The Economic Partnership Agreement between the EU and ECOWAS - a new framework for trade and investment

Veröffentlicht am 11. Mai 2015 von Gastautor

Trade plays a major role in fostering development, but will the new trade relationship promoted by the recent EU-ECOWAS EPA deliver on all its promises and bring equal benefits to everyone? Or will reality differ from expectations? In the following article, we are going to find that out.

What is an EPA?

An economic partnership agreement is an arrangement intended to allow for the free movement of goods, services, and capital across borders. EPAs are intensive alliances, that provide the legal basis for regulating trade and constitute the first step towards achieving economic integration, through establishing mutually beneficial trade relations. It does that by lifting restrictions on imports, thus granting participants equal access to markets. EPAs are important because they provide a framework for cooperation, rather than competition, among geographically distant economies. The arrangement can bring equal benefits to all parties involved in the long run. By eliminating barriers to trade and movement of people, each economy in the agreement can take advantage of market opportunities in the others. Economic partnerships can strengthen political ties and economic connections, providing solid allies in times of political instability or military action.

Predecessors to The Current Agreement: How Did It All Start?

In June 2000, the European Union and the African, Caribbean and Pacific Group of States ("ACP" countries) signed the Cotonou Agreement in the capital city of Benin. The main declared aim of the agreement was promoting trade between the two groupings, which would lead to reduction and, eventually, eradication of poverty by contributing to sustainable development and gradual integration of ACP countries into the world economy.

Fifteen years have passed since the ACP-EU Partnership Agreement was signed in 2000. As the world's largest aid donor, the European Union has been giving preferential treatment to the ACP group and, by 2006, was responsible for providing 55% of international aid, making it the most important trading partner of the poorest countries.

The Economic Partnership Agreement serves as a channel to enhance economic collaboration and as a framework for trade regulation, as well as promoting commerce between the EU and ECOWAS states. Furthermore, in a move intended to help the Least Developed Countries (LDCs), the EU has offered those nations, whose fragile economies are in need of assistance the most, real opportunities for trade growth by opening up its market.

In fact, 11 out of the 15 ECOWAS countries are classified as Least Developed Countries and have already gained the advantage of EU market entry under the Everything But Arms (EBA) initiative. This arrangement preceded the current agreement and was worked out in 2001 to ensure all LDCs full duty-free and quota-free access to the EU for all their exports with the exception of arms and armaments. The EBA enabled Sierra Leone to increase the competitive force for its main agricultural export products like cocoa, coffee, sugar and bananas on the European market.

While weighing up advantages and disadvantages that the EU-ECOWAS EPA would bring to each side, it was important to take into account the sharp contrast in levels of economic development between Europe and West Africa. The European Union was committed to allowing the ECOWAS countries to apply safeguards in order to protect their infant industries and sensitive products as well as foreseeing trade-related support for ECOWAS under the EPA Development Program; a scheme created to address the West African development needs with regard to the EPA . Its intended aim is promoting the gradual integration of ECOWAS countries into the global economy in a step-by-step process.

Composition, Direction and Volume of EU-ECOWAS Trade

Statistical data provided by Eurostat have revealed that, between 2004 - 2008, exports from EU to ECOWAS countries had been growing steadily, before starting to decline again in 2009 under the impact of the global financial crisis. However, exports bounced back from that slump within a year to reach a total of EUR 22 billion in 2010. As a result of gradual liberalization of the ECOWAS market, the flow of EU products had been increasing. But it is important to note that the traded goods between both economic blocs are different and therefore are not in competition with each other.

