ActionAid Ghana

GHANA UNDER INTERIM ECONOMIC PARTNERSHIP AGREEMENT (EPA)

Analysis of Socio-economic Development and Policy Options under the Interim EPA Regime with the European Union

FINAL REPORT

actionaid

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REPORT PREPARED BY

JMK Consulting Ltd
PMB L44 Legon
Tel: 233-302 418404
Fax: 233-302 408620
Email: info@jmkconsultinggroup.org

For ActionAid Ghana

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List of Acronyms

AAG	ActionAid Ghana
AAGD	Agricultural Growth and Development Strategy
ACP	African, Caribbean and Pacific
CAADP	Comprehensive African Agriculture Development Programme
CEPA	Centre for Policy Analysis
CET	Common External Tariff
CPA	Cotonou Partnership Agreement
EBA	Everything But Arms
EC	European Commission
ECDPM	European Centre for Development Policy Management
ECOWAP	Economic Community of West African States Agricultural Policy
ECOWAS	Economic Community of West African States
EDAIF	Export Development and Agriculture Investment Fund
EDF	European Development Funds
EEC	European Economic Community
EPA	Economic Partnership Agreement
ERP	Economic Recovery Programme
EU	European Union
FASDEP	Food and Agriculture Sector Development
FDI	Foreign Direct Investment
FTA	Free Trade Areas
GATT	Agreement on Tariffs and Trade
GDP	Gross Domestic Products
GEPC	Ghana Export Promotion Centre
GoG	Government of Ghana
GPRS	Growth Poverty Reduction Strategy Papers
GSP	Generalised System of Preferences
HS	Harmonized System
IEPA	Interim Economic Partnership Agreement
IMF	International Monetary Fund
LDC	Least Develop Countries
MAR	Market Access Regulation
MDG	Millennium Development Goal
METASIP	Medium Term Agriculture Sector Investment Plan
MFN	Most Favoured Nation
MoFEP	Ministry of Finance and Economic Planning
NEPAD	New Partnership for Africa's Development
ODI	Overseas Development Institute
OECD	Organization of Economic Cooperation and Development

RMI	Raw Material Initiative
RTA	Regional Trade Agreements
UAE	United Arab Emirates
UNCTAD	United Nation Conference on Trade and Development
USA	United States of America
USDA	United States Department of Agriculture
WIAD	Women in Agricultural Development
WTO	World Trade Organisation

Executive Summary

INTRODUCTION

The Economic Partnership Agreement (EPA) which was once celebrated as a new form of partnership between the European Union (EU) and African, Caribbean and Pacific (ACP) countries has been fraught with disagreement since the lunch of negotiations over ten years ago. At the heart of the disagreement is the fear among ACP countries including Ghana that the EPA portends a net welfare loss as it is unsupportive of their overall developmental aspirations and options and therefore unresponsive to key developmental challenges. Notwithstanding these concerns, Ghana initialled an interim EPA with the EU in December 2007 to continuously enjoy preferential trade deals or duty free access to the European market. The EU has set a deadline of January 2014 within which Ghana is required to sign a final EPA to safeguard preferential access for a section of its non-traditional exports.

This report explores the implication of the (I) EPA on Ghana's socio-economic development, especially on such broad indicators as smallholder agriculture development, government revenue, unemployment, poverty, food security etc. The comparative analysis of Ghana without and with the IEPA also provide key lessons to inform evidence-based public advocacy on the on-going negotiation as well as the formulation of policy alternatives for Ghana's socioeconomic development. In addition, information, education and communication materials will be developed based on the key findings and recommendations of the study to provide practical guidance and information for policy makers and other stakeholders.

METHODOLOGY

To achieve the objectives of the study, secondary data was relied on to a large extent. Various research papers and databases focusing on the subject were also explored. These include Government of Ghana Trade and Agricultural Policies; Industrial Policy and Social Protection Policy; annual budget statements and economic policies. The study also drew on International Trade data on Ghana from the United Nations Conference on Trade and Development (UNCTAD) Handbook of statistics and European Commission's trade database namely, Eurostats and Comext. Furthermore, basic regression analysis was employed in assessing the implication of the (I) EPA on Ghana's tariff revenues.

KEY FINDINGS

The results show that **government policies on smallholder agriculture** development, nurturing of local industries and employment promotion, poverty reduction and food security have remained unchanged during the period before and under the IEPA. However, the policy space/option under the regime of the EPA has been restrictive. In particular, under an IEPA regime, Ghana is unable to adjust its tariffs to protect vulnerable local industries such as the poultry, rice and tomatoes sub-sectors. While many agriculture products considered 'sensitive' have been excluded from liberalisation under the IEPA, the existence of a standstill clause is depriving Ghana the policy space to use tariffs as a trade management tool. Further, the exception of few non-traditional exports (horticultural, processed cocoa, tuna etc.) will force out local industries producing import-competing products for the domestic market due to competition from subsidised foreign products. Also the EPA would crowd out regional markets and result in further collapse of the few surviving industries since Ghana exports most of its processed goods to the West African sub-regional markets. These effects would likely to result in massive unemployment and roll back the gains made in poverty reduction.

On **smallholder agriculture,** the study found that the growth of smallholder agriculture sector has been sluggish under the regime of IEPA. While supply side constraints contributes significantly to this trend, trade liberalisation policies embarked upon by Ghana during the structural adjustment era of the 1980s and which have continued unabated under IEPA have contributed to the decline of the cereal and poultry sectors. For instance, it was observed that EU poultry exports to Ghana have been increasing steadily within the period of IEPA; warding off competition from bigger players namely, USA and Brazil. This implies that the present 20 per cent tariff levels on poultry imposed by Ghana are not adequate to address the issue of unfair competition emanating from EU imports. This makes trade policy choices of government of critical importance to poultry sector development.

On **government revenue,** the findings reveal that Ghana's tariff revenue from EU imports would generally fall in line with the trend of decline of the EU share of Ghana's import trade between 2000 and 2011. However, beginning from 2013, (i.e. the start period of liberalization of first tranche items), Ghana tariff revenue from EU imports will experience a decline (under the regime of IEPA) from US$310.9 million in 2013 to US$273.8 million in 2016, a decline of about 12 percent. This pattern of revenue loses (under the regime of IEPA) will continue through to 2022 and beyond. On the average, Ghana would lose about US$ 88,575 million per annum between 2008 and 2022 in import revenue. However, the decline would be felt most from 2017 after the country liberalizes two-thirds of its trade with the EU. Cumulatively, Ghana would lose US$ 1,126,807 between 2008 and 2022. This relates to only the direct revenue forgone in liberalizing 75 percent of Ghana's trade with the EU per the current schedule under the IEPA.

On the other hand, should Ghana decide to opt out of the EPA, its import tariff revenue from EU imports will decline anyway (according to the pattern of Ghana import trade with the EU) but the rate of decline would not be as steep as it would be witnessed under an EPA regime. This decline (in tariff revenue from the EU) would however be compensated for by import tariff revenues from other countries. Thus as the EU loses its share of Ghana import trade, it goes to other trading blocs such as Asia and Africa. In this regard, the country would not experience any net revenue loses should it decide not to sign the final EPA. Ghana's tariff revenue without an EPA regime is estimated to be US$242.1 million by 2022 compared to US$70.31 million under the regime of EPA.

It is also evident from this study that EPA has not in any way contributed to **Foreign Direct Investment (FDI)** inflows to Ghana than would have pertained had Ghana not initialed it. The increase in FDI inflows witnessed during the period of the IEPA is largely due to oil related investments. Further, the FDI inflows have not been channeled to the growth inducing manufacturing and agricultural sectors that have the capacity to generate mass employment and subsequently reduce poverty. Also, the EPA in its current form would stifle regional integration. However the IEPA has sustained Ghana's non-traditional export sector which would have suffered disruption had Ghana not initialed it.

The report identifies a number of **policy options** open to Ghana for sustained socioeconomic development. One strategy is to go into value added product export underpinned by industrialisation policies. This entails growing the productive capacity of the economy to be domestically and internationally competitive in the production and export of value added commodities. This can be achieved by the development of long term productive strategy targeting particular value chains; identifying and addressing the numerous supply side constraints facing local industries; coordinated government investment and; prioritisation of ECOWAS and African regional markets.

Another policy option for the government is to stimulate growth in the agriculture sector by focusing on interventions that are necessary to create the basic conditions for improving the productivity in food crop production complimented by increased investment in agriculture research, roads, and more appropriately irrigation infrastructure. Once the basic conditions are in place, there should be increased investment in institutions that provide agricultural services (especially extension and rural finance), development of input supply systems and reliable local output markets. Once agricultural production takes off, policy focus should then shift to the development of high value products and non-agricultural linkages to spur agro-based industrial growth and export.

The findings of the study also show that while broadening the taxation base within the smallholder agriculture sector is a laudable proposal, the category of non-taxed smallholders segment (i.e. food crop sector) which constitutes nearly 70 percent of Ghana's poverty bracket is too poor to meaningfully contribute to government tax revenue. Thus taxing this segment of the population would be counter-productive to the poverty alleviation goals of Ghana and MDG goals of halving poverty by 2015. However, supporting the food crop sector by building their productive capacity and increasing their productivity to spur agro-based industrial development is most progressive.

Without the needed support to grow the productive capacity of the economy, as more and more EU products and services flood into the Ghanaian market under a full EPA scheme, the situation of Ghana's exports to the EU may remain unchanged or even deteriorate due to weak productive capacity.

The policy mix should include the development of high value products and non-agricultural linkages to spur agro-based industrial growth and export and broaden the tax base to increase revenues.

KEY RECOMMENDATIONS

To the Government of Ghana:

1. Renegotiate the terms of the full EPA with ECOWAS as a block, to maximize the benefit of market access while minimizing the cost of EPA. This would boost inter-regional trade and African countries' plans for regional custom unions.

   During such negotiations Ghana must:

   a. Support ECOWAS to secure maximum flexibility over ECOWAS opening up its market. Also negotiate for 20 years or more for market opening and link the liberalisation scheme to development benchmarks instead of a fixed timeframe as with Ghana's IEPA. This would force the EU to commit to the proposed aid for trade arrangements under the European Development Fund facility.

b. Ensure that the exclusion list offers enough space to include the value chain of sensitive products such as poultry feeds. Also negotiate for flexibility to adopt the exclusion list to ensure the continued protection of emerging and future products considered as important to the economy.
c. Support the renegotiation of the standstill clause to give government the flexibility to adjust tariffs on excluded products. This would give government the policy space to use import tariffs as a trade management tool. In so doing vulnerable sectors such as the poultry and rice sub-sectors may be safeguarded from subsidized imports from the EU and other economies.
d. Do not include liberalisation of services, investment, competition and government procurement as part of an ECOWAS negotiated EPA.
e. Reinforce ECOWAS position of liberalizing not more than 60 percent of its market with the EU.
f. Support the introduction of a review mechanism in the EPA with the full participation and ownership of ECOWAS to ensure that the agreement consistently delivers the intended developmental benefits.
g. Introduce adequate provision/safeguards for infant industries to ensure the continuous growth of local industries to create the needed employment and economic growth.

2. Vigorously implement the national industrial, agricultural and trade policies to make the local private sector competitive both in the sub-region and beyond. The ‘honeymoon’ for non-reciprocal, preferential trade is over and Ghana must come to this realization now or remain a perpetual supplier of primary commodities to the world. Ghana has long recognized the development pathways needed for its socioeconomic development but implementation of these policies have not been expeditiously carried out to attain the desired outcome.

3. Broaden the taxation base within the larger informal sector but not within smallholder food crop farmers in their current form as they are too poor to contribute meaningfully to government tax revenue. Further burdening them with tax would not make the sector compete favorably with imports under the regime of trade liberalisation where advanced economies are subsidizing their agricultural sector. Conversely, productive capacity and productivity of smallholder food crop farmers must be built to support the agro-based industrial sector if it should be made to contribute to government tax revenue.

To the European Commission:

1. Allow for greater flexibility in EPA negotiations to ensure that any final deal is development friendly and promotes regional integration
2. Respond favorably to ACP requests for re-negotiation of contentious issues, and refrain from pushing countries that have initialed EPAs to sign and ratify these agreements in haste and without amendments;
3. Refrain from further overloading and complicating the negotiations by demanding that ACP countries include issues and rules in the agreements that are not required for WTO compatibility, such as the Most Favoured Nation (MFN) Clause

and rules on export restrictions, as well as clauses on services and intellectual property rights;

4. Respond positively to proposals for flexible market access arrangements;
5. Respond positively to requests for reliable and additional aid for regional economic development

Civil Society:

1. Continuously sustain the EPA debate in the media and policymaking circles. This can be achieved by launching a broad based advocacy campaign to sensitize policymakers about the implications and options available to Ghana and ECOWAS socio-economic development. Broaden its voice on the issue by including more trade associations and non-state actors.

2. Engage the Parliamentary Select Committee on Trade and Industry and Agriculture and sensitize them with information and communication materials to appreciate the implications of the IEPA on Ghana's socio-economic development and options going forward. Also indentify and engage Parliamentarians with a strong interest in the EPA (across the major political divides) and support them to lead the crusade among colleague legislatures.

SECTION 1

Introduction

1.1 Background to the Study

"It became then obvious to me that between two advanced nations, a free competition must necessarily be advantageous to both *if they were upon the same level of industrial progress* [our italics]; and that a nation unhappily far behind as to industry, commerce and navigation must above everything put forth all its strength to sustain a *struggle with nations already in advance* [our italics]". (pg. v–vi)

Friedrich List, 1856[1]

The Economic Partnership Agreement between the European Union (EU) and African, Caribbean and Pacific (ACP) countries became contentious even before key details of the agreement emerged.[2-3] The negotiations which commenced in 2002 with an expected completion in 2007 have dragged on and been characterized by protests, arguments and counter arguments. So strong and sometimes speculative were the arguments in support of and against the EPA that the Overseas Development Institute (ODI) in 2006, declared: *"at present, neither supporters nor opponents of EPAs can demonstrate convincingly that the other is wrong".*[4] This conclusion together with the quote from Friedrich List[5], points to one common theme that: **in spite of its advantages, free trade can create net gainers and losers especially if it is between partners with unequal level of advancement**.

Notwithstanding this fundamental aphorism, the EU has continued as if the EPA which emphasises reciprocity, contrary to its predecessor trade agreements (the Lomé Accords and Cotonou Agreements); will create absolute developmental gains for all parties. However, from the perspective of most African countries, the EPA portends a net welfare loss as it is unsupportive of their overall developmental aspirations and options and therefore unresponsive to key developmental challenges.[6] The stiff opposition to the original EPA by African countries resulted in some amendments including the exclusion of the non-trade contentious issues from the interim EPA (a watered-down version of the original EPA).

