# The Impact of the EU-ACP Economic Partnership Agreements on the Economies of West Africa: Analysis of Recent Evidence

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# I. Introduction

The ongoing negotiations between the European Union (EU) and the African, Caribbean and Pacific (ACP) countries under the aegis of Cotonou Partnership Agreement (CPA) is one of the Free Trade Agreements (FTAs) being negotiated between EU on the one hand and several regional groupings within the ACP. The negotiations among other things, is expected to establish a Free Trade Zone between EU and ECOWAS for a period of 12 years starting from January 2008. There are four of such FTAs in sub Saharan Africa (SSA). These are ECOWAS in West Africa, CEMAC, in Central Africa, ESA and SADC in Eastern and Southern Africa respectively. South Africa already has a separate FTA with the EU.

The CPA is a successor to the successive Lome Conventions – (Lome I – IV), which is fraught with some peculiar limitations including non-conformity with WTO and non-reciprocity. The CPA is different from its Lome Convention predecessors in three respects. First, it involves a reciprocal relationship between the EU and ACP countries, unlike the Lome Conventions that involved a non-reciprocal and preferential access of ACP exports into the EU. Second, the CPA is to be institutionalized in a series of economic partnership agreements (EPAs) each of which will be structured as a free trade agreement (FTA) between the EU and a group of ACP countries. Finally, the EPA will be negotiated separately between the EU on the one hand, and a number of ACP regions on the other hand (Oyejide, 2004).

The priorities of the CPA are development and poverty reduction in the ACP and market access for the EU. Other objectives include deepening of the integration process in West Africa, cooperation between EU and ECOWAS in trade related matters, enhancement of competition of enterprises located in the ACP and capacity building and upgrading.

In the case of West Africa, which is the focus of this assessment, ECOWAS provides the negotiating front for the fifteen countries that comprise the countries in ECOWAS and Mauritania which used to be part of the community. The countries include the 7 UEMOA countries of Benin, Burkina-Faso, Chad, Cote d'Ivoire, Mali, Niger, and Senegal. Other non-UEMOA member countries are Cape-Verde, Gambia, Ghana, Guinea, Guinea-Bisau, Liberia, Nigeria, and Sierra Leone.

There is no doubt that the CPA will have significant implications on the economies of ECOWAS countries. In particular, the reciprocity condition implicit in the agreement, implied that at some time before 2020, the ECOWAS countries would have to open up their economies to imports from the EU countries. Fears have been expressed that this will generate considerable impact on these economies. Apart from reciprocal quota and duty-free access to both markets, the CPA may lead to trade diversion, trade creation, loss of trade revenues and deindustrialization, among others. Therefore, there are a number of critical challenges facing the West African countries as they go into the negotiations.

Coping with various challenges relating to EPA negotiation and its implementation require that specific attention must be given to the issue of industrialization and export response capacity of the sub-region if it is to achieve its development objective. This is because of a number of reasons. Industrialization provides a means for ECOWAS countries to diversify the productive and export bases of their economies. Second, there is a close correlation between industrialization and development. Third, industrialization provides the means to process and increase the value added of the agricultural output as well as increase the productivity of the sector. Finally, the relatively high income and price elasticities of manufactured goods will ensure higher income and enhanced poverty reduction.

Two recent studies - Kwanashie and Garba (2003) and Busse and GroBmann (2004) - have investigated the possible impacts of the EPA on the countries in the ECOWAS region. This paper brings to focus the evidence. The paper is organized into four parts. The first presents an overview of the structure of ECOWAS economies while the second, reviews the regional integration agreements in West Africa and discusses the main phases of the EPA negotiations. The first two parts sets the background for consideration of the evidence on the possible impact of the EU-ECOWAS EPA on West Africa.