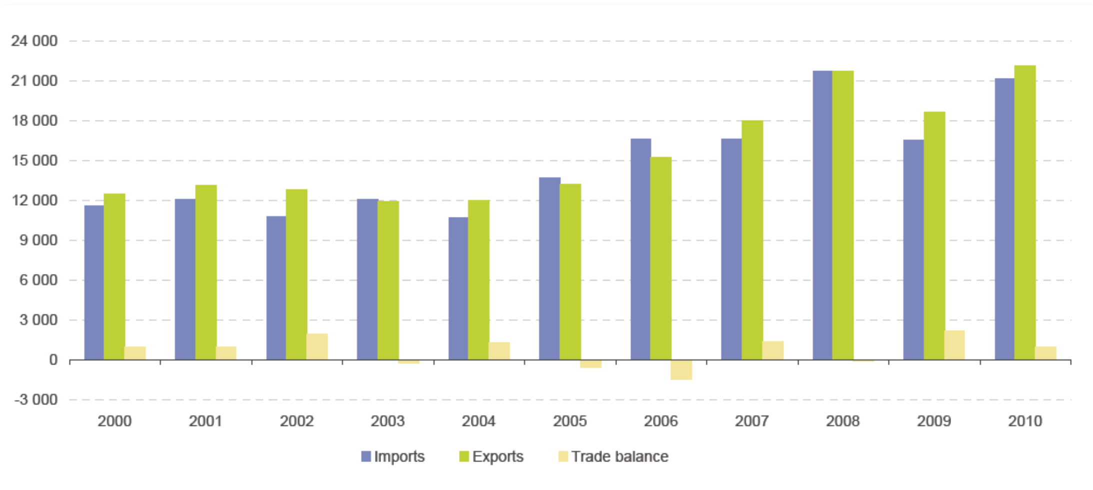

Figure 1 : EU trade with ECOWAS countries (EUR million) - *Source: Eurostat*

For instance, another Eurostat statistic indicates that the ECOWAS countries' import of chemical products from EU accounted for nearly a third of total imports in 2010. Machinery and transport equipment made up 29%. While EU imports of mineral fuels (mainly crude oil imports from Nigeria), foods and live animals from ECOWAS accounted for 89% in the same year. Furthermore, importing machinery from EU will help local businesses and industries reduce the cost of production and develop productive capacity.