Nonetheless, as of 2012, only four out of the 47 eligible African countries had ratified an interim EPA due to several unresolved issues.[7] Ghana and La Cote d'Ivoire are the only countries from the Economic Community of West African States (ECOWAS) to had respectively initialled and signed the interim EPA as of 2008 with (in case of Ghana, signing and) ratification pending.[8]

For some African countries including Ghana, the incentive to opt for the interim EPA (IEPA) was largely driven by the fear of losing EU market access for selected commodities rather than the prospects it provides for overall socioeconomic development.[9]. Where the expiration of the Cotonou agreement posed no threat to a country's major commodity exports to the EU, like in the case of Nigeria (for whom oil is the main export commodity) and the other Least Developed Countries (LDCs) which are covered under the 'everything but arms' (EBA) programme, the IEPA was not considered a priority.[10] The heterogeneity of interests and exit options within ECOWAS created a panic situation for countries like Ghana and Cote d'Ivoire as compared to the other LDCs and Nigeria who had virtually nothing to lose without Cotonou and the IEPA. This push rather than pull factor motivated Ghana to yield to pressure from its non-traditional export producers as well as the EU to initial the IEPA. This action, though convenient in the short term for Ghana, undermined the ECOWAS position with respect to EPA negotiations and threatened the regional integration process as well as the achievement of the country's long term development goals.[11]

However, in recognition of the differences in level of potential losses and the importance of keeping together as a single negotiating unit, the West African Ministerial Monitoring Committee has proposed a solidarity fund to compensate Ghana, Cote d'Ivoire and Cape Verde on export losses, if regional consensus on EPA is not achieved by the deadline of 1 January, 2014.[12]

For some stakeholders, accepting the current terms of the EPA or even the IEPA would signify a sacrifice of Africa's long term development aspirations. This is because they believe that Africa's currently weak productive capacity will make it difficult to benefit from increased EU market access while rendering local industries domestically uncompetitive. "*We cannot continue to export a narrow range of [largely primary] products and import a broad range of finished goods on our way to development. The hard work of industrialization and food production must be done".*[13] The challenges confronting most African economies (including Ghana), include high unemployment levels, weak and uncompetitive productive capacity, vulnerability to external shocks due to very limited export diversification and food insecurity arising from the lack of investment in agricultural production and infrastructure. Overcoming these challenges will require deliberate efforts by governments to develop the local productive capacity of their economies and to support value added export, to develop industrialisation policies targeting the African regional market. However, most of the economic tools available to African governments to promote industrialisation will be deemed as violations of EPA regulations if the EPA is adopted. *"Our advantage is regional integration. Can EPA help us to integrate our markets? If anything, it will stall us. I don't think EPA is a priority for Africa,*"[14]

With these concerns clearly articulated the EU could have attempted to address them, instead the EU is focussed on compelling Africa to adhere to its trade policy. The overriding objective of the EU is summarised in the communication from the European Commission to the European Parliament and Council, thus: *"The EU should work towards the elimination of trade distorting measures taken by third countries in all areas relevant to access to raw materials. The EU will take vigorous action to challenge measures which violate WTO or bilateral rules, using all mechanisms and instruments available, including enforcement through the use of dispute settlement. More generally, the EU will act against the protectionist use of export restrictions by third countries"*[15]To this end, through the use of unilaterally determined deadlines and sanctions, the EU is committed to enforcing the acceptance of EPA by African countries without dealing with their concerns.[16-17] The European Centre for Development Policy Management (ECDPM) states concerning the EPA negotiations: *The honey moon [for Africa] is over.*[18] To this end, the European parliament has adopted proposals by the European Commission (EC) to reform the Generalised System of Preferences (GSP) and to phase out the Market Access Regulation (MAR) - with a view of making non acceptance of the EPAs very costly for Africa.

What is incontrovertible is that with the deadline of January 2014 imminent, the government of Ghana will come under intense pressure to either sign the EPA to safeguard preferential access for the section of its non-traditional exports or go with the ECOWAS position.

Recent public pronouncements by Ghana government on the EPA indicate an ambivalence and superficial commitment to the ECOWAS position. A former Minister of Trade stated: "*that Ghana can no longer linger on the question of signature and ratification: the country now has to ratify the IEPA quickly, otherwise it risks losing important trade preferences which could derail some economic sectors and lead to high unemployment*" [19] while the current Minister maintains: *that Ghana will not rush to sign the EPA*[20]

From the perspective of some Ghana government officials (and of course the EU), the IEPA is good for Ghana, for the Ghana-EU partnership and for the private sectors of both countries.

To help ascertain the implications of the IEPA on Ghana's economy especially on broad indicators as poverty, government revenue, unemployment, smallholder agricultural development, food security among others, ActionAid Ghana (AAG) commissioned this study. The comparative analysis of Ghana without and with the IEPA is expected to provide lessons to inform evidence-based public advocacy on the on-going negotiation as well as the formulation of policy alternatives for Ghana's socioeconomic development. In addition, information, education and communication materials will be developed based on the key findings and recommendations of the study to provide practical guidance and information for policy makers and other stakeholders.

1.2 Objectives of the study

The main objectives of the study are (i) to carry out a trend analysis of Ghana's economic development with and without an interim economic partnership agreement between Ghana and the EU, and (ii) the development of a policy brief.

To achieve the main objectives, the study is expected to cover the following:

- Conduct a comparative analysis of the policy frameworks of the socio-economic status of the agriculture sector and the economy in general with and without IEPA within policy formulation and targeting for the development of smallholder agriculture, smallholder farmers, poverty reduction and food security.
- Propose policy alternatives/options for socio-economic development for a country that has a matrix of land surplus, smallholder farmers (especially women farmers); unskilled agriculture labour force and a vulnerable domestic agro industry. The policy options shall aim at boosting domestic production for food security, domestic industry, and domestic and regional trade for a sustainable development of the agriculture sector and rural livelihoods; with some focus on poultry, maize, rice and tomato subsectors.
- Propose innovative mechanisms that will broaden the taxation base within the smallholder agriculture subsector whilst structuring employment within the subsector for improved government policy formulation, programming and resource allocation.
- Develop a policy brief that will provide a summary of the past and present policies that hamper local production and trade and aggravate poverty within the smallholder agriculture subsector and within the milieu of IEPA.

- Present policy options for sustainable local production, industry, and trade and poverty reduction without EPAs in the smallholder agriculture subsector. The policy brief has been developed in a manner that it will double up as a handbook for policy makers on the management of the economy vis-à-vis EPA issues.

1.3 Structure of the study

This document is in seven sections: the introduction section; background to the study provided in section 2 and section 3 outlines the research methodology. Section 4 elaborates the effects of the IEPA on Ghana's economy. The policy options for Ghana's socioeconomic development are explored in section 5. Section 6 proposes mechanisms for broadening the tax base within the smallholder agriculture sector. The conclusions and key recommendations of the study are summarised in section 7.

SECTION 2:

Background to the Interim Economic Partnership Agreement

2.0 Introduction

This section provides background information on the economic partnership agreement initialed by Ghana in December 2007. It discusses Ghana's trade relationship with the EU with particular reference to the Lomé Conventions and Cotonou Agreement. It then addresses the question of why Ghana initialed the IEPA. The section then presents the detailed terms and scope of the interim EPA. The structure of the Ghanaian economy and trade before and during the regime of the EPA is then presented to provide background information on the economic context within which the EPA resides. The section ends with a discussion of the various arguments put forward by critics and supporters of the EPA.

2.1 Ghana and EU trade relationship...why the interim EPA?

The Republic of Ghana and Europe are bound together by common history, interlocking cultures and trade relationships. Ghana obtained independence in 1957; the first country in sub-Saharan Africa to gain independence, the European Economic Community, a precursor to the European Union was formed in that same year[21]. Beyond this historical coincidence, Ghana has a long history of trade relationship with the European Union, which dates back to 1975 with the signing of the first Trade Accord: Lomé I Convention[22].

Prior to this Convention, Francophone African countries had formalized trade and economic co-operation with the EU through the 1963 Yaoundé Convention[23] which had as its main objective accelerated economic development of the newly independent African countries[1]. At the expiration of this period, African, Caribbean and Pacific states (ACP) took a decision to re-negotiate the Yaoundé agreements with the EU as a bloc rather than in regional groupings in order to present a stronger negotiation position. This gave birth to Lome Convention. Lomé I (1975) introduced the STABEX system to compensate ACP countries for shortfalls in export earnings due to price fluctuations or fluctuations in the supply of commodities, while Lomé II (1979) introduced a system to assist ACP countries which were heavily dependent on mining for export earnings. Lomé III (1984), shifted attention from industrial development to self-sufficiency and food security, while Lomé IV focused on respect for human rights, democratic principles, the rule of law and participatory partnership.

[1] The convention expired in 1973

It is instructive that the Lome Conventions differed in fundamental ways from the Yaoundé Accords. While the Yaoundé Conventions emphasized reciprocity and non-discrimination, Lome I and its successors were based on non-reciprocal and discriminatory arrangements in favour of the ACP States. Under these arrangements ACP countries, including Ghana, had favorable access to the EU market. Moreover, they were only obliged to treat imports from Europe better than those from other extra-regional suppliers. Furthermore, while the Yaoundé Conventions sought the creation of regional partnerships between Europe and Africa to ensure easy and smooth transition to a free trade area, Lome I quashed this goal as ACP countries negotiated as a bloc to enhance its bargaining power with the EU.

The subsequent renewal of the Lome Convention witnessed the erosion of the bargaining power of ACP countries to the extent that by 1995, Lome IV convention could only come into force after a permission (waiver) had been obtained from the World Trade Organization[24]. A number of factors explained the weakening of the bargaining power of ACP countries; firstly, the incompatibility of the Lome Convention with the General Agreement on Tariffs and Trade (GATT)[25] and later with the World Trade Organization (WTO). In particular, Article XXVI of GATT (regarding trade in goods) stipulates that trade agreements between two parties must be essentially reciprocal, have extended coverage and not create new obstacles for trade with third parties. The EU contended that the Lome Accords were based on discriminatory treatments against non-ACP developing countries, in particular least developed countries (LDCs), on the basis of historical colonial ties with Europe, and are therefore in conflict with GATT Part IV.

Furthermore, the EU notes that trade preferences could not be conceived as free trade agreements due to lack of reciprocity. Therefore, they do not meet the conditions of GATT article XXIV for regional trade agreements. In 1994, the GATT granted a waiver to the EU, which was valid until 2000.

To address the so-called incompatibility of Lome with GATT and WTO rules, the Contonou Agreement was initialed to commence the process of replacing the non-reciprocal trade preferences of the Lome Accord with Regional Trade Agreements (RTAs).

In June 2000, the Cotonou Partnership Agreement (CPA) was signed to provide a special aid budget, trade preferences and a set of joint institutions available equally to all ACP states. The Agreement combined politics, trade and development to provide a comprehensive framework for ACP-EU partnership. There are five main guiding principles of the agreement namely; political dimensions, participation, poverty reduction, trade liberalisation, and financial cooperation. As a stated objective, the Cotonou agreement sought to:

"..promote and expedite the economic, cultural, and social development of the ACP states, with a view to contributing to peace and security and to promoting a stable and democratic political environment. The partnership shall be centered on the objective of reducing and eventually eradicating poverty consistent with the objectives of sustainable development and the gradual integration of the ACP countries into the world economy"[26].

Perhaps, the most radical change introduced by the Cotonou Agreement was in the area of trade cooperation. Whereas the Lomé Conventions, granted 'non-reciprocal trade preferences' to ACP countries, the Cotonou Agreement emphasized economic cooperation over non-reciprocal trade preferences as stated in Article 36 of the Agreement:

"*…the Parties agree to conclude new World Trade Organization (WTO) compatible trading arrangements, removing progressively barriers to trade between them and enhancing cooperation in all areas relevant to trade"*

However, since the EU and the ACP group could not establish a new WTO compatible trade agreement during the Cotonou negotiations, another waiver was requested and granted by the WTO until the end of 2007[27]. The EU further envisaged that the EPA would be 'tools for development' which would foster the economic growth and integration of ACP countries, particularly at regional level and their integration into the world economy in general.

With the expiry of the waiver granted by the WTO under GATT PART IV on 31 December 2007, Ghana and 3 other ACP countries that did not want to experience disruption in their trade with the EU were forced to sign an Interim Economic Partnership Agreements pending further negotiations on a full comprehensive EPA. The Ghana Ministry of Trade explained that initialing the IEPA was a pragmatic attempt to preserve the country's market access to the EU and to avoid 'costly' trade disruptions which, in the view of the ministry, could cause significant damage to the country export to the EU[28].

It is important to mention that the very reason cited by the EU for negotiating the EPA remains in contention among ACP countries, trade analysts and civil society. In particular, in order for the new EPAs to be compatible with WTO rules, the key requirement was a need to comply with Article XXIV of the General Agreement on Tariffs and Trade (GATT), which stipulates that regional trade agreements must eliminate duties on 'substantially all the trade' within a 'reasonable length of time'. Critics argue that the term 'substantially all trade' has never been defined by the WTO[29]. Further, parties also differ on the interpretation of Article XXIV of GATT 1994 on the phrase 'reasonable length of time'. While GATT 1994 stipulates a timeframe not exceeding 10 years unless in an 'exceptional cases', the term 'exceptional cases' is argued to be undefined. Thus, while the European Commission interprets the 'substantially all trade' requirement for free trade agreements to mean that liberalisation should cover a minimum of 90% of total trade between the parties, ACP countries have argued for a lower threshold of at most 60% in their submission to WTO on the interpretation of Article XXIV[30]. There have been recent proposals to revise or clarify Article XXIV so that it clearly enables non-reciprocal relations to prevail in free trade agreements between developed and developing countries.

With the effect of International Monetary Fund (IMF) and World Bank sponsored trade liberalization policies[31] fresh in the minds of many developing countries, and the skepticism not only from civil society, but also policy makers regarding the EU's justification for the EPA, signing a final agreement has become contentious.

Civil society organizations argue that signing a comprehensive EPA would imply the elimination of import duties and taxes, and the inclusion of all economic sectors within the coverage of the free trade area as well as including agreements on trade in services and trade related areas. This, civil society asserts, means ACP countries remain a market for European products and a source of cheap raw materials and labour. CSOs fear that unfettered focus on free trade without taking into account the essentially unequal relationship between the more developed EU and less developed ACP countries would result in even more inequalities and would defeat the so-called poverty reduction and development focus of the EPA.

2.2 The Terms of Ghana's interim EPA with the EU

The interim EPA between the European Community and Ghana initialed on 13 December 2007 has witnessed a slight modification particularly in the standstill clause and the annexes[32]. The standstill clause has been revised to incorporate an ECOWAS common external tariff (CET). Further, Annex II which outlines the parameters of Ghana's liberalization schedule has been amended from the requirement to 'gradually liberalize Group A products in five tranches (2009-2013)', to the requirement to liberalize the products in the group by January 1, 2013. Annex II also now includes an additional levy of 0.5 percent on the cost, insurance and freight (c.i.f.) for Export Development and Agriculture Investment Fund (EDAIF) up to the end of 2017[33]. Thus all these tariff lines were eliminated by the first initialed EPA. It should be emphasized that the interim EPA focuses on trade in goods only and does not cover other areas of liberation such trade in services, government procurement, etc.