## II. Economic Structure of West Africa

The economic structure of the West African sub-region is largely dominated by Agriculture and services. According to the 2000 edition of ECOWAS national accounts, agriculture contributed about 35.4%, to sub-regional GDP, up from 34% in

1998, next to it is the services sector which contributed about 25.5% of the groups GDP, down from about 43% in 1998. Mining, industry and manufacturing put together contributed about 16.5%, while energy and construction contributed 1.5% and 4.5% respectively to ECOWAS GDP. Levels of gross domestic product (GDP) of the group in 2000 ranged from lows in countries such as Guinea Bissau (GDPUS$.2 billion), Gambia (GDP US$.4 billion), Cape Verde (GDP US$.5 billion) and Sierra Leone (GDP US$.6 billion) to highs in Senegal (GDP US$4.4 billion), Ghana (GDP US$5.1billion) and Ivory Coast (GDP US$9.3 billion). But by far the largest economy in the region is Nigeria with a GDP in 2000 of US$41 billion. In 2000, per capita GDP was lowest in Sierra Leone (US$126), Niger (US$169), and Guinea Bissau (US$180) and highest in Guinea (US$406), Senegal (US$459) Ivory Coast (US$585) and Cape Verde (US$1,266). Per capita GDP in Nigeria was US$324 in 2000 (Page and Bilal 2001).

**Table 1: Structure of West African Economies 1998 (in percentages of GDP)**

| Country | Agriculture | Industry | Of which manufacturing | Services |
|---|---|---|---|---|
| Benin | 38.6 | 15.3 | 8.2 | 47.9 |
| Burkina Faso | 32.0 | 27.8 | 21.4 | 40.3 |
| Cape Verde | 12.2 | 19.1 | 10.3 | 68.7 |
| Cote d"Ivoire | 27.6 | 20.7 | 17.4 | 51.7 |
| Gambia | 27.4 | 13.7 | 5.8 | 58.9 |
| Ghana | 37.6 | 24.8 | 8.2 | 37.6 |
| Guinea | 22.3 | 35.3 | 4.1 | 42.4 |
| Guinea Bissau | 62.4 | 12.7 | 9.3 | 24.9 |
| Mali | 44.9 | 20.7 | 6.5 | 34.4 |
| Mauritania | 24.8 | 29.5 | 9.1 | 45.7 |
| Niger | 41.4 | 17.0 | 6.2 | 41.6 |
| Nigeria | 31.7 | 41.0 | 5.8 | 27.3 |
| Senegal | 17.4 | 23.3 | 15.3 | 59.3 |
| Sierra Leone | 45.1 | 24.3 | N/A | 30.6 |
| Togo | 42.1 | 21.1 | 9.1 | 36.8 |
| West Afr. average | 33.6 | 23.1 | 9.8 | 43.2 |

Source: Jones (2002)

The structure of the West African economies is important in reaching mutually beneficial trade agreements between ECOWAS and EU. In the sub-region a clear distinction exists between Sahel and non-Sahel economies, and between the countries in the region and Nigeria, which is the major economic driving force in the region. The Sahel countries (Burkina Faso, Cape Verde, Gambia, Guinea Bissau, Niger, Mali, and Senegal and Mauritania) are all LDCs, with their economies relying predominantly on agriculture and to some extent commerce. Only four of Sahel countries have direct access to the sea (Mauritania, Senegal, Gambia and Cape Verde). The others are landlocked countries with poor and costly transport infrastructure (road and rail). Even though Mali and Niger have important mineral potential, with the exception of very high-value products (gold and precious stones), their exploitation is not economically viable at present. The non-Sahelian countries are the more developed countries in the region. They enjoy a diverse range of agricultural possibilities, a manufacturing sector and export possibilities with direct access to the sea. Three of them are not classified as LDCs (Ghana, Cote d'Ivoire and Nigeria). In addition, Guinea has considerable undeveloped potential in sectors such as agriculture, mining and industry.

## Trade Structure of West Africa

For nearly all the countries, the leading import items are heavy equipments, chemical and chemical products and textiles, rubber and metal products. For all the countries, with the exception of Nigeria and Gabon, petroleum products also constitute an important component of imports. For instance, for Cote d'ivoire, nearly 40% of her imports belonged to petroleum products category. But of recent Nigeria oil import is quite significant import due poor refining capacity. 30% and 24% of imports to Guinea and Ghana respectively also fall into petroleum products group. Furniture, fittings and decorative materials also constitute important import group for Cape Verde, Guinea and the Gambia (Tables 2).

