



DOES THE EUROPEAN UNION- GHANA INTERIM ECONOMIC PARTNERSHIP AGREEMENT UNDERMINE OR COMPLEMENT THE AfCFTA?
A REVIEW BY THE GITFiC
SEPTEMBER RESEARCH PAPER

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1.0 INTRODUCTION

Ghana is a founding member of the World Trade Organisation (WTO) which was created in 1995, having being a member of the General Agreement on Tariffs and Trade (GATT) since October 1957. It was the WTO which came to replace the GATT as the system regulating world trade.

As a contracting party to the WTO, Ghana has devoted itself to the promotion and facilitation of world trade through the reduction of barriers. Although the WTO recommends an ‘across-the-board’ treatment for each other within the multi-lateral system, by introducing a set of rules aimed at progressive liberalization of trade, an

exception is given in Article XXIV of the GATT which allows for the creation of free-trade areas, interim agreements to enhance trade among such parties.

Ghana is a signatory to various trade agreements, and one of such is the European Union (EU) - Ghana Interim Economic Partnership Agreement (EU- Ghana IEPA) which was signed in 2007 and ratified in 2016. The EU - Ghana IEPA popularly known as the 'Stepping Stone' Agreement was entered into force following the expiry of the 'Cotonou Agreement' in 2007. The Cotonou Agreement was a Partnership Agreement signed between the African, Caribbean and Pacific countries (ACP) and the EU.

Over the last decade, trade between Ghana and the EU has shown continual progress especially with Ghana's exports from the Non-Traditional sector. The - Ghana IEPA intends to progressively reduce tariffs and enhance the export drive of Ghana, but it remains to be seen whether this IEPA will undermine or complement the African Continental Free Trade Area which has its Secretariat in Ghana.

2.0 EU- GHANA IEPA

Every country strives to improve its trading opportunities and enhance the welfare of its citizens, and it is in this regard that Ghana entered into an Economic Partnership Agreement with the European Union. The impact of the Interim Economic Partnership Agreement (IEPA), which was signed in December 2007, and ratified by Ghana in 2016, provides a framework for trade, facilitation of fiscal revenue system reforms, improvement of the business environment, and promotion of the upgrading of Ghana's productive sectors. The EU describes the pact as a new type of partnership that will boost economic growth and poverty reduction in African nations such as Ghana. Under

the Agreement, Ghana's exports to the EU are granted duty-free and quota-free access.

The effort to establish the EU - Ghana IEPA is not far-fetched. This is an agreement which came to replace the erstwhile Cotonou Agreement. In the year 2000, the Cotonou Agreement had trade negotiators from the African Union, the Caribbean and Pacific regions agreeing with the EU to have non-reciprocal access to the EU markets. The Cotonou Agreement was largely criticized as being discriminatory and inconsistent with GATT and WTO rules on trade. When the Cotonou Agreement was nearing its expiry in 2007, a lot of agitations arose amongst the Regional Economic Communities (REC) on the African Continent. More particularly, majority of ECOWAS members who are regarded as Least Developed Countries (LDCs), had issues with the replacement of the non-reciprocal clauses in the Cotonou Agreement.

In order not to disrupt the market flow of goods and services between Ghana and the EU, an interim economic partnership agreement known as the 'Stepping Stone' was initialed and signed in 2007. The EU - Ghana IEPA had a transitional period of 15 years with an asymmetric trade relationship as Ghana will have a full access to the EU market, while about 80% of the Ghana market will be progressively opened to EU products. Ghana has classified its liberalization schedule into four groups (Group A - equipment; Group B - mainly raw materials and intermediate goods; Group C - goods with a high fiscal revenue value; Group D -sensitive products), and this is expected to create new opportunities for employment, for attracting investment and for improving the livelihood conditions while promoting sustainable development.

3.0 EU SEEKS PARTNERSHIP WITH ECOWAS

It has been observed by trade professionals and academics that the ultimate goal of the European Union is to enhance its trading relationship with countries collectively within the ECOWAS. For this reason, there is a caveat to the EU - Ghana IEPA which states that it is going to be superseded by a future EU - ECOWAS Agreement.

The proposed EU - ECOWAS Agreement has faced numerous challenges as the countries within the economic bloc of ECOWAS disagree on how tariffs should be treated. Per the WTO classification, about 12 countries within the ECOWAS are described as Least Development Countries (LDCs). Although the LDCs by their status enjoy preference market access to export to the EU, and are eligible to export “Everything But Arms”.

LDCs are often averse to reduction of tariffs, as they rely heavily on tariff revenues for their development. Nonetheless, a recent article by the EU Desk reports that the EU initiated an Agreement with 13 West African Countries in December 2014, and then in 2018 included Gambia and Mauritania as signatories to the agreement. Nigeria has refused to sign because it believes that the provisions in the West Africa - EU Agreement does not serve her interest. This Agreement can only enter into provisional application if all the 16 West African Countries sign and two-thirds of these countries deposit their instruments of ratification.

