

An African perspective on EPA's

Continental and ESA level analytical results

UNECA, Addis Ababa, Ethiopia

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Presentation outline

1. Economic Commission for Africa's work on EPAs
2. Continental level and ESA level studies
3. Review of the main results:
 - trade flows
 - Regional integration
 - Tariff revenues
 - Welfare
 - Economic structure
4. Conclusion and recommendations

Trade and Regional Integration Division (TRID) of UNECA

- TRID main focus is on trade negotiations (WTO & EPAs), Regional integration in Africa, and trade policies. www.uneca.org/TRID
- Conduct research and foster policy dialogue
- TRID analytical work on EPAs:
 - Impact analysis study at continental level
 - Impact study for each RECs
 - Some impact studies at country level
 - Related work (preferences, Art. XXIV)

Trade and Regional Integration Division (TRID) of UNECA

- On policy dialogue
 - Dissemination workshops for each studies, interactive debate
 - Support to the AU Ministerial Conference in Cairo (5-9 June), Declaration on EPA negotiations, sets objectives, gives a coordinating mandate to AU
- Continental technical level meeting in Mombasa (Sept. 22-24) (ECA, AU, UNDP, UNCTAD). Dialogue on technical issues, report sets working priorities and operational objectives.

TRID research on EPAs impact: 2 methods

Due to availability of data, we used 2 models to analyse EPA impact:

- - **General Equilibrium** (GTAP model) used for SADC and aggregated Continental level
- **Partial equilibrium** (WITS-SMART) used for individual countries studies, as well as regional level studies, including ESA. Provides data at a more disaggregated level (HS-6), less sophistication in the modelling (no second round effects).

Analytical results: EPAs and trade flows

- Trade creation out-weights trade diversion (roughly one to five ratio)
- Example: EU export's to ESA countries would increase by 1.15 billion US\$,
- Small relatively to EU's total exports but significant in comparison to ESA import levels from EU.
- EU: main gainers are traditional exporters (UK, Fr., D.),
- Larger import increases in larger markets (Kenya), or where tariffs are higher (e.g. Ethiopia)

EU to gain much more than Africa from full reciprocity

TO: FROM:	SSA	RSA	EU	ROW	Total
SSA	-559	122	2,410	1,884	3,857
RSA	-1672	0	642	954	-76
EU	14,582	-387	-4,965	-6,510	2,720
ROW	7,915	-298	7,498	1,019	304
Total	4,436	-564	5,586	-2,652	6,805

- If full reciprocity gains disproportionately in favour of EU
- Would increase dependency on trade with EU

EPAs may potentially defeat own objectives of regional integration...

- Some of the trade that will be replaced by EU comes from less efficient African producers
- **Intra-regional trade** and intra-African trade will be reduced.
- In the case of COMESA, intra-regional trade would go down by nearly 6%. Exports to other RECs would go down by 3.3%.
- Continental study (CGE) shows even worse impact due to increased specialization in competing productions.

For some countries, tariff revenue loss could be very challenging...

- Tariff revenue losses quite high in some cases
- Could hurt some countries more than others, in terms of fiscal revenues
- Require costly and difficult adjustments

COMESA member	Tariff revenue loss (million \$)	Loss as a share of fiscal revenues
Kenya	-107.281	3.29%
Sudan	-73.197	2.85%
Mauritius	-71.117	5.69%
Ethiopia	-55.126	3.47%
Djibouti	-37.523	16.55%
Seychelles	-24.897	8.06%
DRC	-24.691	4.62%
Zimbabwe	-18.43	0.94%
Zambia	-15.844	1.63%
Uganda	-9.458	1.13%
Madagascar	-7.711	1.70%
Burundi	-7.664	5.80%
Eritrea	-7.385	3.14%
Malawi	-7.09	1.79%
Rwanda	-5.622	2.37%
Total Comesa	-473.036	3.16%

Welfare impact

- Liberalisation allows for more economic efficiency, consumers are able to buy more, and cheaper goods.
- CGE modelling can assess welfare, partial equilibrium only consumer surplus (most regional studies).
- Consumer surplus to increase by more than 160 \$ million for ESA (only one third of revenue losses)
- Consumer surplus can materialise under certain conditions only (export cartels...)
- Effect on producer surplus more ambiguous

Potential impact of EPAs on economic structures...