The export structure for non-agricultural products is also presented in Table 3. Cotton & Clothing, non-metallic products are quite important exports for most of the countries in the sub-region. Over 60% of non-agricultural exports from Niger, Burkina Faso, Gambia, Benin and Guinea are Cotton & Clothing and non-metallic products. Petroleum products exports are particularly important in Nigeria and Cote d'Ivoire. Textiles, Rubber & Metal Products are particularly important in Gambia,

Guinea and Senegal. Chemical and chemical products are also significant export group in Togo, Ghana, Guinea and Cote d'Ivoire. Furniture, fittings and decorative materials are also quite important in the export structure of Cape Verde.

**Table 2: Import Structure of Selected ECOWAS Countries in 2001 in (US$million and %)**

| | Senegal | Nigeria | Niger | Cote d'Ivoire | Cape Verde | B.Faso | Benin | Guinea | Ghana | Gabon | Gambia | Togo |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Total** | 1552 | 5805 | 383 | 2482 | 236 | 723 | 547 | 612 | 2933 | 955 | 188 | 323 |
| Non-Agric | 1262 | 4709 | 296 | 2104 | 183 | 657 | 440 | 502 | 2613 | 811 | 132 | 277 |
| Food, Beverages, & Tobacco | 2.1 | 0.7 | 9.4 | 1.8 | 7.8 | 2.6 | 1.7 | 5.2 | 1.5 | 3.1 | 3.1 | 3.3 |
| Cotton & Clothing, non-metallic products | 3.3 | 2.0 | 6.7 | 2.1 | 2.9 | 1.1 | 7.7 | 1.9 | 5.4 | 1.0 | 1.1 | 2.9 |
| Petroleum Prod. & Other Energy | 27.7 | 2.1 | 27.7 | 39.8 | 7.9 | 27.8 | 23.8 | 30.4 | 24.1 | 4.8 | 17.0 | 22.0 |
| Animals & Vegetable Oil/Fat | 3.6 | 0.5 | 6.8 | 0.5 | 3.2 | 1.3 | 1.1 | 2.3 | 0.6 | 0.8 | 4.0 | 1.5 |
| Textile, Rubber & Metal Product | 13.1 | 24.9 | 12.6 | 16.9 | 8.4 | 9.3 | 12.8 | 10.6 | 11.0 | 10.1 | 7.8 | 12.4 |
| Chemicals & Chemical Products | 17.0 | 23.2 | 14.6 | 15.1 | 22.9 | 13.0 | 27.8 | 16.0 | 16.5 | 14.9 | 22.3 | 30.0 |
| Heavy equipments | 28.0 | 41.4 | 16.8 | 19.4 | 36.9 | 40.8 | 18.7 | 23.2 | 34.1 | 56.5 | 31.2 | 21.7 |
| Furniture, fitting & Decorative materials | 5.2 | 5.1 | 5.4 | 3.9 | 10.2 | 4.2 | 6.3 | 10.0 | 5.8 | 8.8 | 12.0 | 6.3 |
| Other manufactures | 0.0 | 0.0 | 0.0 | 0.5 | 0.0 | 0.0 | 0.0 | 0.3 | 1.1 | 0.0 | 1.3 | 0.0 |

Source: ITC (2004)