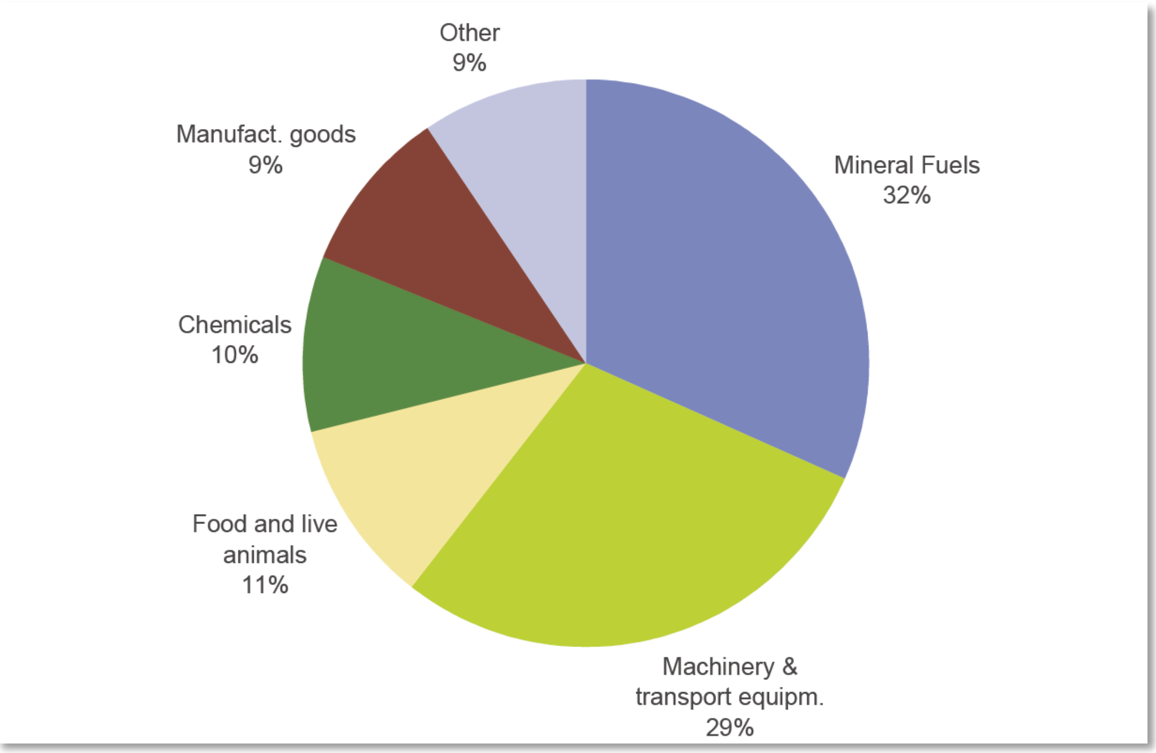

Figure 2: EU exports of goods to ECOWAS in 2010 (%) - Source: Eurostat

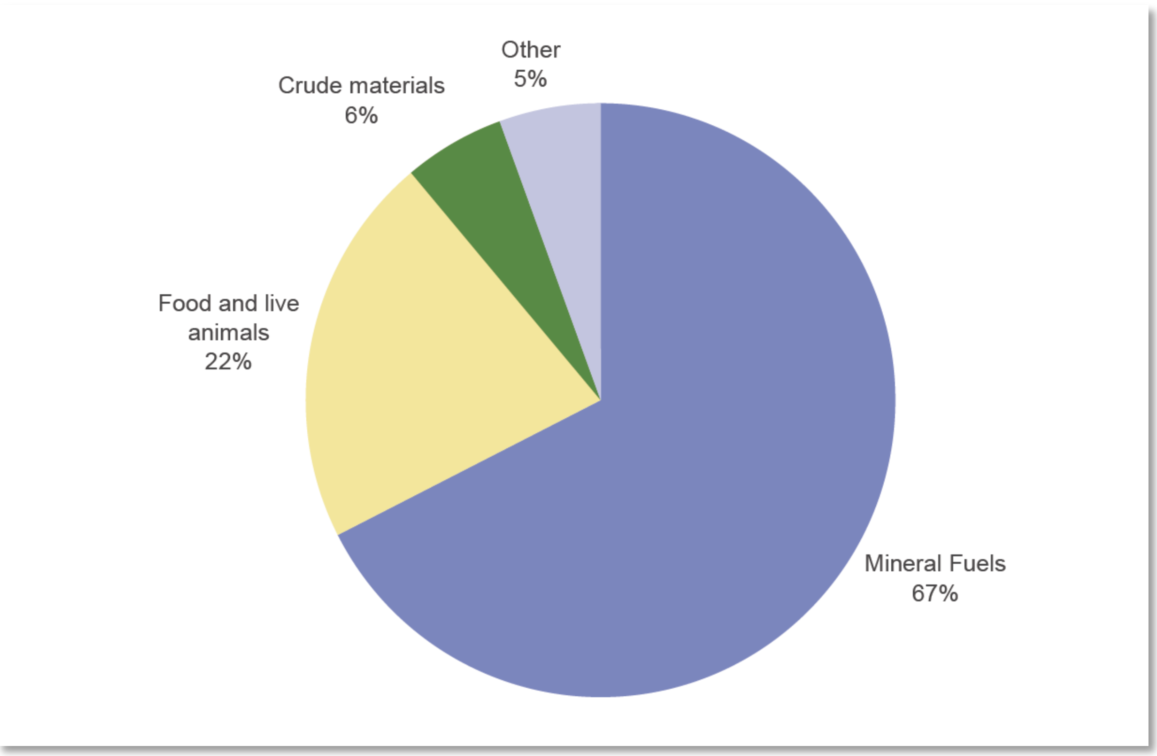

Figure 3: EU imports of goods from ECOWAS in 2010 (%) - Source: Eurostat

European Financial Aid to ECOWAS

From the financial aspect, the EU had pledged EUR 6.5 billion for the EPA development Program between 2010 and 2014. In cooperation with the European Commission and European Investment Bank, EU member states concentrate on supporting trade, agriculture, infrastructure, energy and capacity building for developing civil society under the Economic Partnership Agreement.

Hard-Going Negotiations and West African Concerns; Can Anything Be Done to Ensure A Win-Win Situation?

Despite assurances given by the EU to deliver the desired outcomes (providing West African producers, businesses and banks with a secure legal framework to engage in trade relations with the EU market), and while recognizing the ECOWAS countries' need to retain the right to protect a share of their sensitive industries from European competition; It appeared that at the time when the new agreement was still in its lengthy development stage and as negotiations were underway, African partners expressed concerns about the protection of their local markets. This was reflected in their wish to exclude certain subsidized agricultural products from what was foreseen as negative elements of market liberalization dictated by the EPA.

One international trade expert estimated that once the EPAs between the European Union and individual African countries are signed, they guarantee that within a decade, around 80% of a country's market should be open to European goods and services. While this sounds like great news for European producers, it is feared that cheaper EU products flooding the market will carry the threat of harming local production in West Africa.

After ten years of negotiations, both sides agreed on a final document on February 24th 2014. ECOWAS leaders agreed in principle to the trade pact. But concerns were later raised by Nigeria that a number of concessions made by ECOWAS might have a negative impact on the agricultural and manufacturing sectors and thus jeopardize the entire development agenda of ECOWAS member states.

Two possible strategies that West Africa can utilize to protect its agriculture from subsidized EU imports are through the use of tariff policy and quantitative restrictions, but these are prohibited under the EPA. The text only contains weak safeguard provisions that West Africa countries will find difficult to invoke in case of sudden increases in imports. West Africa has also conceded to forgo its tariff revenue in return for further future aid promised by the EU. The EPA also requires that within six months of conclusion, negotiations must begin to extend this regime from one that covers trade in goods into a treaty governing almost every other aspect of economic activity and policy decision-making in West Africa.

This means Europe will now be consulted on decisions of West Africa with regards to financial services and financial policy in areas such as current account and capital account management; all other service sectors; technology policy and intellectual property, including traditional knowledge and genetic resources; personal data protection and use; competition and investment and government procurement.

Conclusion

The EU-ECOWAS economic partnership agreement provides new rules for trade and paves the way for new developments in the economic arena.
It is safe to assume that if agreements are reached with individual countries and, eventually, fully implemented, allowing more barriers to be removed, the overall volume of trade between the two groupings will be on the rise.
For European and German businesses who wish to expand their horizons and are willing to seize new opportunities, an improved framework for regulating trade with West Africa has now been established.

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