Table 2.1 Changes to Ghana IEPA between Dec 2007-July 2008

Sections of IEPA	IEPA initialed by Ghana (19 Dec. 2007 version)	IEPA on Council website dated 10 July 2008
Article 15: Standstill clause	No new customs duty on imports or introduction of new custom duties	No new customs duty on imports or introduction of new custom duties. Exception: an ECOWAS Common External Tariff (CET) is established until the end of 2011; 'general incidence' of new tariffs should not be higher than Ghana's liberalization commitments towards the EU. Please simplify this
Annex II: Ghana's liberalisation schedule	Group A products ('poverty alleviation related goods') are gradually liberalised in five tranches from 2009–13	Group A product liberalisation to be completed by 1 January 2013.
	No provision.	An additional import levy of 0.5% of the c.i.f. value can be imposed until 31 Dec 2017.
Annex III: List and fees of other import charges	Empty.	Inspection fee of 1% of c.i.f. value.

Source: Bilal S. and C. Stevens (edited by). 2009[34].

2.2.1 Liberalisation schedules/ market access offer

Since 1st January 2008, all imports from Ghana have entered the EU duty and quota free, with the exception of rice and sugar which had a transitional period of 2010 and 2015 respectively. In return, Ghana agreed to liberalize 80% of its imports from the EU, representing 81% of tariff lines over 15 years - January 2008 to 2022. Liberalised EU imports are mainly industrial machines (pumps, generators, turbines, etc), certain vehicles (boats, aircrafts, cars), and certain chemicals.

Ghana's revised liberalization schedule[35] indicates that 995 tariff items constituting 22.6% of goods should be liberalized by January 1, 2013. In practice however, only 8.7

percent of items (i.e. group A products which attract 5 percent tariff) would be affected as the remaining products already attract no tariffs (i.e. already duty free) prior to initialing the IEPA. Ghana is also required to liberalize 44.1 per cent of her imports from the EU between January 2015 and 2017. These items attract between 5 and 10 percent tariffs. Liberalisation of all of the highest tariff items (20%) is deferred until the two final years (2021 and 2022). Two-thirds (66.7%) of Ghana imports will be duty free within eight years to 2016.

Table 2.2 Ghana Liberalisation schedule

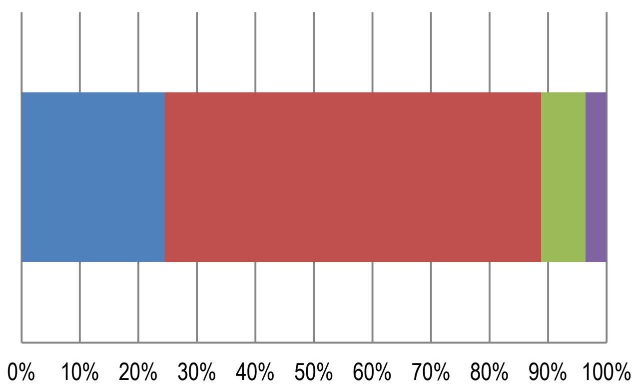
Goods to be liberalised:	# of tariff lines	Import value (average, 20046)		Tariff until 31 December 2012 as inn market access schedule				
		US$000	*Share of total (%)*	*Min.*	*Max.*	*Simpl e avg.*	*Trad e weig hted avg[36].*	*# lines on which base d*
Already duty free	174	210,896	13.9%	0	0	0	0	169
from 1 Jan. 2013	821	132,620	8.7%	5	5	5	5	798
from 1 Jan. 2015	1,002	120,074	7.9%	5	5	5	5	961
from 1 Jan. 2017	1,098	550,614	36.2%	10	10	10	10	1029
from 1 Jan. 2021 (starts 1 Jan. 2019)	54	42,926	2.8%	10	10	10	10	51
from 1 Jan. 2022 (starts 1 Jan. 2019)	1,242	83,862	5.5%	20	20	20	20	1217
Excluded goods:	1,038	380,640	25.0%	5	20	18.3	16.9	999
Total trade in harmonized system (HS1-97)	5,429	1,521,631	100%					5,224

Source: Bilal, S. and C. Stevens (edited by) 2009[37].

2.2.2 Ghana IEPA Excluded Items

The IEPA excluded some 1,038 items from liberalization, 32.5 percent of which are agricultural products already covered by WTO rules. About 85 percent of the excluded items are in the highest tariff band of 20 percent, while 10 percent are within the 10 percent tariff band (See Figure 2.1).

Figure 2.1 Summary of Ghana excluded list



	Excluded Items
Covered by WTO Agreement on Agriculture	338
20 %/highest Tariff band	884
10 % tariff band	105
5% tariff band	49

Source: Adopted from Bilal S. and C Stevens (2009)

Out of the excluded products, plastics and related products dominate with 7.1 percent, followed by fish and crustaceans, molluscs and other aquatic invertebrates (6.2 percent), mead and edible meat offal (5.8 percent) etc, (See Table 2.3). Also excluded from liberalisation are preparations of vegetables, fruit, nuts or other parts of plants which constitute 5.4 percent of the total number of excluded lines the harmonized system (HS) chapter. Paper and paperboard; articles of paper pulp, of paper or of paperboard also form 4.7 percent of the total number of excluded lines in the HS system.

Table 2.3 Broad composition of IEPA excluded items for Ghana

HS2	Description	Share of total[38]
39	plastics and articles thereof	7.1%
03	fish and crustaceans, molluscs and other aquatic invertebrates	6.2%
02	Meat and edible meat offal	5.8%
20	preparations of vegetables, fruit, nuts or other parts of plants	5.4%
48	paper and paperboard; articles of paper pulp, of paper or of paperboard	4.7%
68	articles of stone, plaster, cement, asbestos, mica or similar materials	3.6%
70	glass and glassware	3.6%
15	animal/vegetable fats and oils and their cleavage products; prepared edible fats; animal/vegetable waxes	3.3%
85	electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	3.2%
40	rubber and articles thereof	2.8%
90	optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	2.6%
16	preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	2.5%
69	ceramic products	2.3%
84	nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	2.3%
73	articles of iron or steel	2.1%
94	furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, nesoi; illuminated signs, illuminated name-plates and the like; prefabricated	2.1%
22	beverages, spirits and vinegar	2.0%
95	toys, games and sports requisites; parts and accessories thereof	2.0%
96	miscellaneous manufactured articles	1.9%
37	photographic or cinematographic goods	1.8%
01	live animals	1.7%
19	preparations of cereals, flour, starch or milk; pastry cooks' products	1.6%
44	wood and articles of wood; wood charcoal	1.6%
11	products of the milling industry; malt; starches; inulin; wheat gluten	1.5%
61	articles of apparel and clothing accessories, knitted or crocheted	1.5%
76	aluminium and articles thereof	1.4%
04	dairy produce; birds' eggs; natural honey; edible products of animal origin, nesoi	1.3%
33	essential oils and resinoids; perfumery, cosmetic or toilet preparations	1.3%
08	edible fruit and nuts; peel of citrus fruits or melons	1.2%
10	Cereals	1.2%
12	oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal plants; straw and fodder	1.2%
42	articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silkworm gut)	1.2%
56	wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	1.2%
82	tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	1.2%
21	miscellaneous edible preparations	1.1%
13	Lac; gums, resins and other vegetable saps and extracts	1.0%
18	cocoa and cocoa preparations	0.9%
63	other made-up textile articles; sets; worn clothing and worn textile articles; rags	0.9%
25	salt; sulphur; earths and stone; plastering materials, lime and cement	0.8%
34	soap, organic surface-active agents, washing preparations, lubricating preparations, artificial	0.8%
32	tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring matter;	0.7%
17	sugars and sugar confectionery	0.6%
36	explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	0.6%
46	manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	0.6%
87	vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	0.6%
23	residues and waste from the food industries; prepared animal fodder	0.5%
24	tobacco and manufactured tobacco substitutes	0.5%
59	Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial	0.5%

74	copper and articles thereof	0.4%
89	ships, boats and floating structures	0.4%
35	albuminoidal substances; modified starches; glues; enzymes	0.3%
49	printed books, newspapers, pictures and other products of the printing industry; manuscripts,	0.3%
51	wool, fine or coarse animal hair; horsehair yarn and woven fabric	0.3%
83	miscellaneous articles of base metal	0.3%
06	live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	0.2%
07	edible vegetables and certain roots and tubers	0.2%
14	vegetable plaiting materials; vegetable products nesoi	0.2%
38	miscellaneous chemical products	0.2%
45	cork and articles of cork	0.2%
58	special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	0.2%
67	prepared feathers/down and articles made of feathers/down; artificial flowers; articles of human hair	0.2%
71	natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal, and articles thereof; imitation jewellery; coin	0.2%
97	works of art, collectors' pieces and antiques	0.2%
47	pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or paperboard	0.1%
`57	carpets and other textile floor coverings	0.1%
93	arms and ammunition; parts and accessories thereof	0.1%

Source: Bilal s. and C. Stevens (edited by) 2009

2.2.3 Elimination of Export Taxes

The interim EPA requires that Ghana and the EU do not introduce new export duties or increase existing export duties. However, temporary introductions/ increases in export taxes are allowed in case of infant industries or for environmental protection or to maintain currency value stability (i.e. emergency situations) but the EC needs to be consulted in such instances. These temporary provisions are subject to review after 3 years[39]. This provision suggests that duties/tariffs of items excluded from liberalization cannot be increased without prior consultation with the EU.

2.2.4 Standstill Provision

The standstill clauses in the EPA stipulate that no new tariffs can be introduced and once eliminated; tariffs may not be re-imposed or increased. Thus Ghana cannot increase its current tariff levels or introduce new ones under the EPA. This goes contrary to WTO provisions where applied tariff rates are often much lower than ceiling (i.e. the rate at which they are bound). Article 15 of Ghana IEPA includes a standstill obligation but makes exception for revision in the light of regional integration.

2.2.5 Most Favoured Nation (MFN) Clause

The MFN clause requires parties to the IEPA to extend to each other the same treatment should one of the parties conclude a free trade agreement with any other developed or non-EU country or grouping which is a major trading economy. The MFN clause is a symmetrical restriction of policy space in the sense that both parties are obliged to extend to the other improvements in treatment.

2.2.6 Rules of origin clause

The rules of origin clause under the IEPA define which goods can qualify as a Ghanaian product and therefore can access the EU market. The present rule of origin stipulates that: goods can be defined as Ghanaian produce if the inputs originate from a country which has also signed an IEPA, which for the West Africa region is only Ivory Coast. This means that products made out of inputs from other West African countries like Togo or Nigeria cannot access the EU market as goods originating from Ghana. Ghana would therefore be constrained in expanding its agro-industrial export sector as the country rely on Asia and other countries for raw materials such as plastics and heavy metals.

2.3 Structure of Ghana's economy and trade prior to the interim EPA

2.3.1 General Level of Economic Development

After gaining political independence Ghana had prospects to achieve economic independence as well. However, despite various efforts, economic self-reliance has remained largely elusive due to almost three decades of political instability and economic mismanagement. These were exacerbated by a severe drought and oil price hikes, especially in the early 1980s. The setbacks in the economy became so severe that the Government opted for a structural adjustment reform package popularly known as the Economic Recovery Programme (ERP).

It has been argued that these reforms, which were designed on the basis of neo-liberal orthodoxy with a particularly optimistic view about the efficacy of the market mechanism, did not consider the possibility that free trade and market liberalization may not increase efficiency[40]. In spite of this, the country's fiscal position became much better as abnormally high capital receipts from abroad, mostly from multilateral and bilateral lenders led to an overall balance of payments surplus[41]. The combined efforts of realistic exchange rates, good weather, decreases in smuggling due to better producer prices and increased cocoa export receipts put the economy in a better position[42].

These gains were further enhanced when a few years later the country adopted democracy. The financial sector has since been deepened, while the service sector is thriving admirably. This, together with a boom in the cocoa sub-sector, has helped the country to register a consistent economic growth, especially in the last few years. As a result of this remarkable economic performance, the country's per capita income exceeded the $1000 mark in 2007, catapulting it into the league of a lower middle income economy. Having discovered oil in commercial quantities in 2007, Ghana started oil production in the last quarter of 2010 and 7.42 million barrels of oil between January and September 2011. As a result, the country became the 'fastest growing economy in the world' in 2011.

While the growth in the economy has been associated with a reduction in the incidence of poverty[43], it appears not all Ghanaians have benefitted from the growth. Inequality as measured by the Gini coefficient[44] has increased consistently from around 0.373 in 1992 to 0.394 in 2006 implying that the poorest of the poor have not benefitted as much from the growth of the economy[45].

2.3.2 Structure of Ghana Economy (1970-2011)

The agricultural sector has been the leading contributor to GDP, contributing on average of about 47.1 percent to the national income between 1970 and 2007 (Table 1). However, the sector has exhibited a declining trend in growth and gradually has ceded its dominance[46] to the services sector. This sudden change from agriculture (primary) to the services (tertiary) is different from the normal course of economic development. Ideally, countries develop by moving from agricultural dominance, through industrial before moving to services.

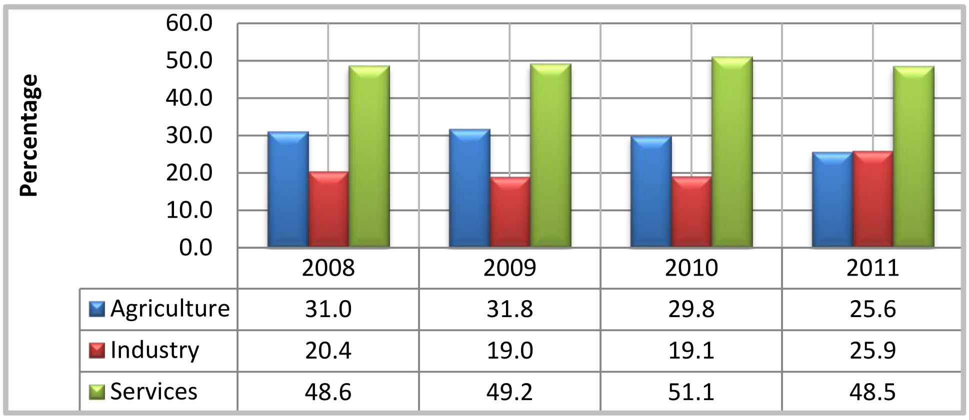
Table 2.4 Sectoral shares of Gross Domestic Product (GDP) (1970-2007)

Sector	Agriculture	Industry	Services
1970-1975	52.0	19.0	29.0
1976-1982	51.0	17.0	32.0
1983-1986	52.0	12.0	36.0
1987-1990	46.0	14.0	40.0
1991-1995	42.0	14.0	44.0
1995-2000	39.5	27.5	33.0
1970-2007	47.1	17.3	35.7

Source: Ghana Statistical Service

Having taken over from agriculture as the leading contributor to GDP, the services sector has continued its dominance, contributing about 49.4 per cent of the total national income (Figure 2.2) during the period (2008 to 2011). However, the structure of the Ghana's economy remains a challenge; as it has not seen much 'structural change' since independence - the agricultural sector still continues to provide employment for more than half of the country's labour force. As a result of oil production, the industrial sector performed quite admirably in 2011, increasing its share of GDP from 19.1 per cent in 2010 to 25.9 per cent during the year. .