4.0 LIBERALISATION SCHEDULE OF GHANA

Although the EU - Ghana IEPA was ratified by Ghana in 2016, it was only in July 2021 when Ghana, under the Agreement, started to liberalize access to its market and

expects to liberalize 80 percent of its EU imports by 2029, accounting for 81 percent of tariff lines¹. Already, Ghanaian exporters have been enjoying duty-free quota-free access to the EU markets for made-in-Ghana products.

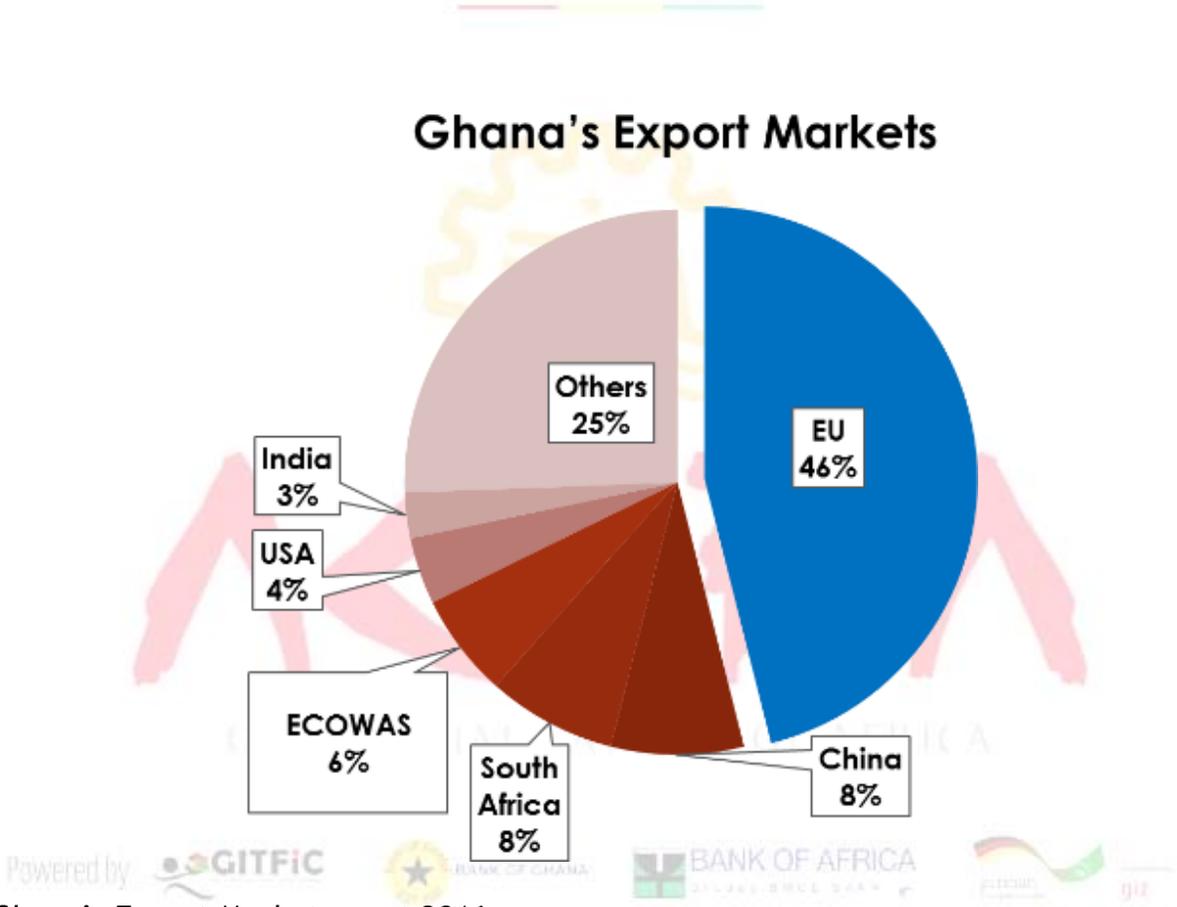
The IEPA mandates that Ghana will progressively reduce its tariffs over the imports from the EU. It must be pointed out that Ghana operates a five-tier tariff structure namely: 0%, 5%, 10%, 20%, 35%. The Agreement categories products into four (4) groups. Group A, which includes a large part of poverty alleviation related goods (health and education), will have tariffs reducing progressively as follows: 2009 reduction of duties by 15% of the base rate; 2010: reduction of duties by 20% of the base rate; 2011: reduction of duties by 20% of the base rate; 2012: reduction of duties by 20% of the base rate; 2013: reduction of duties by 25% of the base rate.