**Table 3: Export Structure of ECOWAS Countries, 2001 in (US$'million and %)**

| | Togo | Cote d'Ivoire | Niger | B.Faso | Ghana | Cape Verde | Gambia | Benin | Senegal | Guinea | Gabon | Nigeria |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total | 219 | 3627 | 153 | 187 | 1715 | 9.5 | 15.6 | 181 | 784 | 573 | 2598 | 27053 |
| Non-Agric | 188 | 1883 | 91 | 164 | 1261 | 9.2 | 10.2 | 153 | 497 | 564 | 2584 | 27046 |
| Food, Beverages, & Tobacco | 1.1 | 0.5 | 0.1 | 2.1 | 2.1 | 0.0 | 0.0 | 2.1 | 0.6 | 0.2 | 0.3 | 0.0 |
| Cotton & Clothing, non-metallic products | 38.9 | 27.2 | 96.5 | 68.8 | 14.7 | 0.0 | 75.0 | 84.4 | 10.7 | 55.1 | 13.6 | 0.1 |
| Petroleum Prod. & Other Energy | 0.5 | 39.2 | 0.0 | 3.4 | 9.7 | 0.0 | 0.0 | 0.0 | 28.2 | 0.8 | 83.9 | 99.7 |
| Animals & Vegetable Oil/Fat | 1.7 | 2.5 | 0.0 | 3.1 | 0.8 | 0.0 | 1.7 | 0.4 | 14.4 | 0.1 | 0.0 | 0.0 |
| Textile, Rubber & Metal Product | 3.0 | 8.0 | 0.1 | 1.5 | 1.4 | 0.0 | 14.7 | 0.9 | 28.1 | 17.5 | 0.0 | 0.0 |
| Chemicals & Chemical Products | 49.4 | 12.7 | 1.1 | 11.9 | 17.6 | 0.0 | 0.8 | 4.1 | 6.9 | 17.9 | 1.5 | 0.1 |
| Heavy equipments | 2.6 | 2.0 | 1.4 | 6.8 | 0.9 | 2.3 | 6.7 | 1.0 | 6.9 | 2.1 | 0.4 | 0.1 |
| Furniture, fitting & Decorative materials | 2.8 | 5.0 | 0.7 | 1.8 | 4.0 | 97.6 | 0.0 | 0.4 | 4.2 | 2.7 | 0.3 | 0.0 |
| Other manufactures | 0.0 | 3.0 | 0.0 | 0.8 | 48.8 | 0.0 | 1.1 | 6.7 | 0.0 | 21.2 | 0.0 | 0.0 |

The European Union remains the main recipient of ECOWAS countries exports and the main source of imports to ECOWAS. Export from ECOWAS countries to the EU as a percentage of total exports from ECOWAS countries are substantial and more than 40% of total exports in some of the years on table 4. Import trend from the EU followed the same pattern falling between from 46% and 52% between 1996 and 2001as well increase between 49% to 52% in 2002 to 2005. However, both export and import intensities increased over the period 2001 and 2005. Export and import intensities increased by more than 100% between 1990 and 1999. This is an outcome of the trade reform programmes embarked upon by the countries in the sub-region.

Table 4: ECOWAS Trade Structure 1996-2001 (as a % Total Exports Value)

| Countries/Years | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| Intra-ECOWAS | 10.86 | 12.66 | 14.59 | 10.08 | 8.40 | 9.25 | 9.00 | 9.45 | 10.10 | 12.01 |
| Other African Countries | 14.69 | 16.20 | 18.53 | 13.59 | 9.59 | 8.70 | 8.50 | 6.45 | 6.89 | 6.89 |
| European Union | **41.80** | **38.47** | **42.51** | **31.54** | **28.81** | **26.44** | **25.41** | **24.75** | **28.18** | **22.61** |
| Northern America | 23.06 | 25.81 | 19.47 | 26.11 | 36.69 | 31.00 | 28.21 | 27.00 | 22.12 | 18.98 |
| Asia | 8.79 | 11.16 | 7.52 | 19.02 | 17.12 | 14.68 | 16.78 | 19.45 | 21.65 | 22.32 |

Source: Extracted from ECOWAS Handbook of International Trade 2003, 2005

Table 5: ECOWAS Trade Structure 1996-2001 (as a % Total Imports Value)

| Countries/Years | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| Intra-ECOWAS | 11.25 | 10.93 | 10.54 | 12.44 | 16.79 | 13.61 | 14.51 | 15.61 | 17.45 | 16.55 |
| Other African Countries | 13.94 | 13.02 | 13.01 | 15.29 | 19.60 | Na | Na | Na | Na | Na |
| European Union | **47.73** | **46.30** | **50.09** | **51.68** | **48.31** | **45.50** | **48.76** | **49.50** | **51.45** | **50.34** |
| Northern America | 12.46 | 11.77 | 10.98 | 11.26 | 8.73 | 9.59 | 8.00 | 7.59 | 9.00 | Na |
| Asia | 16.23 | 19.15 | 17.88 | 19.19 | 21.89 | 20.89 | 24.54 | 28.89 | 32.45 | 32.10 |

Source: Extracted from ECOWAS Handbook of International trade2003, 2005

There is an obvious asymmetry in the trade structure between the two ECOWAS and the EU.