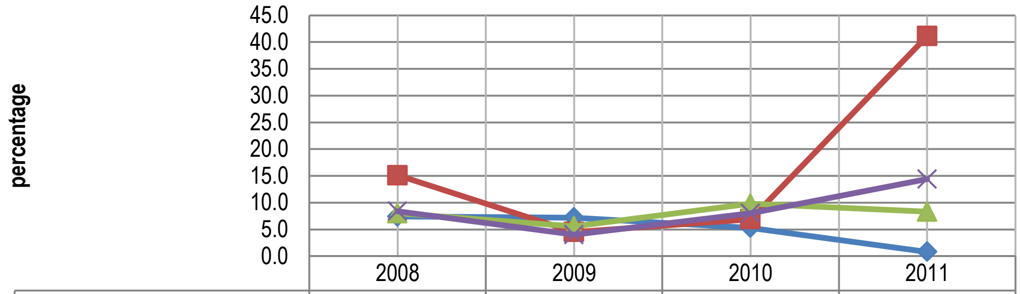
Figure 2.2 Sectoral contribution to GDP, (2008-2011)



Source: Ghana Statistical Service

During the period, all the three sectors registered appreciable growth rates. Overall, the economy grew from 8.4 per cent in 2008 to 14.4 per cent in 2011 (Figure 2.3). The growth in 2011 was significantly driven by the industrial sector. That sector grew by 41.1 percent as against 8.3 percent and 0.8 percent for services and agriculture respectively.

Figure 2.3 GDP growth rates by sector



	2008	2009	2010	2011
Agriculture	7.4	7.2	5.3	0.8
Industry	15.1	4.5	6.9	41.1
Services	8.0	5.6	9.8	8.3
GDP in purchaser's value	8.4	4.0	8.0	14.4

Source: Ghana Statistical Service

2.3.2 Structure of Ghana Trade Relationship

European Union market has been the main destination of Ghana’s exports. Table 2.5 list Ghana’s top 10 exports to the EU namely; food, fish, other food products and raw materials, fuels and mining products, ores and other minerals, fuels, petroleum and petroleum products and non ferrous metals. However, the share of Ghana’s total exports to EU has persistently declined over the years. While about 63 per cent of the total exports found its way to EU market in 1990, by 2010 the export share to EU had declined to about 33%. Interestingly, around the same period, the share of Ghana’s total export within Africa increased from 2.5 per cent to 11.4 per cent. This sudden change in trend of Ghana export to the EU recorded in 2011 is attributed to *oil exports*[47].

Table 2.5 Ghana Export Trade Structure by partner (1980-2012)

Year	Volume of Trade ($millions)	EU	Africa	Asia (East, Southern and south East)	Developed economies	Developing economies
1990	1,235	63.7	2.5	3.6	84.4	9.0
1995	1,488	58.4	7.4	7.5	77.9	16.5
2000	1,566	50.1	10.2	5.6	68.4	18.7
2001	1,544	49.4	11.0	5.5	66.9	19.9
2002	1,648	52.2	10.8	5.5	66.3	19.9
2003	2,009	51.4	12.1	5.4	64.1	22.6
2004	2,327	48.8	10.0	6.8	62.2	21.4
2005	2,370	45.9	9.0	9.5	58.6	25.0
2006	2,841	45.2	9.4	11.0	58.2	25.3
2008	4,175	39.7	9.3	10.7	59.3	24.2
2009	3,465	39.9	10.7	11.6	49.4	28.6
2010	4,547	38.4	11.4	10.6	50.0	29.0
2011	12,700	50.7	14.1	12.2	63.2	32.2

Source: UNCTAD Handbook of statics, various years

Just like exports, the proportion of imports from EU to Ghana has been declining since early 1990s (Table 2.6). However, the share of imports from Africa has also been declining. This is mainly because of sharp increases in the share of total imports from Asia. From about 7 per cent in 1990, the share of imports from Asia to Ghana increased persistently to about 34 per cent in 2011. Imports from China could be the main reason behind this trend.

Table 2.6 Ghana Import Trade Structure by Partner (1980-2012)

Year	Volume of Trade ($millions	EU Share(%) of total	Africa Share(%) of total	Asia (East, Southern and south East) Share(%) of total	Developed Economies (Share(%) of total)	Developing Economies (Share (%) of total)
1990	1614	44.9	23.1	7.1	63.7	35.1
1995	2567	43.8	22.3	12.7	57.8	41.6
2000	3128	49.4	29.5	13.1	51.9	46.0
2001	2988	31.1	34.0	16.5	43.9	53.8
2002	3254	32.2	33.4	17.4	43.6	54.1
2003	4091	30.8	32.7	18.7	41.6	56.8
2004	5214	31.4	24.5	24.3	43.4	54.9
2005	5933	28.9	26.1	24.5	41.2	57.0
2006	6791	29.8	27.4	25.0	39.8	58.2
2008	11461	27.1	24.9	28.1	39.3	59.0
2009	10457	25.6	25.4	30.9	37.3	60.8
2010	12859	23.5	26.2	29.9	37.3	61.0
2011	15300	27.6	16.8	34.3	41.4	57.3

Source: UNCTAD Handbook of statics, various years

Composition of Ghana's Export

Ghana's export has been dominated by export of primary commodities principally among which are; *all food items* (including cocoa) and *minerals* (including gold) (Table 2.7). Discovery of oil in commercial quantities in 2007 and its subsequent production in September 2010 appears to have changed the traditional composition of exports in the country. For instance, while Ghana could increase its total share of export of fuel combustibles of 3.4 per cent in 1995 to only 4.1 per cent in 2010, it registered a sharp increase in 2011 of 35.2 per cent. This makes fuel combustibles the second most important export commodity after *all food items*.

Table 2.7 Ghana export trade structure by product group in percentage (by main SITC revision 3 product group levels)

Year	Total value (millions $	All food items	Agric. raw materials	Fuel combustibles	Ores, metals, precious stones and non monetary gold	Manufactured goods
1995	1,754	40.9	10.3	3.4	36.1	9.3
2000	1,671	30.7	6.5	4.9	11.9	9.3
2005	3,060	37.1	5.2	2.4	33.0	22.2
2008	4,033	34.9	4.9	1.3	49.0	9.7
2009	3,938	54.8	6.6	2.8	24.7	11.0
2010	7,960	60.5	7.4	4.1	18.3	9.5
2011	12,700	41.5	4.3	35.2	12.0	6.8

Source: UNCTAD Handbook of statics, various years

Average Tariffs on Import Trade

Ghana's tariff rates on its imports have not witnessed any significant changes since the 1990s. As shown in Table 2.8, tariffs on manufactured products averaged 14.1 in 1993, but slightly reduced to 13.9 in 2000 before settling at 12.4 in 2009. Among manufactured products, tariffs on machinery and transport equipment witnessed the most significant reduction from 10.1 percent in 1993 to 5.9 percent in 2007 and 2009. Import duties on ores and metals however recorded consistent rates between 10 percent and 11.1 percent over the period.

Table 2.8 Ghana Average applied import MFN tariff rates on non-agricultural and non-fuel products (1993-2009)

	Total of Non Agric & non fuel products %	Ores & metals %	Manufactured products %	of which		
				Chemicals %	Machinery & transport equipment (%)	Other manufactured products (%)
SITC Rev 3	*5+6+8+27+28-667*	*27+28 +68*	*(5+6+7+8)-(667+68)*	*5*	*7*	*(6+8)-(667+68)*
1993	14.0	10.9	14.1	11.1	10.1	16.7
2000	13.8	11.2	13.9	12.1	5.4	18.6
2007	12.4	11.0	12.4	11.2	5.9	15.9
2008	12.3	11.0	12.4	11.2	5.8	15.9
2009	12.4	11.4	12.4	11.2	5.8	15.9

UNCTAD Handbook of Statistics, 2012

Several arguments have been put forth in support and against the (I)EPA especially regarding its implications for socioeconomic development. Most of these arguments have remained hypothetical. The next section of the report examines these arguments with a view of distilling the salient points in the arguments being made and the impact on the socio-economic aspirations of Ghana.

2.4 Justifications in support and against Ghana's [interim] EPA[48]

A number of arguments have been advanced by both supporters and opponents of EPA that need to be examined as we attempt to assess the effect/likely effect of IEPA on the Ghanaian economy, smallholder agriculture, food security, and poverty. According to the European Commission, the economic and institutional environment in most African, Caribbean and Pacific (ACP) countries has not been conducive to the development of a competitive private sector or the growth of investment or diversification of production. As a result, ACP countries have not been able to take advantage of all the opportunities offered by the special trade preferences granted under either the Lomé Conventions or the Cotonou agreement. The EC cited as evidence that ACP exports to the EU have declined from 6.7 percent in 1976 to 2.8 in 1994 although the situation varies from one country or region to another. It concludes that the system of trade preferences adopted by the EC in relation to ACP countries was ineffective in combating poverty and under-development and therefore needed revision.[49]

The EC continued that trade preference for ACP states has contributed to entrenched marginalisation and vulnerability, restricted innovation and diversification and was unable to guarantee incomes as prices fell. Trade preference also offered no incentives for better governance yet discriminated against non-ACP developing countries and above all, did not comply with WTO rules. In the light of the above, putting trade relations with ACP countries in alignment with global rules was seen as necessary; thus occasioning the launch of the EPAs by the European Commission.[50]

Other supporters of the EPA such as the Centre for Policy Analysis (CEPA) argue that not signing the EPA could pose a threat to the 'emerging' non-traditional export sector of the Ghanaian economy. According to them:

"The expiration and non-replacement of Cotonou would have automatically reverted Ghana to the Generalised System of Preferences (GSP) regime, which is applied to all developing countries. The terms of the GSP regime are less favourable than Cotonou, with additional tariffs on horticultural products and processed cocoa among other things. These very products form a substantial proportion of non-traditional exports from Ghana therefore the threat was not limited to operators in the sector but also to the very strategy of export-led growth that Ghana aspires to utilize in the quest for economic prosperity." [51]

Supporters also contend that EPA will provide the best access to the EU market than any trade regime. For instance, EPA means no quotas, no duties on Ghanaian exports to the EU (other than short transition periods for sugar and rice). EPA would, in effect, provide free access to the EU market of half a billion people for all products from Ghana thus providing a lot of scope for economies of scale. Unlike the system under the Cotonou agreement, the EPA is argued to meet WTO rules and therefore would save parties from legal challenge[52].

Other propositions in support of EPA include:

- An EPA will encourage processed exports with simpler and improved 'rules of origin': It is argued that the rules of origin regime under EPA is superior to those applicable in Cotonou and even in GSP+, particularly on the degree of tolerance afforded to non-originating inputs. Thus, value additions within the Free Trade Agreement (PTA) member states is counted as originating from the member making the application.[53] This implies that Ghana could import materials to make goods for onward export to Europe, particularly in key sectors like textiles, fisheries and agriculture.
- An EPA will help attract much-needed investment: It is argued that the EPA would open the flood gates for foreign direct investment as ACP countries would receive support in trade co-operation to help meet international product standards, agreements on trade in key services like telecommunications, banking and construction that support a growing economy and measures to protect intellectual property like local brand names etc.[54]
- An EPA will help the ACP countries to engage in the global economy on their own terms: It has being argued that Ghana and many ACP countries have been depending on trade preferences, waivers and exclusions from the multilateral system and that this has contributed to locking them into basic commodity trade for more than thirty years. An EPA it is argued can help in creating viable regional economies with supply chains that can compete internationally. It is said the EPA could provide a platform for introducing and managing changes over many years while still protecting sensitive or growing industries.

Notwithstanding the positives of the EPA as advanced above, critics argue that EPA is unlikely to bring Africa closer to their development objectives and that, on the contrary it is likely to bring more loses than gains to Africa. They explain that the value of the trade preferences that African countries will reap from EPA would diminish in about 5 to 10 years as the EU is negotiating Free Trade Agreements (FTAs) with other regions/countries such as Central America, Andean countries, ASEAN, India etc. They conclude that it would be inappropriate for ACP countries to sign away their trade policy space. [55] Thus by the EU signing FTSs with other trading blocks, ACP countries would be exposed to stiff competitions from these blocks who already have competitive advantage (in terms of productive efficiency) over ACP countries.

An earlier study on the potential development implications of EPA on Ghana concluded that an EPA will not meaningfully improve access to the EU market for Ghana's exporters beyond what they already enjoyed under the Cotonou agreement. It concluded that if the EU liberalises 100 per cent of its market, this would be worth less than 1 per cent of the value of Ghana's 2007 exports to the EU.[56]

The study also argued that eliminating 80 per cent of tariffs on Ghana's import under an EPA would expose domestic producers to direct competition with EU firms. Domestic agricultural producers would also be adversely affected by cheaper and (often heavily subsidised) EU agricultural exports given the contribution the agriculture sector makes to rural development, livelihood and food security in Ghana.[57]

Opponents of EPA further posit that there are likely to be significant losses in government revenue and a possible cut in public expenditure in important areas, such as health and education if Ghana liberalises 80 percent of its trade with the EU under an EPA.[58].This is because Ghana would lose the import tariff on goods from the EU.

Civil society further contends that if new binding provisions relating to investment, competition and government procurement are adopted under an EPA, it could further limit Ghana's ability to regulate key sectors for development reasons. They clarified that there is little evidence to support the EU's argument that an investment agreement would help attract much needed foreign direct investment (FDI) into Africa over and above what a country would otherwise receive.

Critics also fear the EPA could undermine the development of regional markets if the current weaknesses stemming from conflicting and overlapping regional trade agendas are not sufficiently addressed before West African countries enter into an EPA. Civil society find this significant given that regional trade has the potential to have as great an impact on generating growth and employment as markets in the EU, United States of America (USA) or other countries in the Organization of Economic Cooperation and Development (OECD)[59].

Among critics, there are considerable doubts about whether the EU's promise of aid for trade will be meaningfully delivered in the context of EPAs. They explain that no additional EPA development assistance has been provided for under the EU's main financial arm for delivering aid to ACP countries – the European Development Fund (EDF). Under the EDF's funding programme for the period 2008-2013, African countries were to receive no extra resources for EPA related adjustment. Moreover, the EDAIF funding mechanism has been criticized for its slow disbursement and operational weaknesses giving further impetus to the inability of EPA to offset any loses likely to be occasioned by an EPA.[60]

Critics conclude "that without timely, effective and quick-disbursing development assistance for the adjustment costs of liberalization (including fiscal reform, the restructuring of domestic production, and the creation of employment safety nets), EPA cannot provide a supportive framework for development in Ghana. Trade alone will not promote development unless sufficient investments are also made to strengthen the competitiveness and supply-side capacity of African countries".[61]

In the light of the foregoing discussion, and taking into cognizance the fact the EU has set 2014 as the period in which all EPA with ACP countries would be concluded, there is an urgent need to settle the debate by investigating the effect or likely effect of the (I) EPA on the economy in general and smallholder, agriculture, food security and poverty in particular. To achieve this feat, the next section sets out appropriate methodology to help examine the pro and cons of the complex propositions advanced by both supporters and opponent of the EPA conundrum.

SECTION 3

Methodology

3.1 Setting of Working Hypotheses

The research was primarily guided by a number of working hypotheses. These hypotheses were formulated based on the study objectives to set the operational line of enquiry. Subsequently, key questions were formulated around each of the hypotheses to determine the data needs of the research and the data collection methods to adopt. Refer to Table 3.1 for the working hypotheses.