Group B, which includes raw material and equipment for existing and infant industries, was to be completed liberalized within 10 years following the entry into force of the Agreement while Group C products, which are goods with a high fiscal revenue value will have its liberalization completed by the end of 2022. To ensure that some industries are protected from the impact of importation, certain sensitive products have been excluded from the scope of liberalization. These products fall under Group D.

¹ <http://news.ecowas.int/presseshow.php?nb=134&lang=en&annee=2014>

5.0 WHAT DOES THE EU - GHANA IEPA BRING?

Since 2010, the EU region has been Ghana's most important trade partner, accounting for €1.7 billion in 2019. This can be juxtaposed with the West African exports to the EU in 2020 which is estimated at about €22.4 billion. With Ghana completely aligned to the ECOWAS Common External Tariff, the Interim Economic Partnership Agreement serves as precursor to a possible Agreement with ECOWAS in the near future.



Ghana's Export Markets as at 2016
Source: Author, 2021.

The IEPA's implementation would result in a moderate reduction in total tariff protection. Ghana agreed to liberalize 80 percent of its EU imports by 2029, accounting for 81 percent of tariff lines. Ghana is getting more involved in international trade, with total external trade in US dollars increasing by more than 70% in the last five years.

Ghana's signing of the IEPA means the liberalization of significant portions of its trade with the EU. This has significant economic ramifications due to competition with EU imports in the domestic market and decreases in government fiscal revenue. Beyond the immediate direct financial impact of the loss of import tariff income, it is anticipated to have a total US\$1.13 billion impact on Ghana's fiscal condition (trade balance and budget deficit) between 2008 and 2022, (2.35 percent of GDP).

A joint communiqué by the EU and Ghana on the start of trading under the EU-Ghana IEPA stated that the removal of tariffs on machinery from the EU will make inputs cheaper for Ghanaian domestic firms, and make locally produced goods more competitive.

A simplified assessment of the possible impact of the Interim Economic Partnership Agreement (IEPA) on competitiveness predicts that two-thirds of manufacturing enterprises will enjoy a net increase in profitability as a result of the IEPA, owing primarily to decreased input prices. The remaining one-third of enterprises may lose some profit due to increased competition from imports, but only a small number become unprofitable because losses are minimal in comparison to actual profit levels.

The trade and welfare implications of the Interim Economic Partnership Agreement (IEPA) will differ among input and output sectors, as well as within output sectors themselves, depending on the country's present economic, trade, and welfare status.

The estimated effects of the IEPA on firms are minor in comparison to the potential impact of an accompanying competitiveness agenda that would boost productivity growth (that is by reducing the number of power outages or transportation costs), which would have the added benefit of strengthening all Ghanaian firms.

However, as predicted by this paper using international trade theory and neoclassical economic theory, the primary trade effects for input sectors will be increase in import demand. While the impacts on welfare will be, on the one hand, a drop in government tax revenues from import taxes (Ghana is estimated to lose US\$ 88,575 million per year in import revenue between 2008 and 2022); on the other hand, a gain in consumer welfare due to lower input purchasing prices.

6.0 WHERE DOES AfCFTA STAND?

The African Continental Free Trade Agreement (AfCFTA) is one of the largest free trade areas in the world and has been described as a ‘game changer’ and a springboard for African economies to improve intra-trade among its over 1.3 billion citizens. Since the creation of AfCFTA in 2018, the community of African countries has shown high commitment and determination to harness the benefits of a trade liberalized system. This is evidenced by the fact that 38 countries have now deposited their instruments of ratification, with Burundi being the latest to do so.

While the operational phase of the AfCFTA was launched in 2019, and start of trading began on 1 January 2021, one of the AfCFTA’s strategic objectives as enshrined in the enabling Agreement is to “promote and attain sustainable and inclusive socio-economic development, gender equality and structural transformation of the State

Parties”. This objective can only be feasible if efforts are made to reduce poverty and boost employment. It is on this score that the World Bank in its analysis observed that by 2035, the AfCFTA would help raise 30 million people out of severe poverty and 68 million people out of moderate poverty, through the progressive elimination of tariffs and elimination of non-tariff barriers to trade and investment.

As already highlighted, the advent of the AfCFTA is expected to be a paradigm shift, as the implementation would boost member countries' wages and well-being (World Bank Group, 2020). This position is reinforced by the findings of Abrego et al. which stated that the trade liberalization system under the AfCFTA could result in long-term income gains of up to 7% for member countries².

7.0 POSITION AND RECOMMENDATIONS BY GITFiC

Though the IEPA's objectives are straightforward in terms of increasing productive investments and job creation in Ghana, as well as intensifying and facilitating trade between Ghana and the EU toward a win-win developmental relationship, trade experts are skeptical about the impact of the IEPA, particularly to the medium and small-scale enterprises.