# III. Regional Integration Agreements in West Africa and Europe

The history of regional integration is more recent in West Africa compared to Europe. In West Africa, Francophone West Africa group (now UEMOA) was the first set of countries to conceive an "independent" regional group in 1962. UEMOA led by Cote d'Ivoire transformed from CEAO in 1994. UEMOA had a target of free internal trade and a common external tariff, and in the longer term full movement of services, capital and people and harmonization and normal recognition of technical standards. ECOWAS, which was launched in 1975, is a more encompassing regional integration agreement and was set up to achieve the same idea as contain under the UEMOA but under a broader arrangement. However, at present, the ECOWAS is still struggling to achieve the level of integration already made in the UEMOA.

The EU has a longer history of integration dating back to 1951 and has achieved a deeper and broader level of integration than ECOWAS. It already has achieved a monetary union with a common currency euro, though without three EU countries, Britain, Sweden and Denmark. The EU has maintained preferential economic relationships with ECOWAS under the broader ACP-EU preferential agreement. Since the 1970s, under the Lome Conventions (I through IV), the EU had provided unilateral preferences access to its market to the ACP countries. The Lome Convention because it did no entail reciprocal relationship and because they were not part of the EU's general system of preferences (GSP) did not conform to WTO rules. The Cotonou Agreements under which the current trade negotiation is being conducted is designed to bring trade relations between the two groups in line with their WTO commitments.

## Phases of the EPA Negotiations

ECOWAS-EU EPA negotiations being part of a larger ACP-EU process were launched in Brussels on 27 September, 2002. The opening Ministerial Conference agreed on the modalities of the conduct of the negotiations in two phases, the outcome of which is schedule to be effective no later than 1 January 2008. The first phase of the negotiations was conducted at all-ACP level and covered horizontal issues of interest to all parties. On the 2$^{nd}$ of October 2003, the ACP Council of Ministers and the EC Commissioners for Trade and Development declared the results of the first phase to be satisfactory in view of high degree of convergence achieved. The parties adopted the joint reports, ACP/00/118/03 Rev.1-ACP-EC/NG/NP/43,

that came out of the meeting. The report serves a point of reference and guide for the conduct of negotiations between West Africa and European Community. The second phase of the negotiations, as far as West African sub-region is concerned was launched in Cotonou on October 6, 2003.

The two parties reaffirmed the commitments made under the Cotonou Agreement and restated the inbuilt development objective of EPAs, which centres on promoting the deepening of the regional integration process and sustainable economic development in the West African region. The primary concern according to the roadmap for negotiation and establishment of the EPA developed by the representatives of ECOWAS and EU is to give priorities to West African region's integration, seek to strengthen competitiveness and develop macroeconomics and sector wide policies aimed at ensuring a unified market, and establishment of surveillance mechanism to ensure functional free trade area and gradual establishment of customs union.

However, a major worry has been that, given the weak and non-competitive industrial structure of West African economies, the need to open up their domestic market for almost all products from the EU within a 12-year period, requires that care must be taken so that the long term industrial development objectives of these countries are not compromised. They must be allowed to designate sensitive products that should be protected as well as receive technical and financial support to upgrade their industrial and infrastructural sectors.

# IV. Possible Impact of EPA on West African Economies

## Trade Effects of EPA

One of the implications of the reciprocity condition in the EPA is that the ECOWAS countries will have to open up their economies to imports from Europe. It is reasonable to infer that the trade effect of the EPA on ECOWAS would be felt more on the import side than exports. This is because most of the countries already have unutilized trade preferences with the EU. Thus, the EPA will place European imports as a major competitor against domestic production as well as put EU imports at an advantage relative to non-EU trading partners. In other words, there are potential trade creation and trade diversion effects from the EPA.

The study by Busse and GroBmann (2004) examined the trade effects of EPA on ECOWAS countries using a partial equilibrium models. Three scenarios reflecting different assumptions about elasticity of trade substitutions were used to test the results for sensitivity

to underlying assumptions. In Table 6 below we present their results for the mean scenario. The trade effects of EPA were decomposed into two, viz., trade creation and trade diversion.