3.2 Setting of Working Hypotheses

Key Hypotheses

1. Under the interim EPA, Ghana's policies or policy space to encourage smallholder agriculture development, nurture local industries as well as promote employment, poverty reduction and food security have remained unchanged.
2. The interim EPA has meaningfully improved access to the EU market for Ghana's exports (including services) beyond what already existed. (in terms of volume and value of export)
3. The interim EPA has substantially increased Ghana's access to cheap (imported) food
4. Under the interim EPA, local production (especially in agriculture) remains profitable as producers ably compete with EU imports. (Assessment to consider both the demand and supply-side opportunities and constraints.)
5. The interim EPA has spurred the growth of small holder agriculture and by extension contributed positively to employment, rural development, livelihoods and food security in Ghana.
6. Under the interim EPA, Government of Ghana (GoG) revenues have increased.
7. Under the interim EPA, there has been an increase in Foreign Direct Investment over and above what pertained.
8. The EPA promises to support and boost ECOWAS initiatives and integration as well as development of regional markets.
9. Considering the development priorities of Ghana, there are other policy options besides the EPAs.

3.3 Data Needs and Method of Data Collection

To test the working hypotheses, the study relied to a large extent on secondary data. Various research papers and databases focusing on the subject were explored. These include Government of Ghana Trade and Agricultural Policies; Industrial Policy and Social Protection Policy; annual budget statement and economic policies. The study also draws on international trade data on Ghana from the United Nation Conference on Trade and Development (UNCTAD) Handbook of statistics; European Commission's trade database namely, Eurostats and Comext. Among the literature and databases reviewed are: Food and Agriculture Sector Development (FASDEP II), Growth Poverty Reduction Strategy Papers (GPRS) I & II, Medium Term Agriculture Sector Investment Plan (METASIP), Comprehensive African Agriculture Development Programme (CAADP), various trade agreements (Lome and Cotonou and IEPA), and numerous studies on the EPA (see the reference section for more information). To ensure data quality, multiple data sources were explored.

3.4 Method of Analysis

Historical data extracted from secondary documents were used to establish the trend for the various analyses. In examining the pattern of Ghana's policies and policy space in relation to smallholder agricultural development, local industrial development, employment, poverty reduction and food security, a policy audit grid was used (See Annex 2). The grid helped in establishing the pattern of Ghana policies and whether or not the focus of these policies have changed or been constrained in the light of the (I) EPA. In assessing the implications of the (I)EPA on Ghana's tariff revenues with and without the (I)EPA, basic regression analyses were used to extrapolate the likely pattern of government revenue from import trade with the EU from 2013-2030 using historical data.

SECTION 4

Discussion of Effects of Ghana's Interim EPA

4.1 Policies and policy space to encourage smallholder agriculture development, nurture local industries as well as promote employment, poverty reduction and food security.

This section examines the pattern of Ghana's policies and policy space in relation to smallholder agricultural development, local industrial development, employment, poverty reduction and food security. It evaluates whether government policy formulation and targeting in relation to these thematic areas have changed in response to the IEPA or remained the same within the regime of IEPA.

Since 1996, Ghana has had a number of agricultural development policies and strategies. These include the Agricultural Growth and Development Strategy (AAGD) (1996-2002) Food and Agriculture Sector Development Policy (FASDEP) I (2002-2006) and FASDEP II (2006-2009). The others are Comprehensive African Agriculture Development Programme (CAADP) and the Medium Term Agriculture Sector Investment Plan (METASIP).

A careful review of these policies shows a marked consistency in terms of direction / focus. In particular, AAGD emphasized the need to modernise the agriculture sector and forge linkages within the value chain for accelerated development. Similarly, FASDEP I gave impetus to the strategies contained in the AAGD by also focusing on strategies to modernize the agriculture sector. FASDEP II which targets fewer commodities for food security and income diversification (especially of resource poor farmers) focuses on productivity enhancement along the commodity value chain, through the application of science and technology. It also emphasizes sustainable utilization of resources and commercialisation of activities in the sector with market-driven growth in mind.

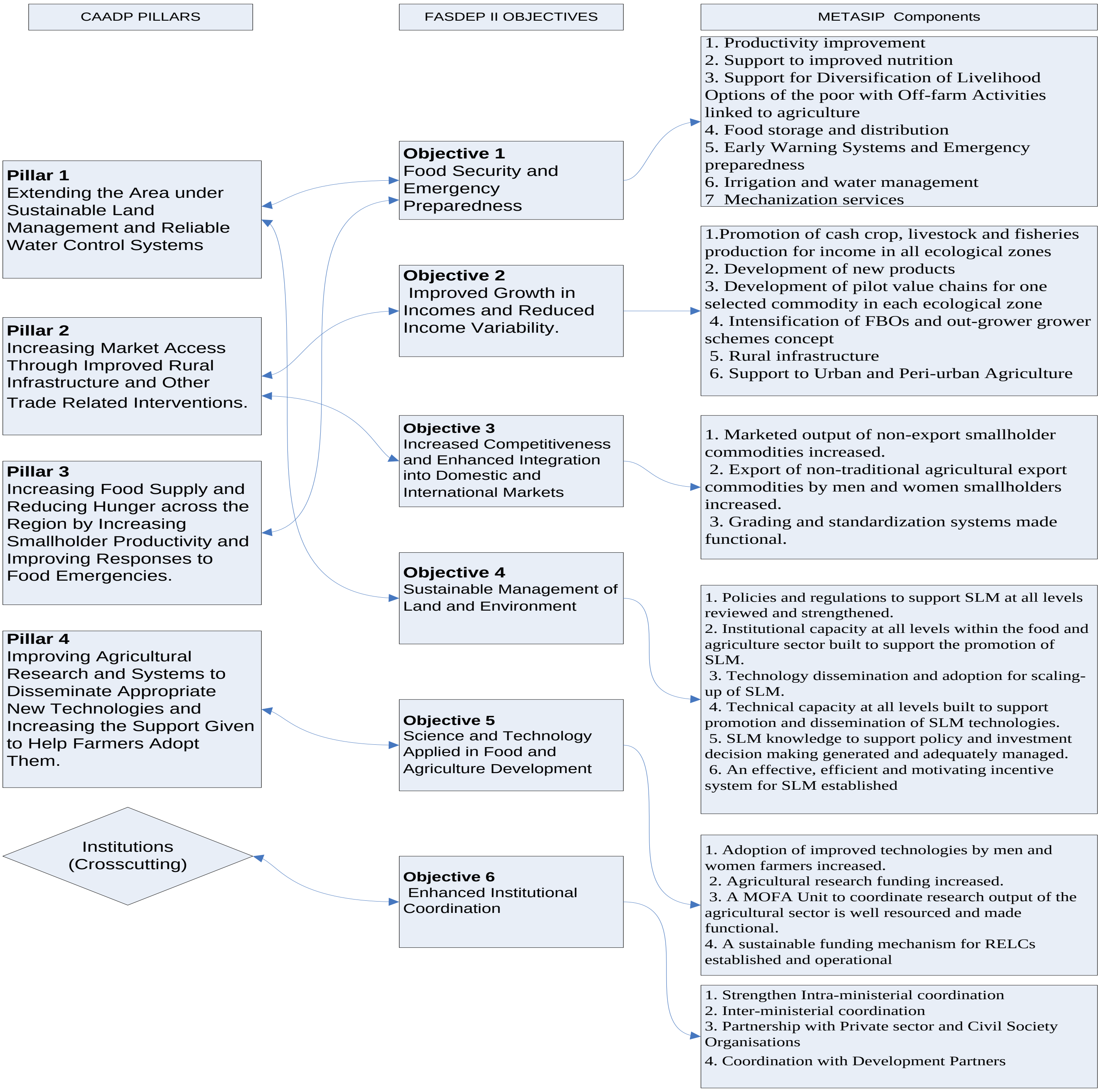
In 2003, Ghana, in concert with other African governments, recommitted to invest in the agricultural sector under the aegis of African Union/ New Partnership for Africa's Development (AU/NEPAD) Comprehensive African Agriculture Development Programme (CAADP). This was in recognition of the development potential of the agricultural sector and the critical need to ensure adequate investment to the sector on a continuous basis. As part of this process, Ghana joined other African leaders in signing the Maputo Declaration on Agriculture and Food Security. This declaration called for an investment of at least 10 percent of the national budget in agriculture with the following expectations: a projected annual agricultural growth rate of six percent and the achievement of the first Millennium Development Goal (MDG1) by 2015.

In line with the CAADP principles and implementation framework, Ghana in October 2009 signed the Economic Community of West African States Agricultural Policy (ECOWAP) and CAADP Compact to support the successful implementation of FASDEP II. To implement the medium term programmes contained in FASDEP II, the

Government of Ghana developed the Medium Term Agriculture Sector Investment Plan (METASIP). This sector investment plan targets agricultural GDP growth of at least 6% per annum, by increasing public investment in the sector by at least 10% of national budgets between 2011 and 2015.

As shown in Figure 2.1, there is strong linkage between the CAADP pillars and the objectives of FASDEP II as well as programmes and components in the METASIP. A further look at the METASIP programme/components and its underlying logic model show a high degree of synergy between the six programmes. In particular, all the programmes contribute to the attainment of the programme development objective i.e. modernized agriculture, a structurally transformed economy, increased food security, increased employment and reduced poverty. Institutional capacity building across the various programme components emphasizes the need for learning and innovation which will provide the basis for higher technology adoption and subsequent high productivity and income growth. Additionally, there is ample explicit evidence to suggest that the plan targets smallholder subsistence men and women farmers. All the six programmes/ objectives clearly consider issues pertinent to smallholder agriculture and gender equity. The following extract from the METASIP under programme 1 (food security and emergency preparedness) is highlighted as a case in point: "*Gender equity will be emphasized in all activities along the value chain to ensure that the disadvantaged, especially women and youth play a major role in all activities. Women in Agricultural Development (WIAD) will play a leading role in these initiatives".p25*

Figure 4.1 Linkages between CAADP, FASDEP II and METASIP



Source: Adapted from GOG, 2009; ECOWAP/CAADP Compact

On local industrial development, review of the relevant polices including the Ghana Poverty Reduction Strategy Paper I, (2002-2005) Growth and Poverty Reduction Papers II (2006-2009), National Trade Policy, National Medium-term Development Framework (MTDF) (2010-2013); and Private Sector Development Strategy (PSDS) Phase I (2005-2009) and Phase II (2010-2015) all reveal some level of consistency in terms of Ghana policy direction.

For instance GPRS (2001-2006) focused on private sector led industrialization using science and technology and expansion of the agro-based industrial sector, GPRS II similarly emphasized manufacturing, processing, craft, metal industries and ICT. This policy focus is also reflected in Ghana's industrial policy which seeks to expand productive employment and technological capacity in the manufacturing sector as well as promote agro-based industrial development and spatial distribution of industries in order to achieve reduction in poverty and income inequalities. The MTDF and PSDS also make similar policy statements. Further review of budget statements and economic policies of the government of Ghana from 2000- 2012 also give meaning to the strategies contained in these policy documents.

In the light of the consistency and synergy in the various agricultural and industrial policies and programmes over the years, it can be concluded that there has been no alteration in Ghana's socio-economic development policies in relation to agricultural development, smallholder farmers and poverty reduction before and during the period of IEPA. In fact, Government policies on these areas have been consistent as captured in the national vision for the food and agriculture sector:

"modernised agriculture culminating in a structurally transformed economy and evident in food security, employment opportunities and reduced poverty"[62].

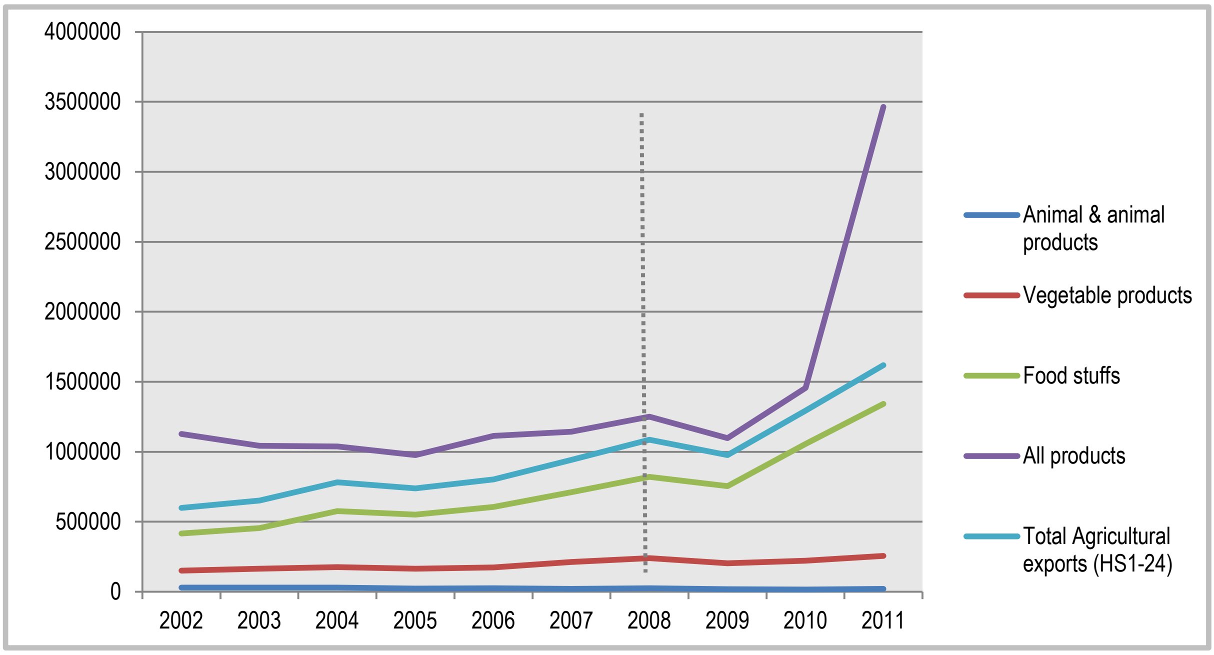
This notwithstanding, the authors are of the view that the (I) EPA is likely to affect the policy space or options for Ghana's socio-economic development. The subsequent sections in this report provide empirical evidence to support this assertion.

4.2 Access to EU market

As presented in the previous section, the EPA is expected to improve access to the EU market for Ghanaian exporters. This section therefore presents the trend of Ghana's' exports to the EU market between 2002 and 2011. As shown in Figure 4.2, agricultural exports: animal and animal products[63], food stuffs including cocoa[64] and vegetable products[65] - constitute Ghana's main export trade with the EU. In fact, until 2010, that is prior to the export of crude oil, agricultural exports constituted 76.1 percent of Ghana export trade with the EU.

Analysis of the export trends before and within the period of (I)EPA reveal a marginal increase in total agricultural export to the EU. This was however influenced mainly by the increased export of food stuffs. Vegetable products witnessed some slight increase while that of animal and animal products did not record any change over the period.

