement. Using Social Accounting Matrices (SAM) as accounting framework for basic data, our study uses a dynamic multi-country Computable General Equilibrium (CGE) model that takes into consideration the structure of each of the economies as well as all interactions existing between countries within the subregion. To address the poverty impact, we develop a poverty module for ten countries for which survey data is available and link it to the CGE

model in a top-down fashion. We simulate a FTA without and with accompanying program. In both case; we consider a Common external tariff between West African countries.

The accompanying program consists of the establishment of a fund for transport and energy infrastructure in West Africa to accompany the liberalization process named FODETE-CEDEAO. The fund identifies five main sources of funding : tax on agricultural exports ; tax on exports of hydrocarbon products; tax on mining and extraction levies production; a Community tax on imports outside ECOWAS and ; the tax on calls for communication.

Resources of fund are allocated among States according to two options. The first supposes that each country receives an amount of resources in proportion to its capacity to contribute. A second option, suppose pooling the resources collected and allocating them on the basis of the capacities of the member to produce transport infrastructure and energy.

FURTHER READINGS

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PROJECT IDENTITY

PROJECT NAME	NOPOOR – Enhancing Knowledge for Renewed Policies against Poverty
COORDINATOR	Institut de Recherche pour le Développement, Paris, France
CONSORTIUM	CDD The Ghana Center for Democratic Development – Accra, Ghana CDE Centre for Development Economics – Delhi, India CNRS (India Unit) Centre de Sciences Humaines – New Delhi, India CRES Consortium pour la Recherche Èconomique et Sociale – Dakar, Senegal GIGA German Institute of Global and Area Studies – Hamburg, Germany GRADE Grupo de Análisis para el Desarrollo – Lima, Peru IfW Kiel Institute for the World Economy – Kiel, Germany IRD Institut de Recherche pour le Développement – Paris, France ITESM Instituto Tecnológico y de Estudios Superiores de Monterrey – Monterrey, Mexico LISER Luxemburg Institute of Socio-Economic Research – Esch-sur-Alzette, Luxemburg OIKODROM - The Vienna Institute for Urban Sustainability – Vienna, Austria UA-CEE Université d'Antananarivo – Antananarivo, Madagascar UAM Universidad Autónoma de Madrid – Madrid, Spain UCHILE Universidad de Chile – Santiago de Chile, Chile UCT–SALDRU University of Cape Town – Cape Town, South Africa UFRJ Universidade Federal do Rio de Janeiro – Rio de Janeiro, Brazil UNAMUR Université de Namur – Namur, Belgium UOXF-CSAE University of Oxford, Centre for the Study of African Economies – Oxford, United Kingdom VASS Vietnamese Academy of Social Sciences – Hanoi, Vietnam
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