For all the countries, trade creation effect dominates trade diversion effect. Trade creation leads to an increase of EU imports into the sub-region by US$647.9 million or 9.62%. Trade diversion effects will displace non-EU imports in favour of EU imports by US$390.8 million or 5.77% of non-EU imports. Total trade effects were estimated at US$1,038.9 million or an increase in EU imports by 15.35%.

However, the country effects vary. Trade creation effects vary from US$1.6 million in Guinea-Bissau to US$348.3 million in Nigeria. The mean increase for all the countries was US46.3 million. Apart from Nigeria, only three other ECOWAS countries have their imports rise above the mean. These are Senegal US$71.2 million, Cote d'Ivoire, US$69.3 million and Ghana, US$45.8 million. However, in terms of percentage increases, Ghana imports from EU will increase by only 3.7%, while Nigeria will rise by as much as 12.5%. In the case of trade diversion there are also differences across countries. However, the pattern remains about the same. The highest impact is again recorded by Nigeria. The value for Nigeria is US$229.3 million compared to US$0.3 million for Guinea-Bissau and US$25.3 million and US$40.2 million for Cote d'Ivoire and Ghana respectively. As the table shows, EPA will lead to a displacement of non-EU imports b 7.6% in Nigeria, 7.1% in Cape Verde and by only 1.1% in Guinea Bissau.

What is very clear from this table is that the trade impact of the EPA will be most felt in Nigeria. The reasons for this are very clear. Nigeria constitutes the single largest economy in the sub-region as well as the largest trading partner with the EU, while the least impact will be recorded in Guinea-Bissau and Mali respectively.

Table 6: Trade Effects of EPA on ECOWAS Countries, 2001

| **Country** | **Trade Creation** | | **Trade Diversion** | | **Total Trade Effect** | |
|---|---|---|---|---|---|---|
| | **Mill US$** | **% of preferred imports** | **Mill US$** | **% of non-preferred imports** | **Mill US$** | **% of preferred imports** |
| Benin | 20.4 | 7.6 | 10.7 | 3.2 | 31.1 | 11.6 |
| Burkina Faso | 14.1 | 5.7 | 9.8 | 3.2 | 23.9 | 9.7 |
| Cape Verde | 16.9 | 9.2 | 4.5 | 7.1 | 21.5 | 11.7 |
| Cote d'Ivoire | 69.3 | 6.0 | 25.3 | 2.9 | 94.7 | 8.2 |
| Gambia | 8.2 | 5.8 | 5.8 | 6.6 | 14.0 | 9.9 |
| Ghana | 45.8 | 3.7 | 40.2 | 2.4 | 85.9 | 6.9 |
| Guinea | 14.3 | 4.9 | 10.0 | 3.3 | 24.3 | 8.3 |
| Guinea-Bissau | 1.6 | 4.5 | 0.3 | 1.1 | 1.9 | 5.2 |
| Mali | 13.3 | 3.6 | 8.3 | 1.3 | 21.6 | 5.9 |
| Mauritania | 9.8 | 7.2 | 5.4 | 2.8 | 15.2 | 8.6 |
| Niger | 4.6 | 4.9 | 3.5 | 2.3 | 8.1 | 8.6 |
| Nigeria | 348.3 | 12.5 | 229.1 | 7.6 | 577.4 | 20.8 |
| Senegal | 71.2 | 8.0 | 31.4 | 3.8 | 102.7 | 11.5 |
| Togo | 10.1 | 6.6 | 6.5 | 3.2 | 16.6 | 10.9 |
| **Average** | 46.3 | 9.62% | 27.9 | 5.77% | 74.21 | 15.65% |
| **Total (mill. US)** | 647.9 | | 390.8 | | 1038.9 | |
| **Nigeria's share of total (%)** | 53.8 | | 58.6 | | 55.6 | |

Source: extracted from Busse and GroBmann (2004) and own calculations

From the analysis by Busse and GroBmann (2004), trade policy reforms is the central elements of the ECOWAS –EU EPA and a zero tariff rate on EU imports will have some impacts on the economies of the West African region. Real GDP, aggregate imports and exports will also be adversely affected. Thus, the aggregate and sectoral impacts of the zero tariff on EU imports on the economies including Nigeria are likely to be negative. The greatest macro impact would be on aggregate domestic investment and government revenue. As both

decline, economic theory suggests that economic growth would decline and vulnerable government expenditures that impact on poverty and well being would be adversely affected. The results suggest that private consumption would increase on the assumption that cheaper imports from the EU would lower consumer prices and increases real income. However, such effects if they happen are unlikely to be sustainable given the effects of declining investment and government revenue on employment, growth and income.