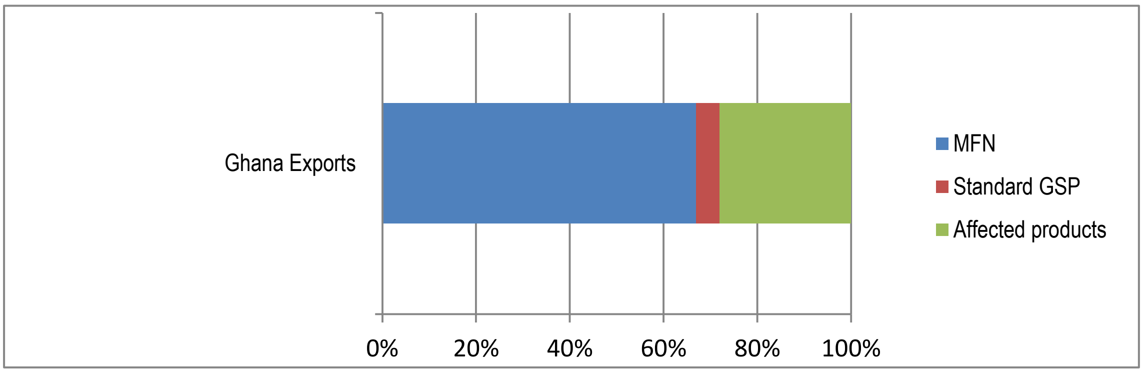
Figure 4.2 Trend of Ghana export to the EU (1990-2011)



Source: Eurostat and Comext, 2013

A closer assessment will help in explaining the impact of the IEPA on Ghana's access to the EU market. With the expiry of the WTO waiver in December 2007 and prior to the signing of the (I) EPA, Ghana's exports to the EU were governed by three alternative arrangements: the Most Favoured Nation (MFN) rate available to all countries; the standard Generalised System of Preferences (standard-GSP) available to all developing countries; and the Cotonou Agreement available to all ACP countries. While market access under the Cotonou agreement allowed Ghana to export 98 percent of her total exports to the EU under a duty free arrangement, the country could still have exported at zero rate, over two-thirds (67 percent) of her total exports to the EU under MFN[66] status (See Figure 4.4). These products include cocoa beans, hardwood lumber, gold and diamonds - Ghana's main export commodities to the EU. Additionally, Ghana could have exported an additional 5 percent of its exports to the EU at duty free rates under the standard GSP arrangement[67]. This implies that 28 percent of Ghana's trade would have been affected by increased tariffs had it not initialed the IEPA in December 2007.

Figure 4.4 Conditions of Ghana export to the EU with expiry of WTO waiver and without signing IEPA



The 28% of trade includes exports (in order of their share of value) of: prepared or preserved tuna (18-20%); pineapples (2.3-5.8%); cocoa butter and cocoa paste (4-6%); fresh vegetables (2-8%); parts and accessories for instruments used in topography, oceanography etc.; aluminium; wooden sheets for veneering and plywood; frozen octopus, cuttle fish and sharks; bananas; cassava; and palm oil (see Table 4.1). As a result of supply side constraints (such as high production cost), these products would not be competitive on the EU market without the IEPA. On this score signing the IEPA has sustained the market for these product categories.

Table 4.1 Products affected by high tariffs without an IEPA

Product description	Value 2005 Euros	Share of total %	EU Tariffs regime in 2003		
			MFN	Standard GSP	GSP - Plus
27101961-Fuel OBTAINED FROM BITUMINOUS MINERALS	5,591,781	0.6	3.5	0	0
27101969-FUEL OILS OBTAINED FROM BITUMINOUS MINERALS	4,853,351	0.5	3.5	0	0
90158019-ELECTRONIC METEOROLOGICAL HYDROLOGICAL AND GEOPHYSICAL INSTRUMENT	3,996,627	0.4	3.7	0	0
44083985-SHEET FOR VENEERING, WOOD	11,510,901	1.3	4	0	0
44083995-SHEET FOR VENEERING, WOOD	6,674,153	0.7	4	0	0
44089095-SHEET FOR VENEERING, WOOD	3,796,058	0.4	4	0	0
44083931- VENEER SHEET AND SHEETS, WOOD	2,171,696	0.2	6	0	0
16041418-PREPARED OR PRESERVED TUNAS AND SKIPKACK	46,398,197	5	24	20.5	0
08043000-FRESH OR DRIED PINEAPPLES	45,555,197	5	5.8	2.3	0
18040000-COCOA BUTTER , FATS AND OIL	27,366,232	3	7.7	4.2	0
18031000-COCOA PASTE(EXCL. DEFATTED)	25,082,426	2.7	9.6	6.1	0
16041411-TUNA AND BONITO SARDA SPP//FISH	11,976,403	1.3	24	20.5	0
07099090-FRESH OR CHILLED VEGETABLES / URGENTTES	9,052,199	1	12.8	8.9	0
90159000-PARTS AND ACCESSORIES FOR INSTRUMENT USED IN TOPOGRAPHY OCEANOGRAPHY	8,905,319	1	2.7	2.7	0
27101949- GAS OILS OF PETROLUEM OR BITUMOUS MINERALS	8,615,074	0.9	3.5	3.5	0
44089085-SHEETS FOR VENEERING WOOD	8,523,609	0.9	4	4	0
03075910-FROZEN OCTOPUS, WITH OR WITHOUT SHELL	5,297,132	0.6	8	2.8	0
18032000-COCOA PASTE , WHOLLY OR PARTLY DEFATTED	5,285,189	0.6	9.6	6.1	0
16041416-LIONS OF TUNAS OF SKIP JACK, PREPARED OR PRESERVED	4,463,767	0.5	24	24	0
03074918-FROZEN CUTTLE FISH WITH OR WITHOUT SHELLS	4,430,368	0.5	8	2.8	0
15159059-CRUDE FIXED VEGETABLES FATS AND OILS	4,117,123	0.4	6.4	2.9	0
0304290-FROZEN YELLOWFIN TUNAS THUN//RVATION	3,684,456	0.4	22	18.5	0
16042070-PREPARED OR PRESERVED TUNAS //PIECES	3,297,680	0.4	24	20.5	0
03034390-FROZEN SKIP JACK OR STRIPE-BELLOED BONITO	3,278,686	0.4	22	18.5	0
44121400-PLY WOOD CONSISTING SOLELY SHEET OF WOOD	2,700,735	0.3	7	3.5	0
44121390- PLY WOOD CONSISTING SOLEL//COMPONENT	2,395,390	0.3	7	3.5	0
03037590-FROZEN SHARKS (EXCL DOGFISH)	2,206,459	0.2	8	2.8	0
07096099-FRESH OR CHILLED FRUITS OF GENUS CAPISICUM OR PIMENTA	1,992,052	0.2	6.4	2.9	0

081096095-FRESH FRUIT EDIBLE	1,531,006	0.2	8.8	5.3	0
15119099-PALM AND ITS LIQUID FRACTION	948,918	0.1	9	3.1	0
76011000-ALUMINIUM NOT ALLOYED FRACTION	8,708,240	0.9	6	6	0
76012010-UNWROUGHT PRIMARY ALUMINIUM ALLOYS	1,834,760	0.2	6	6	6
070149011-FRESH AND WHOLE OR WITHOUT SKIN FROZEN ARROW,SALEP,AND SIMILAR ROOTS AND TUBERS	6,740,398	0.7	Outside quota us 114.37 tonnes inside 6%	Outside quota us 114.37 tonnes inside 6%	Outside quota us 114.37 tonnes inside 6%
07141091- MANIOC(CASSAVA) FRESH AND WHOLE OR WITHOUT SKIN	1,109,718	0.1	Outside quota us 114.37 tonnes inside 6%	Outside quota us 114.37 tonnes inside 6%	Outside quota us 114.37 tonnes inside 6%
08030019-BANANAS FRESH (EXCL PLANTAINS)	2,878,339	0.3	Outside quota us 211.8 tonnes inside 0%	Outside quota us 211.8 tonnes inside 0%	Outside quota us 211.8 tonnes inside 6%

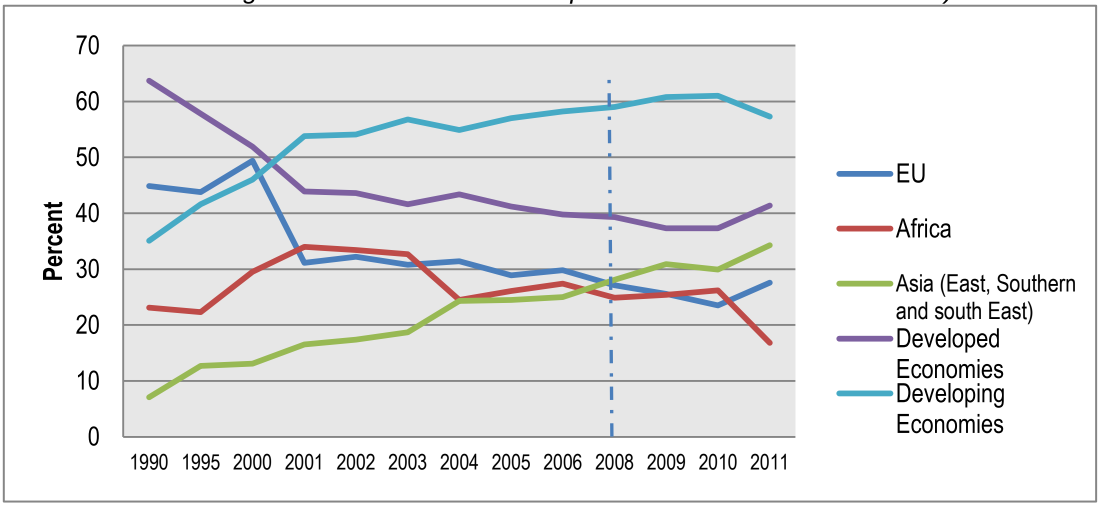
Source: Patel M. (2007)

However, a careful examination of Article 37.6 of the Cotonou agreement reveals that Ghana would not be forced to rely on the standard GSP scheme should it decide not to sign the final EPA. This is because the Cotonou Agreement commits the EU to ‘assess the situation’ of non-LDC ACP states that decide ‘they are not in a position’ to enter EPAs in order ‘to provide these countries with a new framework for trade which is equivalent to their current situation and in conformity with WTO rules’.

Furthermore, a review of Ghana’s trade structure (both import and export) shows some interesting trends which raise a number of questions as to who stands to gain most from the EPA. The figure below shows that EU’s share of Ghana trade imports has been on the decline since 1995. Conversely, the import trade between Ghana and Asia (East, Southern and South East) has been accelerating during the same period. Similar observations can be made in relation to the pattern of trade between Ghana and developing countries on one hand and Ghana and developed countries on the other.

Thus, the share of Ghana’s imports from developing economies has been on the ascendancy while that of developed countries have been on the decline. It is obvious from the result that products manufactured in Europe and other developed countries are unable to compete on the Ghanaian market with those manufactured in Asia. The next section assesses the competitiveness of Ghana’s production, manufacturing and services sectors.

Figure 4.5 Trend of Ghana import Trade Structure 1990-2011)



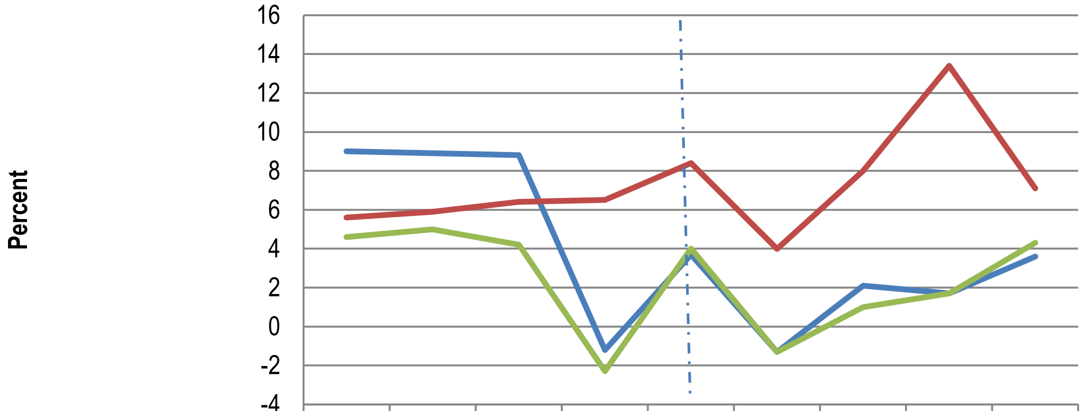
Source: UNCTAD Handbook of Statistics, 2000-2012

4.3 Competitiveness of Ghana's production, manufacturing and services

Empirical evidence indicates that countries which have moved quickly from a low income status to a middle-income status have used their industrial sector, especially their manufacturing and construction sectors as the major driving force of economic growth[68]. However, growth of Ghana's manufacturing sector has been unimpressive; contracting both in 2007 and 2009 and grew less than a percentage point in 2010. While national GDP growth rate stood at 3.99 in 2009, the manufacturing sector contracted by 1.3 percent. The decline in the sector is attributed to high production and distribution costs [arising from high interest rates], obsolete production equipment, inefficient infrastructural services, low productivity and the influx of cheaper imports, especially from Asia[69].

As documented in the Ghana's Industrial Policy, major local raw materials supplies are inadequate and costly, and local fabrication of plant and machinery is virtually non-existent. Local manufacturers rely on imported raw materials and equipment which tend to be costly[70]. While the deployment of modern technology is essential in assessing the competitiveness of industries, most industrial plants and machinery are obsolete making manufacturing operations inefficient. Lack of access to finance also constrains the ability of firms to upgrade technology to support vital operations and achieve competitiveness. In the light of these challenges, coupled with the problem of inadequate skilled manpower, low labour productivity etc. opening up the local market under the pretext of enhancing market access is perhaps the last expectation of Ghanaian producers.[71]

Figure 4.6 Manufacturing sector GDP in comparison with National GDP (2004-2012)



	2004	2005	2006	2007	2008	2009	2010	2011	2012
% of manufacturing GDP	9	8.9	8.8	-1.2	3.7	-1.3	2.1	1.7	3.6
National GDP	5.6	5.9	6.4	6.5	8.4	3.99	8.01	13.39	7.1
Sector Growth rate	4.6	5	4.2	-2.3	4	-1.3	1	1.7	4.3

Source: World Bank, MoFEP

European producers and manufacturers do not face these factor chain constraints. They have better access to credit, high technology, skilled labour and market information. EU producers also enjoy huge subsidies on their agricultural products, which make cost of production much cheaper. With this clearly unequal playing field, there are questions as to the true ultimate beneficiary of the s unfettered trade liberalisation the EPA espouses.

A review of Ghana's economic history between 1984 and 2008 reveals that while the country enjoyed moderate economic growth (averaging 4.8 percent), this growth was anchored around extensive economic liberalisation based on programmes enacted by government with extensive support from the International Monetary Fund and the World Bank. The outcome of the trade liberalization policies marked the decline of the manufacturing industry[72]. While it is acknowledged that exports are very important to the growth of developing countries, the goods or products being exported are even more important. As Ghana export trade structure shows, over 95 percent of its exports to the EU market is primarily raw materials. Removing tariffs from the export of these raw materials would make it cheaper for European manufacturers who would add value to them and export it to Ghana also at duty-free prices; thus making it cheaper on the local market and competitive with imports from the likes of China, India and Brazil.