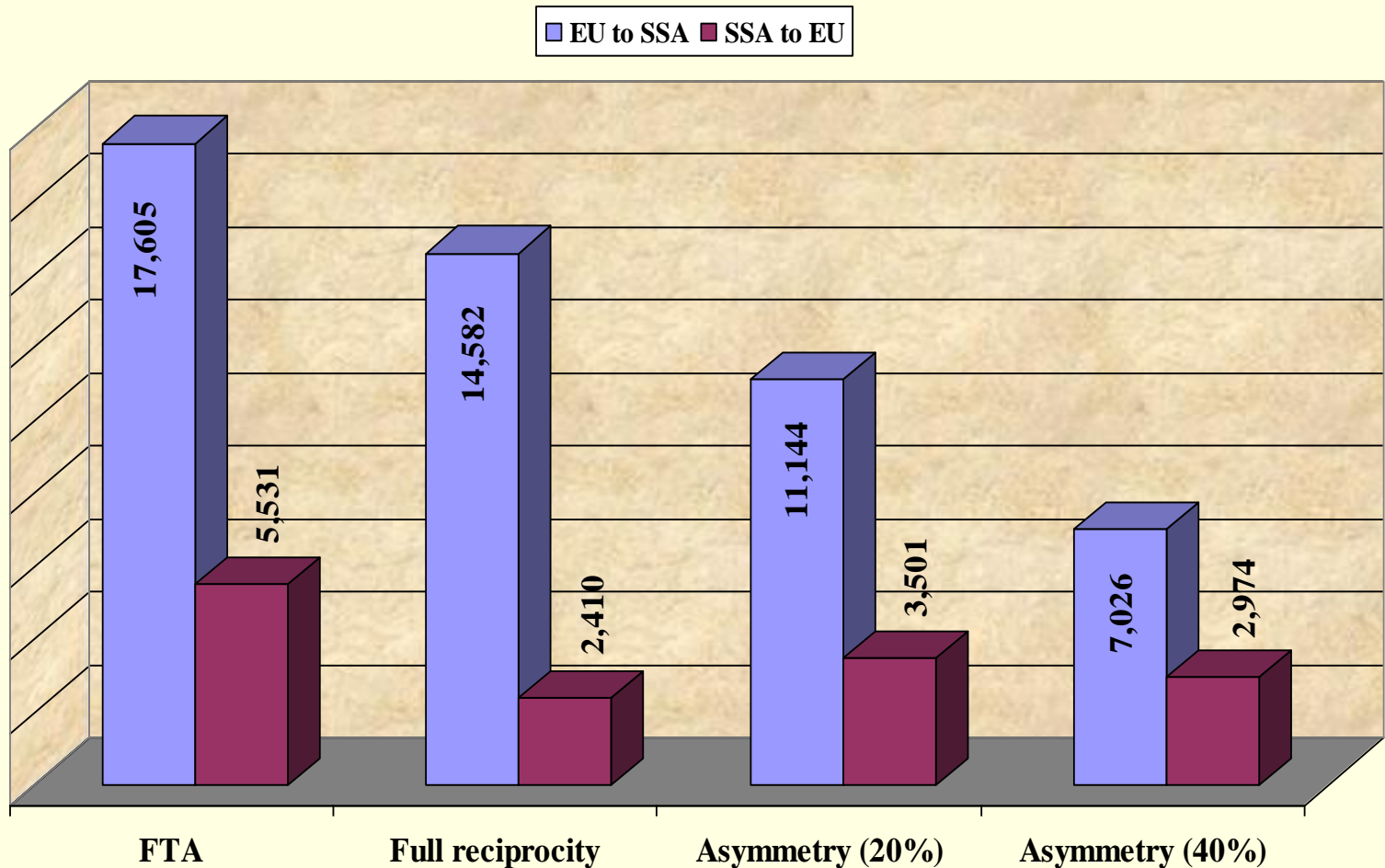
- CGE simulations show that specialisation in primary commodities would increase
- For example, in the case of SADC, value added would increase in agricultural sector and agro-processing, would decrease in light and heavy manufacturing (comparative advantages)
- Could trigger important changes in prices of factors of production (land, labour) with potential impact on poorest categories. Possibility of increase of demand for (unskilled) labour under large asymmetry.

Degree of asymmetry is crucial...

- Our simulations tested different scenarios of liberalisation: FTA, reciprocating EU present tariffs, Asymmetry of 20 and of 40%
- Worst scenario is if EU does not liberalise fully
- Best scenario is for high asymmetry (40%), best impact on fiscal revenues, GDP, welfare, regional integration and demand for labour
- GDP to fall marginally unless important asymmetry