## Impact of EPA on Public Revenue

According to Kwanashie and Garba (2003), the impact of EPA on government revenue, depend largely on (a) the share of trade revenue in total revenue (b) impact of progressive declines in tariff on trade revenue and (c) the generalized impact of EPA on national income. At this point some qualitative analysis is possible base on the nature of ECOWAS Economies Structure. It is therefore sound reasoning to expect as they did that the direct progressive reduction in tariff on government revenue is negative. Further, that the magnitude would likely be very significant given the highly significant share of trade revenue in total revenue in the West African region.

Table 7: Impact of Progressive Reduction in Tariff on Government Revenue.

| Severity | Countries |
|---|---|
| Very Severe | Benin, cape Verde, Cote d'Ivoire, Gambia, Mali, Niger, S/Leone, Togo. |
| Severe | Burkina Faso, Ghana, Guinea Bissau, Senegal. |
| Less severe | Nigeria. |

Kwanashie and Garba (2003)

From the Table 7, the adverse effect on government revenue would be **very severe in eight countries**, sever in five countries and less severe in only one country – Nigeria.

Table 8 from Busse and GroBmann (2004) support the deduction in Kwanshie and Garba (2003) about a generalized loss of government revenue from given that on average, import duties account for 14.7% of government revenue and a range of 1.5% (Nigeria) and 33.5% (Gambia). It is noteworthy that on average, the ratio of deficit to GDP is 8.9% excluding grants and 4.6% including grants. Obviously, most of these countries are already operating huge fiscal deficit. All the countries in the sub-region had fiscal deficits in 2001. The average fiscal deficit for ECOWAS in 2001 was -8.9% of GDP, with Guinea-Bissau and Ghana leading the pack with -26.2% and -14.6% respectively. This suggests that the loss of fiscal revenue from

import liberalization might further compound the precarious fiscal positions of these various countries.

Table 8: Trade and Key Government Revenue Indicators, 2001

| **Country** | **Imports from the EU in % of total imports** | **Import duties in % of total government revenue** | **Government deficit (-)/surplus(+) of GDP** | |
|---|---|---|---|---|
| | | | **incl. grants** | **Excl. grants** |
| Benin | 44.4 | 18.1 | -1.5 | -4.2 |
| Burkina Faso | 44.6 | 12.0 | -4.0 | -11.3 |
| Cape Verde | 74.3 | 24.8 | -5.2 | -11.0 |
| Cote d'Ivoire | 57.4 | 18.2 | 0.9 | 0.3 |
| Gambia | 61.8 | 33.7 | -6.3 | -9.8 |
| Ghana | 43.1 | 15.5 | -10.1 | -14.6 |
| Guinea | 49.0 | 9.4 | -4.4 | -7.8 |
| Guinea-Bissau | 59.7 | 8.5 | -11.7 | -26.2 |
| Mali | 36.3 | 10.7 | -5.1 | -9.5 |
| Mauritania | 47.5 | 12.8 | -1.8 | -5.7 |
| Niger | 28.9 | 12.3 | -2.4 | -7.1 |
| Nigeria | 47.9 | 4.7 | -1.5 | -1.5 |
| Senegal | 51.8 | 17.8 | -2.0 | -3.9 |
| Togo | 43.0 | 12.1 | -2.1 | -2.6 |
| Average | 49.3 | 14.7 | -4.6 | -8.9 |

Source: extracted from Busse and GroBmann (2004)