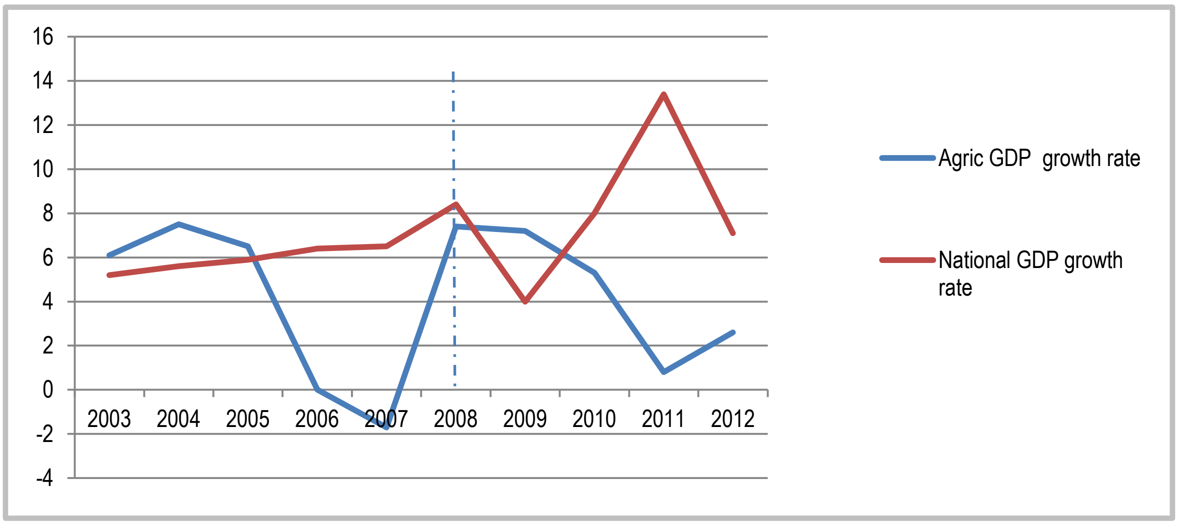
Ghana, and by extension other ECOWAS countries, cannot develop or become competitive from exporting unprocessed raw materials to the EU only to turn around and import products that have been manufactured using those same raw materials[73]. Basic economic theory dictates that jobs are created at the production end of the value chain and not at the point of consumption. Economists and development practitioners also acknowledge that significant reduction in poverty is more easily attained through the pursuance of pro-poor growth policies that allow for engagement of large numbers of the population in meaningful employment. This is often achieved through the accelerated expansion of the manufacturing sector. Therefore, any trade policies that result in crowding out and eventually collapsing the manufacturing sector cannot be said to inure to Ghana's benefit. The EU claim that EPA would contribute to Ghana's economic development cannot therefore stand.

Furthermore, as Ghana exports most of its processed goods to the sub-regional markets, EPA would further crowd out local and regional markets and result in further collapse of the few industries that remain. As Ghana's industrial policy acknowledges, becoming competitive in the global and domestic market, Ghanaian manufacturers must be able to offer high quality products, processes and services, and be empowered to effectively engage in competitive trade and take advantage of opportunities to expand and retain market share. Market access particularly in advanced economies as the EU is not a fundamental need of industry and the EU would be the net beneficiary of the EPA in its present form.

4.4 Growth of Smallholder Agriculture

Agriculture plays an important role in Ghana's economy. The sector accounts for 30 percent of GDP and employs nearly 60 percent of the labor force. Although the share of agriculture in the economy has marginally declined in recent times (from 30.0 percent in 2008 to 29.9 percent in 2010),[74] the sector is widely acknowledged as the backbone of Ghana's economy as it employs about 55 percent of the economically active population.[75] The sector is largely dominated by smallholder farmers - constituting 90-95 percent[76]- with many commodities including cocoa, maize and cassava produced mostly on small farms.[77] With an average annual growth in agricultural products of more than 5 percent since the 1980s, the country ranks among the four top global performers; with only three countries: the United Arab Emirates (UAE), Nigeria and Benin surpassing Ghana in terms of growth rates for the period 1980-2007.[78] Thus, compared to other sub-Saharan African countries, the country could be described as a high-performer (See Figure 4.7)

Figure 4.7 Trend of Agricultural Sector GDP Growth Rate



Source: MoFEP, Budget statements

However, relative to its own potential, the sector's performance over the years can best be encapsulated as modest, especially given the existing productivity and production shortfalls. With the exception of starchy staples, the country is not self-sufficient in cereals, fish or meat production, or in the production of raw materials needed for agro-based industries[79] (See Table 4.2). For instance, less than 40 percent of the estimated net rice consumption requirement is supplied by domestic production; rice imports account for nearly 66 percent of net consumption.[80] Besides, there is a wide gap between actual and achievable crop yields. For example, not more than 30 percent of achievable yield per hectare for cassava is actually produced (13.8Mt out of 48.7Mt/Ha). The case is the same with respect to maize (1.7Mt out of 6.0Mt/Ha). With respect to rice, less than 40 percent of potential yield is actually produced (2.4Mt out of 6.5Mt/Ha).[81] This finding is worrying and paradoxical given that Ghana abounds in the attributes needed for enhanced agricultural production and achievement of food self-sufficiency.

Table 4.2 Food Supply and Demand of key staples, 2009 ('000 MT)

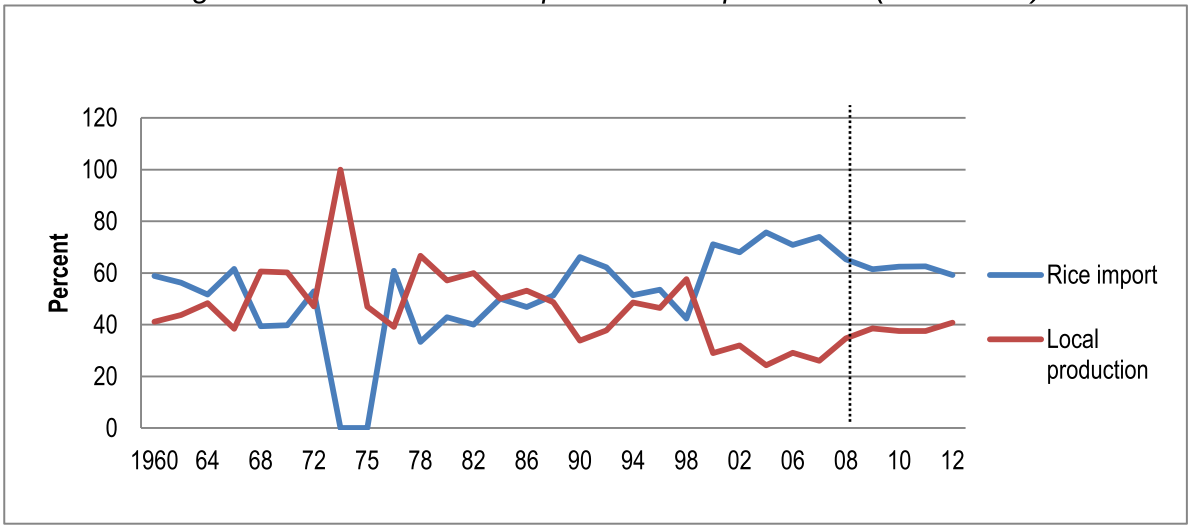
Commodity	Total domestic production	Production available for human consumption	Estimated demand for food	Surplus (+)/Deficit (-)
Maize	1,620	1,198	1,052	146
Rice (milled)	235	204	577	-373
Millet	246	214	24	190
Sorghum	351	305	12	293
Cassava	12,231	8,562	3,673	4,889
Yam	5,778	4,622	1,007	3,615
Plantain	3,563	3,028	2,037	991
Groundnut	526	474	288	186
Cocoyam	1,504	1,429	961	468

Source: MOFA, 2010

While sustained, adequate, viable and responsible investment has been identified as key constraint to agricultural productivity and growth in Ghana, the unbridled trade liberalisation embarked upon by Ghana during the structural adjustment era of the 1980's contributed immensely to the sector's dwindling fortunes. The rice and poultry sectors aptly epitomize what open trade policy can do to food security.

Rice is a major food crop providing cash incomes as well as food for the household. The commodity serves as a source of livelihood for many smallholder farmers which constitute the very poor in Ghanaian society with incidence of poverty hovering around 60 percent (Offei-Nkansah and Antwi-Asare, 2005). Having obtained a level of food self-sufficiency in the middle 1970s, the imports of rice have been increasing steadily since 1980s, and are now contributing to the about 60 percent of 650,000 metric tonnes of rice consumed in the country (See Figure 4.8). While other supply side constraints[82] cannot be ignored, the reversal of Ghana fortunes with regard to the self-sufficiency attained in the mid 1970s is largely attributed to the trade liberalisation policies adopted in the early 1980s as part of the Structural Adjustment Programme[83]. While farmers in the exporting market, such as USA, are heavily subsidized, local rice growers do not have such privileges leading to unfair competition.

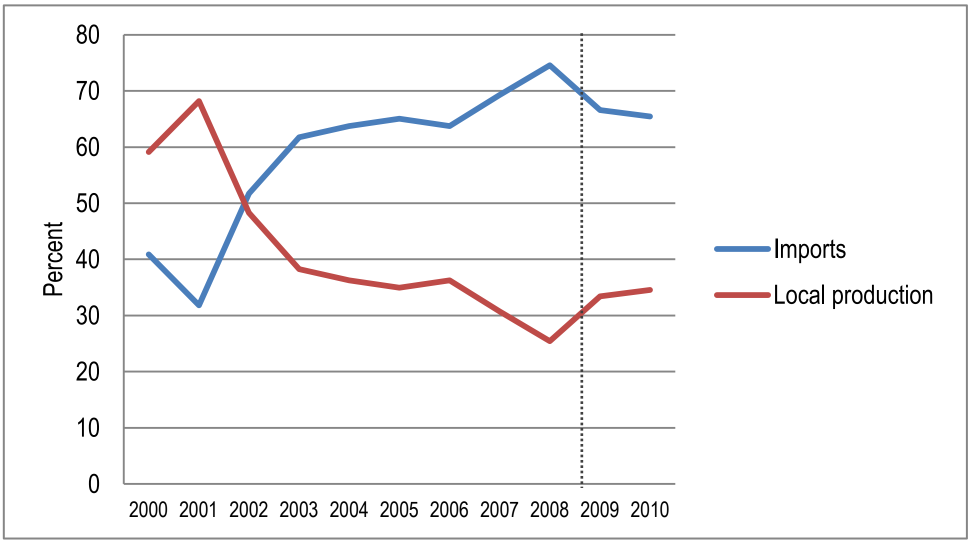
Figure 4.8 Share of Rice Import vs. local production (1960-2012)



Source: US Department of Agriculture

Similarly, Ghana's poultry imports have more than quadrupled since 2002 as the domestic poultry sector continues to decline, supplying less than 40 percent of total poultry demand as at 2010. Paradoxically, this sector was once a vibrant industry during the 1980s and 1990s, when it supplied about 80 percent of the total market demand. While the high cost of production (feed, drugs,) and energy prices, which have increased production costs by over 60 percent, the over liberalization of the poultry sector accounts for the virtual collapse of the industry[84]. By 2008, commercial domestic poultry production was only able to meet 25 percent of total demand as most poultry producers shifted from producing broilers for meat to the production of eggs (see Figure 4.9). Industry sources reveal that most of the small and medium-scale producers have completely shut down. Thus, a government policy in the sector, which has allowed unbridled importation of subsidized poultry into the market largely, explains this trend.

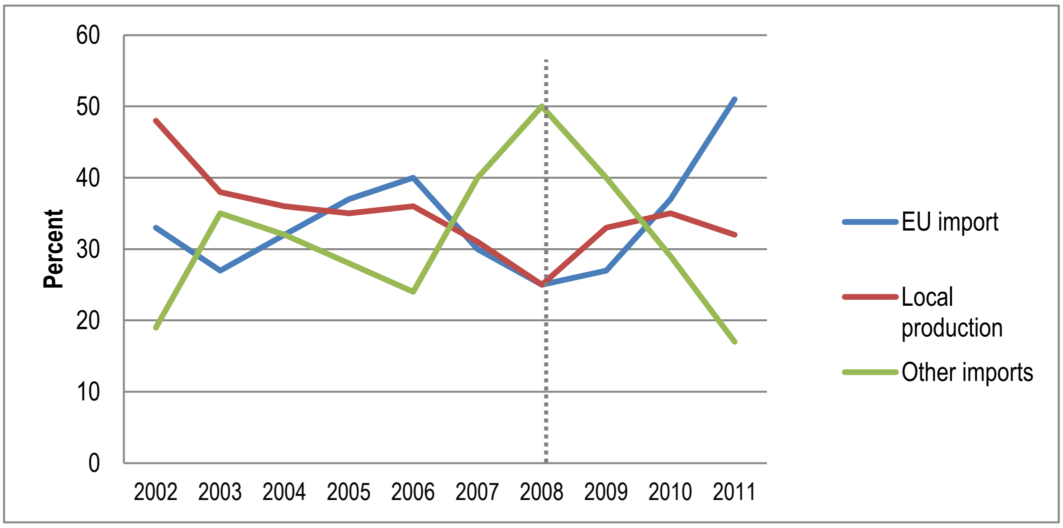
Figure 4.9 Import share of local poultry market (2000-2010 (MT)



Source: SRID, MOFA, 2011

Conversely, EU export of poultry products into Ghana has been on the increase since 2001, surpassing domestic production in 2003, 2008 and 2010 and overtaking other major competitors such as USA and Brazil. The recorded increase in EU exports to Ghana broadly mirrored the 45% increase in EU poultry-meat exports to the ACP as a whole in 2010.

Figure 4.10 Trend of Local production in comparison with EU and other imports (2002-2011)



Source: Eurostat, Comext and MoFA

Article 15 of Ghana IEPA includes a standstill clause which stipulates that no new tariffs can be introduced and, once eliminated, tariffs may not be re-imposed or increased. This rule is extended to 'exclude' specific products including poultry. Presently tariffs on poultry stand at 20 percent and cannot be adjusted under the IEPA. Interestingly, poultry feed is not part of the excluded list and this could expose the local sector to unfair competition. As can be observed from the chart below, EU poultry exports to Ghana have been increasing steadily within the period of (I) EPA; warding off competition from other players such as USA and Brazil. This suggests that the present tariff levels imposed by Ghana are not adequate to address the issue of unfair competition emanating from EU imports. This makes trade policy choices of government of critical importance to poultry sector development.