We at Ghana International Trade and Finance Conference (GITFiC) believe that although, under the IEPA, Ghanaian businesses have full access to the EU market, these businesses can hardly compete favorably with EU production which enjoy large

Abrego, L., M. A. Amado, T. Gursoy, G. P. Nicholls, and H. Perez-Saiz. (2019). “African Continental Free Trade Agreement: Welfare Gains Estimates from a General Equilibrium Model.” IMF Working Paper 19/124, International Monetary Fund, Washington, DC.

economies of scale, and good business climate. Ghanaian businesses face huge challenges of high lending rates, coupled with the fact that most of these enterprises fall into the small and medium scale category.

Another aspect of concern for the GITFiC is the timing of the start of trade under the EU - Ghana IEPA. Whether by coincidence or otherwise, both the AfCFTA and the EU - Ghana IEPA commenced trading under their respective agreements in July 2021.

There is no doubt that the AfCFTA which is seeking to boost intra African trade will be undermined by the preferential treatment given to third-party goods from the EU. More worrisome is that the AfCFTA is at its implementation stage with some of the protocols still at the negotiation level, and any steps to frustrate the successes chalked so far will create dire consequences for the African market and its 1.3 billion people.

A cardinal objective of the AfCFTA is to “promote industrial development through diversification and regional value chain development, agricultural development and food security”. This objective can only be achieved when the largely informal sector of Africa and the infant industries are cushioned against unfair trade practices and influx of foreign products. The progressive reduction of tariffs by Ghana to imports from EU obviously provides a gateway for the EU to flood the Ghanaian market with cheaper goods produced in the EU. As a result, many industries will continue to collapse for lack of capacity to compete favorably, and this will lead to massive layoff of workers.

The Industrial Transformation Agenda (ITA) being pursued by the government presents the country with the best opportunities and potentials for employment creation and export led growth, especially within the ECOWAS region. However, the industrial drive may be undermined by the parallel inherent interests of the EU- Ghana IEPA.

Various analysts have even argued that the EU - Ghana IEPA is intended to undermine Africa's integration, as individual countries and regional blocs enter into agreements with the EU with little or no coordination. This leaves countless issues and contradictions between African countries. This is a concern which the GITFiC believes should be considered with utmost seriousness.

The GITFiC finds very interesting the arguments advanced by Nigeria for rejecting a trade agreement with the EU. Nigeria's contends that an IEPA with the EU will have a long-term negative impact on the continent's efforts towards industrialization and job creation. This is in addition to the fact that such agreement will amount to huge loss of fiscal revenue and negate the objectives provided in the Nigeria Industrial Revolution Plan (NIRP) launched in Nigeria.

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In the same vein, the progressive reduction of tariffs under the EU -Ghana IEPA is estimated to impact Ghana's fiscal position (trade balance and budget deficit) by a cumulative \$1.13bn between 2008 and 2022³.

Ghana's tariff revenue without an IEPA regime would be \$242.1 million by 2022 compared to \$70.31 million under the regime of IEPA. In total, Ghana is expected to lose US\$ 88,575 million per annum between 2008 and 2022 in import revenue.

Moreover, the decline would be strongly felt after the country liberalizes two-thirds of its trade with the EU. The loss of revenue, therefore, constitutes a central policy issue for Ghana, as dependence on this source of revenue is extremely high and significant; finding a new alternative source of revenue would be a challenge for Ghana.

In summary, although the GITFiC believes in promotion of international trade, it has deep concerns about the indices of the gains and losses in the EU - Ghana IEPA. There is no doubt that the relationship with trade inflows and outflows has a direct bearing on the nation's Gross Domestic Product (GDP). An unfavorable economic agreement will continue to position Ghana as an import-reliant and vulnerable economy.

8.0 RECOMMENDATIONS

In order to guide policy decisions, the GITFiC proposes the following recommendations to ensure that the maximum benefits are harnessed from the EU - Ghana IEPA as well as the AfCFTA.

1. With the AfCFTA expected to reduce poverty among Africans, Ghana should benchmark the IEPA with clearly-defined indicators which would help improve economic welfare of its citizens.

2. One of the key objectives of the AfCFTA is to boost intra-African trade, and it is therefore recommended that the EU - Ghana IEPA will extend a substantial part of the preferential treatment of duty-free quota-free to all ECOWAS countries which have ratified the AfCFTA.

3. To ensure that Ghana compete favorably with imports of EU products, the exclusion range of products should be expanded to protect infant industries.

4. Since Ghana may lose some tariff revenue under the EU - Ghana IEPA, it is recommended that an agreed amount of compensation is given to Ghana to mitigate the effect of tariff lose under the progressive liberalization.

5. The EU should create a sustainable program of enhancing the industrialization drive of Ghana, by seting some of its major equipment manufacturers in Ghana, to reduce the outflow of foreign exchange.

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