The European Commission had suggested that ECOWAS should diversify its revenue base from trade taxes to VAT and to also improve the efficiency of its tax administration. Busse and GroBmann (2004) have shown that import duty collection efficiency averaged only 67% in ECOWAS. Ghana has the lowest collection efficiency of 29% and Senegal the highest with 90%. Oyejide (2004) however argues that VAT and improvement in the efficiency of tax administration may be inadequate at least in the short-run to offset the potential revenue losses from import liberalization as envisaged under the EPA. It is also, obvious that the goals of maximizing tax revenue from a shrinking income could not be consistent with goals of poverty reduction and development. Clearly therefore, the EU goals of market access and tariff reduction for ACP countries and the goals of poverty reduction and development of West Africa are in conflict.

## Impact of EPA on Real Sector Development

Give the structure of employment, production and exports of ECOWAS countries the potential

impact of EPA on agriculture, mining, and industry would be very critical to the attainment of the development objectives of EPA such as poverty reduction. The Kwanashie and Garba study identified five hypothetical EPA impacts that could generate positive **real effects** and assessed their likelihood based on effects on fiscal and monetary policy, government revenue, expenditure and macroeconomic stability, capacity; growth and trade effects. Their analysis is summarized in Table 9. The Table suggests that given existing constraints –institutional, unstable and dependent fiscal anchors, weak infrastructures, etc – the EPA is unlikely to create the policy, institutional, infrastructures and general environment to unleash creative forces that would produce "positive real effects".

Table 9 Possible Effects of EU-ECOWAS EPA on the Real Sectors of ECOWAS

| Pre-condition | Prognosis | Constraints | Potential Effects On Real Economy |
|---|---|---|---|
| (a) Disciplined Fiscal and Monetary Policy | Pessimistic | Character of State, weak institutions, parallel "donor" economy, external debt | High risks, uncertainty, high transaction costs, disincentive to investments. |
| (b) Positive of EPA on revenue, Expenditure deficit and macroeconomic stability | Pessimistic | Dependence on trade tax revenue, likely negative trade effects, external debt | High risks, uncertainty, high transaction costs, disincentive to investments. |
| (C) Upgrade of capacity of public and private sectors. | Pessimistic | State failure, market failure, geography, level and utilization of human capital | High risks, uncertainty, high transaction costs, dis-incentive to investments, possible collapse of industry, trade diversion and loss of jobs. |
| (d) Growth enhancing structural Reforms | Pessimistic | Non salutary effects of past reforms, inability to meet convergence criteria, colonial divides, weak regional infrastructures. | Slow growth in intra-regional trade. |
| (e) Positive Trade Effects | Pessimistic | Vulnerable trade structures, global trend of trade, size and pattern of EU imports from developing countries | Low and unstable returns on agriculture and slow growth of agriculture. |

Source: Kwanashie and Garba (2003)

It is obvious that the EPA would not have positive effects on growth of the ECOWAS region or of most countries in the region if the effects on agriculture, mining and manufacturing are not positive. This stems from the fact that at least 54.2% of ECOWAS GDP comes from agriculture; 37% mining and 9.2% manufacturing. It follows therefore, that poverty reduction is unlikely if agricultural incomes and returns do not rise significantly since about two out of three ECOWAS citizen still depend on agriculture for survival the range of labour force engaged in agriculture activities is between 47%-90% with twelve countries falling within the 72%-90%.

# V. Conclusion

The two studies - Kwanashie and Garba (2003) and Busse and GroBmann (2004) – do not give room for optimism about the chances that the CPA and EPA would bring about poverty reduction and development in the West Africa region. As the Kwanashie and Garba (2003) showed the finding confirmed the results of six studies commissioned by the European Commission on the possible impact of the EPA on six regions of the ACP.

Clearly, the robustness of the findings implies that West African governments must be cautious and strategic in the way they deal with the issue of the EPA. While it is rational for the EU to exploit power asymmetries in their relations with ACP countries including countries in West Africa, the evidence on the impact EPA which in general is positive for the EU and negative for the ACP suggests that it would be irrational for governments in West Africa to sign on to the EPA.

In this period of recess in the Doha Development Round, it would be wise for the government and people of West Africa to exploit alternative global trade architectures that would be friendlier to poverty reduction and development in West Africa.

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