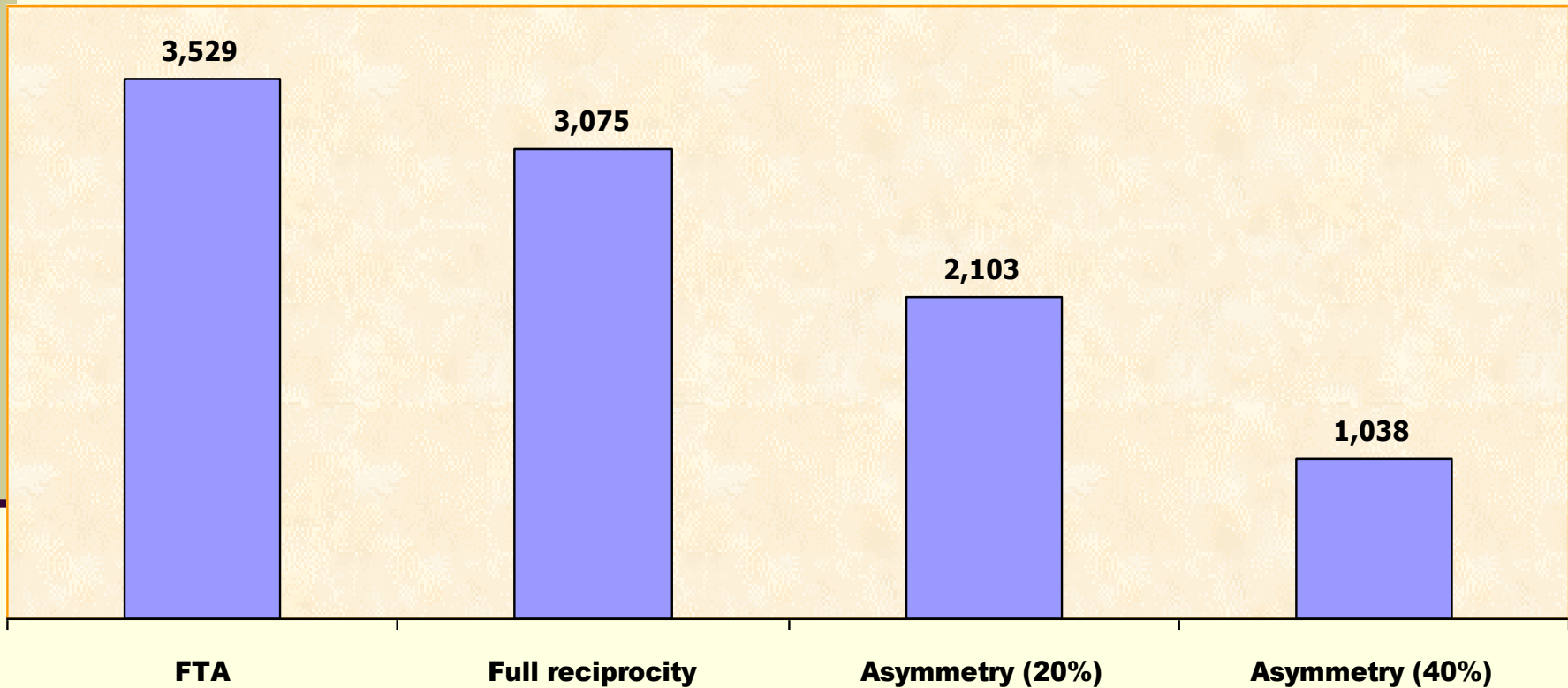
Example: asymmetry and balance of payment...

Exports performance (US\$ million)



Example: asymmetry and fiscal losses

Fiscal losses due to EPAs (US\$ million)



Conclusions: main results

- EPA's will create new trade and enhance consumer surplus under some conditions but...
- Runs counter to regional and African trade integration
- Reduction in fiscal revenues, sometimes of large levels
- Increased economic specialisation
- Asymmetry offers more favourable results

Recommendation: sequencing EPAs implementation

- **Sequencing EPAs is essential:**
 - First accelerate regional integration
 - Then gradual and if necessary back-loaded liberalisation on imports from EU,

Applied tariff met by African exporters		
Market	<i>Agricultural goods</i>	<i>non-agricultural goods</i>
Developed countries	3.65%	4,23%
Developing countries	8.93%	9,16%
UE25	1.09%	1,31%
Japan	2.69%	2,87%
USA	1.66%	1,69%
Africa	16.51%	16,86%
World	4.37%	4,57% ₁₆

Source: MacMAPS 2001

Recommendation: negotiate effective developmental component

- Making the most of **Developmental aspects** of EPAs to obtain:
 - assistance to increase supply-side capacities,
 - Improve infrastructures for trade
 - improve trade facilitation capacities
 - Improve regional integration
 - Improved cumulation and harmonisation in Rules of Origin (Commission for Africa's proposal of a 10% value added component at SSA level)

Recommendations, renegotiate article XXIV

- **Asymmetry essential** if EPAs are to have beneficial impact
- Article XXIV is to be renegotiated under Doha, therefore EPAs need not be designed to meet present requirements of “substantial all of the trade”
- More active participation in negotiations by ACP necessary. Negotiations are progressing...
- One possibility is argue large number of LDCs and SIDS...
- African countries need to work to fine-tune the asymmetry levels (SAT) and the implementation periods (e.g. work by IDS)
- WTO compliance important as main advantage of EPAs over alternatives (GSP, EBA) is legal security.

Recommendations: capacity building

- Alternative to tariff revenue is crucial, extensive technical (and possibly financial) support is important
- New fiscal policy should take equity concerns into account
- National and regional Trade dialogue necessary to set-up the strategy, agree on list of asymmetries.
- EPA strategy must fall under overall development and poverty reduction strategy.
- WTO and EPA negotiations must be conducted under very close coordination.

Thank you for your
attention!

More information is available from our
website: www.uneca.org/TRID