

Ghana and the EU Agreement: A myopic, bold or incomplete decision?

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Ghana recently joined Cote d'Ivoire, as well as the East African Community, to sign an interim EU agreement that permits preferential access to EU markets beyond the December 31st 2007 deadline. By allowing exporters to continue exporting with low or zero tariffs to the EU, the agreement helps maintain the status quo for them.

Three key questions are raised by this decision: (1) What are the *immediate gains* to Ghana of this interim agreement, and why have other African countries, including South Africa, Nigeria, and most other West African countries declined to sign it? (2) What does it imply for Ghana's *medium term* trade relationships with other countries, and particularly the Asian countries which are the fastest growing markets in the world? And (3) are there any *other actions* Ghana must now take to ensure that this decision, whether myopic or bold, ends up being development friendly for Ghana?

(1) Immediate Gains: The signed interim agreement is a truncated version of a proposed agreement between ECOWAS and the EU. Driven by WTO consistency rules, the EU proposed that the Cotonou Agreement with the ACP countries be replaced by a series of Economic Partnership Agreements (EPAs) with West, Central, East and Southern Africa. Under the EPAs, preferential access for exports to the EU would be retained, and given the WTO's reciprocity rules, each EPA would also provide access to EU exports under low or zero tariffs, with some flexibility over the time table for introducing these new tariffs.

Large countries like South Africa and Nigeria have been reluctant to enter such an agreement. It may be because both have mining and oil exports respectively, which have ready markets worldwide, and thus are not facing pressures from their exporters to retain EU access. It is also logical that many of the least developed countries (LDCs) in Africa, recognized by the WTO and with preferential access to the EU irrespective of the EPAs, have not signed the agreements. The temptation has been greater for small, higher income African countries such as Ghana, Cote d'Ivoire, the East African Community, etc. who have signed on to the EPA terms. From a short run perspective, this is arguably understandable. It is noteworthy that Senegal has so far chosen not to sign, thus facing higher trade barriers into the EU market.

(2) Medium term Threats: From a medium term perspective, by hitching our wagon to the EU, and putting trade with other countries such as China and the US on a weaker footing, the agreement is betting on one of the weakest link in the global economy. The EU has been the slowest growing economy for the last decade and more, while the US is still acknowledged as the most competitive and innovative economy, and China and India (or "Chindia") are the fastest growing economies. In a US\$ 35 trillion global economy,

the EU accounts for about 20%, the US for 35%, and Chindia for about 15%, while their respective medium term growth projections are 2.5%, 2% and 10%, respectively. The US and Chindia are ranked higher than the EU in competitiveness. And trade growth is projected at 3-4% for the EU, and higher than 6% and 10% respectively for the US and Chindia. Thus, the decision to give preferential access to the EU into our market does not make medium term sense. It is detrimental to the growth of our trade, to our consumers and possibly to some industries we may be able to develop over the medium term, with appropriate complementary policies.

. Notwithstanding the complementary promise of “**aid for trade**” from the EU, ie that additional aid will be provided to strengthen the capacity to export, currently constrained by infrastructural bottlenecks, quality standards, etc., the dynamic effects on industry and on trade with other parts of the world appear to outweigh any short-term benefits.

.(3) **Options for Salvaging the Agreement:** What complementary measures are needed to make it a positive sum outcome over the medium term?

Three questions arise. First, even though this deadline had been known for 8 years, it appears that there was a failure on the part of ECOWAS to negotiate the terms of a possible EPA with the EU. This belies a deep structural problem with ECOWAS. ECOWAS is a highly varied group, combining LDCs and higher income countries, and one large country ie Nigeria, and a host of smaller countries, with differing trade options. Also many of the other countries in ECOWAS are among the Least Developed Countries (LDCs) and did not stand to lose their preferences given WTO rules. So Ghana (and Cote d’Ivoire) perhaps had no choice but to go on their own. Senegal’s reluctance to sign, and the decisions of other ECOWAS members, all suggest a need to reexamine the viability of the one track ECOWAS concept. Might Ghana, Cote d’Ivoire and Senegal consider forming a regional group, and let others join over time in a two track process, a la EU itself?

Second, many other countries, in the absence of success in the Doha round, have established (free) trade agreements with higher income blocs. The US has been busy signing such agreements with Chile, Korea, Central America, Australia, Singapore, etc. The EU too has signed similar agreements with Brazil, and is attempting to structure its trade with China. So Ghana is perhaps making the best of a messy global trade round. To get added benefits, Ghana and like-minded countries must now consider developing preferential trade agreements with other groups such as the US, China, India, etc. while both keeping an eye on its import tariffs in selected products (which the EU agreement allows) and seeking to join hands with Cote d’Ivoire and Senegal to attract direct foreign investments into a larger trade grouping. Central to these negotiations will be the issue of **tariff escalation** and **rules of origin** agreements. Chindia’s tariffs on processed natural resources in which we have a comparative advantage, are higher than even those of the EU and the US, and must be lowered to avoid the export of unprocessed natural resources while encouraging processed exports wherever economically feasible over the medium

term. Rules of origin must be liberalized to allow African countries to add value of 10% or more, as advocated by the Africa Commission Report.

Third, Ghana, synchronized with Cote d'Ivoire and Senegal, must develop its own medium-term trade and external economic policy aimed at changing the structure of its trade and by implication of its economy. This exercise must precede the approach to signing trade agreements with other countries, so that Ghana can negotiate terms favorable to its own strategy for trade and growth, alongside partners such as Cote d'Ivoire and Senegal.

Conclusion

The interim EU agreement was signed in a messy global and regional trade context. It is a controversial act, having elements of myopia. But it is arguably an understandable first step. Ghana must now work closely with its aligned neighbors, and seek to capture any potential medium term gains. Born out of pressure and haste, this act may still lead Ghana and other African countries to a higher growth path with a more diversified base of exports. The goal should be to pry preferential access to the EU, US and Chindian markets into place, as a way of jump starting African trade and growth prospects. This is similar to what the East Asian countries did in the 60s and 70s in the more favorable market environment of that period. Thus, Paul Collier's recommendation to developed countries of the North to offer African countries a preferential trading arrangement with no tariffs and no quotas and with liberal rules of origin understandings, can be bettered by African countries with the additional benefit of including Chindia of the South. Now, there is a bold trade agenda for the next President of the African Union!!