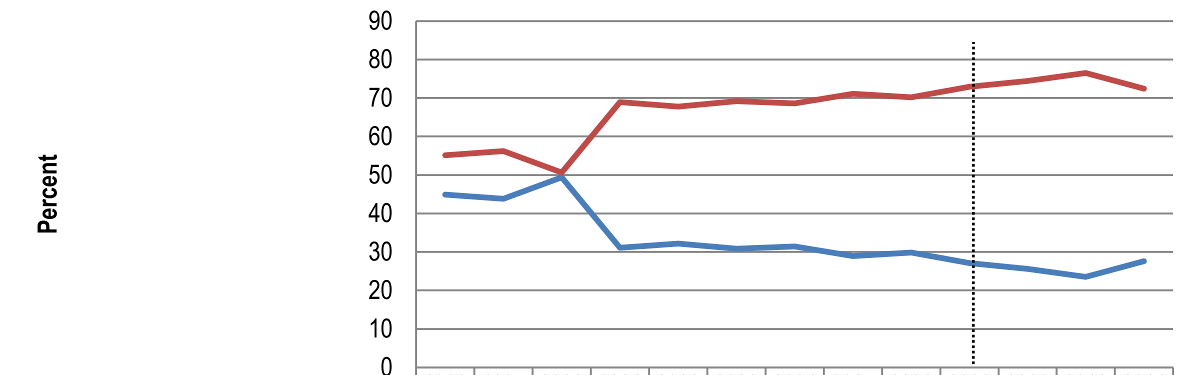
It is instructive that South Africa imposed a higher level tariffs (of over 60 percent) on poultry imports from Brazil to prevent its market from been flooded when faced with similar import surges in its poultry sector[85]. Similarly in Côte d'Ivoire, in 2005, it is reported that Ivorian government imposed a new tax on imported poultry by-products which roughly doubled the price of imported poultry products. This policy change, not only benefited local poultry producers, with substantial new investment taking place, but also benefited local feed suppliers. It is reported that poultry production in Côte d'Ivoire as a result of the policy expanded from 9,000 to 20,000 tonnes between 2005 and 2009[86].

Another significant factor is that, EU uses tariff protection as its principal market management tool while Ghana is bound under IEPA from adjusting its tariffs to manage its poultry industry[87]. For instance, it is reported that in 2005, import tariffs imposed by the EU maintained its domestic poultry prices 11.5 to 13.1% higher than would have been the case in the absence of tariff protection (varying according to world market price levels)[88]. Critics argue that the government tariff policy 'is a little short sighted', since it opens the floodgates to imports and in so doing undermines the position not only of Ghanaian poultry farmers, but also of local cereal producers who supply feed to poultry farmers[89]. There are no integrated policies along the value chain to addressing the supply side constraints.

4.5 Government revenues

One of the main sources of Government revenue is custom duties/tariffs on imported goods. Tariffs play a dual purpose as trade management tool and reliable sources of tax revenue for Ghana, an import dependent country, which imports substantial proportion of products from EU. Although EU's share of Ghana's imports has been declining, it still constitutes some 27 percent of Ghana's imports as at 2008 (period before the IEPA) and 2011 (period within IEPA) (See Figure 4.11).

Figure 4.11 Trend of EU share of Ghana's imports (19990-2011)



	1990	1995	2000	2001	2002	2003	2004	2005	2006	2008	2009	2010	2011
EU share (%) of Ghanas import	44.9	43.8	49.4	31.1	32.2	30.8	31.4	28.9	29.8	27.1	25.6	23.5	27.6
Others share of Ghana's imports	55.1	56.2	50.6	68.9	67.8	69.2	68.6	71.1	70.2	72.9	74.4	76.5	72.4

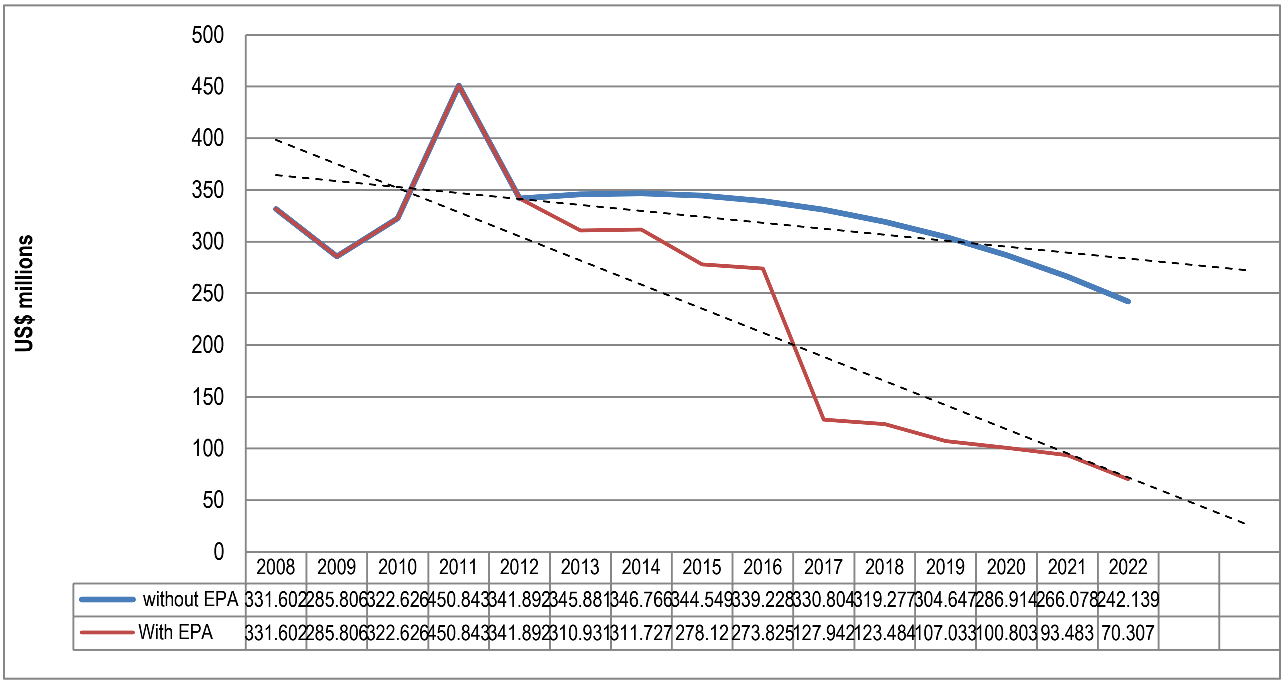
UNCTAD Handbook of statistics, Various years

In estimating the revenue loss or gain, the study examines data on Ghana's imports revenue, worldwide and with EU, Tariffs rates on imports, and EPA liberalisation schedules to ascertain Ghana revenue loss or gain with and without EPA (see Annex 2 for detailed computation of likely revenue loss or gain under the regime of EPA).

As the results show, Ghana's tariff revenue from EU imports is generally predicted to fall in line with the trend of decline of the EU share of Ghana's import trade between 2000 and 2011. Thus, having peaked at US$ 450 million dollars in 2011, Ghana's import revenue from EU trade declined to US$ 341 million in 2012. Although the IEPA was initialed in 2008, the liberations schedules take effects from January 2013. This implies that tariff revenue between 2009 and 2012 would not change under the two scenarios (ie before and within the period of IEPA. However, beginning from 2013, Ghana tariff revenue from EU imports will experience a decline (under the regime of IEPA) from US$310.9 million in 2013 to US$273.8 million in 2016, a decline of about 12 percent. This pattern of revenue loses under the regime of (I)EPA will continue through to 2022 and beyond.

Conversely, should Ghana decide to opt out of the EPA, its import tariff revenue from EU import will decline anyway (according to the pattern of Ghana import trade with the EU) but the rate of decline would not be as fast as it would be witnessed under an EPA regime. Also, unlike under the regime of EPA, the decline in import revenue from the EU will be compensated from import tariff revenue from other countries. This is because as the EU loses its share of Ghana import trade, it goes to other trading blocs such as Asia and Africa. As such the country would not be affected from any revenue loses. Ghana's tariff revenue without an EPA regime would be US$242.1 million by 2022 compared to US$70.31 million under the regime of EPA.

Figure 4.12 Trend of Ghana's tariff revenue with and without (I) EPA

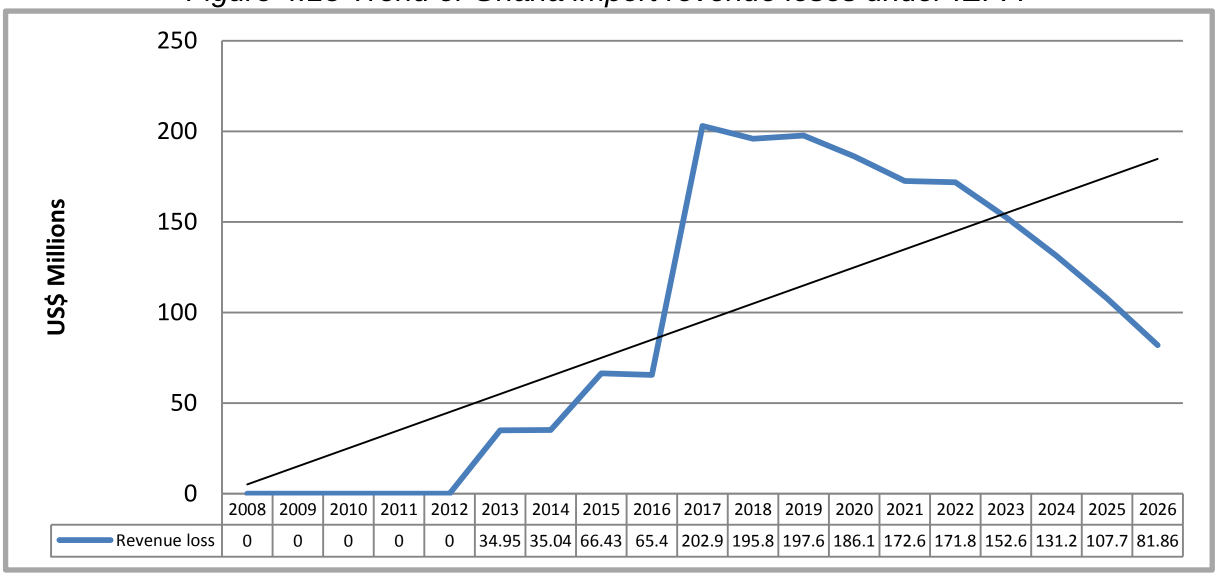


	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
without EPA	331.602	285.806	322.626	450.843	341.892	345.881	346.766	344.549	339.228	330.804	319.277	304.647	286.914	266.078	242.139
With EPA	331.602	285.806	322.626	450.843	341.892	310.931	311.727	278.12	273.825	127.942	123.484	107.033	100.803	93.483	70.307

Source: Authors calculation based on data from UNCTAD, Handbook of Statistics

Figure 4.9 presents the trend of estimated tariff revenue losses from Ghana's imports from the EU between 2008 and 2026. In total, Ghana is expected to lose US$ 88,575 million per annum between 2008 and 2022 in import revenue. However the decline would be felt most from 2017 after the country liberalizes two-thirds of its trade with the EU. Thus, in 2017 alone, Ghana would lose US$ 202.8 million in tariff revenue from EU imports. Cumulatively, Ghana would lose US$ 1,126,807 between 2008 and 2022. This relates to only the direct revenue forgone in liberalizing 75 percent of Ghana's trade with the EU per the current schedule under the IEPA.

Figure 4.13 Trend of Ghana import revenue loses under IEPA



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Revenue loss	0	0	0	0	0	34.95	35.04	66.43	65.4	202.9	195.8	197.6	186.1	172.6	171.8	152.6	131.2	107.7	81.86

Source: Authors calculation based on data from UNCTAD, Handbook of Statistics

Another issue worth noting is whether Ghanaian consumers would experience the estimated trade effect after liberalisation of trade with the EU. That is, whether prices of goods imported from the EU would be cheaper on the Ghanaian market for improved livelihood as claimed. Experts[90] contend that this would only occur if European exporters would price their goods to reflect the tariff elimination or would fix their prices based on market forces of demand and supply. If the latter happens, Ghanaian consumers would experience the agony of losing import revenue without the associated benefit of cheaper import prices from the EU. The profit/revenue emanating from trade liberalisation would also be based on the marketing behavior of importers. Thus even if the EU exporters price their products to reflect tariff elimination, the benefit to consumers in terms of cheaper prices would also depend on whether Ghanaian importers would reduce the price to reflect such tariff elimination or would leave market prices unchanged and increase their profits despite the elimination of tariffs. In a less competitive market like Ghana, this outcome is more likely to occur suggesting that consumers under EPA may not after all, benefit in the form of cheaper imports; an outcome that would result in a reduction in economic welfare[91].

4.6 Foreign Direct Investments

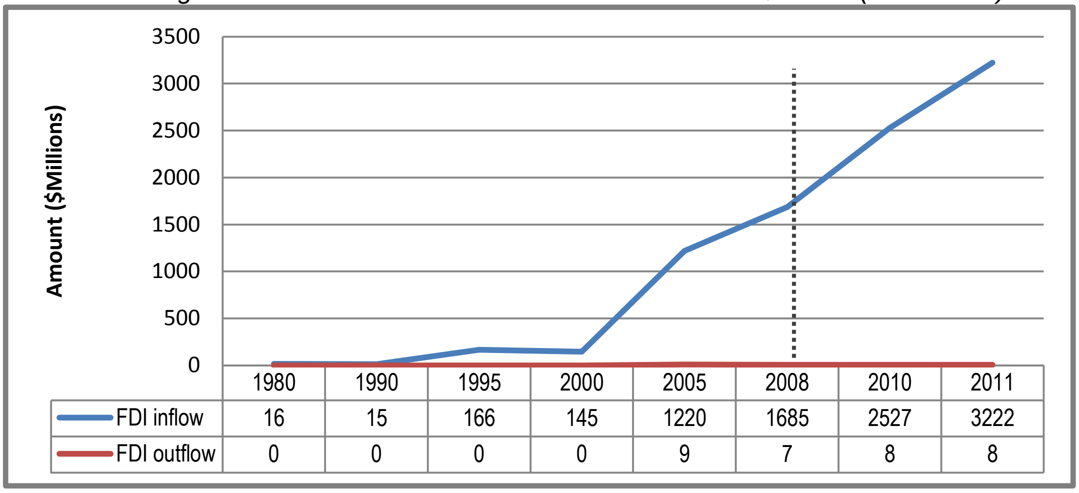
Foreign Direct Investment (FDI) has been viewed as a major stimulus to economic growth in developing countries. FDI has received attention in recent years because of its ability to deal with two major obstacles: (1) shortages of financial resources and (2) shortages in technology and skills, particularly in developing countries. FDI can impact the host economy through increasing the resources available for investment and capital formation. One of the expected development outcomes of a free trade agreement between Ghana and the EU is increased FDI.

According to the European Commission, an EPA will help ACP countries to attract much-needed foreign investment to help meet international product standards, agreements on trade in key services like telecommunications, banking and construction and measures to protect intellectual property like local brand names”[92]
.

Figure 4.15 shows Ghana FDI inflows between 1980 and 2011 (including the period during the IEPA). The results indicate that FDI inflows into Ghana were sluggish in the 1980s and 90s averaging US$ 15 million and $16 million respectively. However 2000-2005 saw a significant increase in FDI inflows oscillating from US$145 million in 2000 to US$1,220 million per annum in 2005, an increase of 741 percent. However, between 2006 and 2008, the growth in FDI increased at a decreasing rate growing marginally by 38 percent over the 2005 levels. The period between 2008 and 2011 witnessed another significant growth mirroring the growth rate of 2000-2005. While the trend shows an increased inflow during the period of IEPA, one cannot attribute the change to the EPA without investigating further the factors explaining the trend, sectoral analysis of the investments and the extent of contribution of such investments to the overall economy.

While available data are not disaggregated by oil and non-oil investments, reports from the Ghana Export Promotion Centre (GIPC) indicates that oil investments dominate the FDI inflows between 2008 and 2011[93] as a result of the commercial production of the commodity by the country. This investment cannot be said to have been triggered by EPA since demand for oil globally is high.

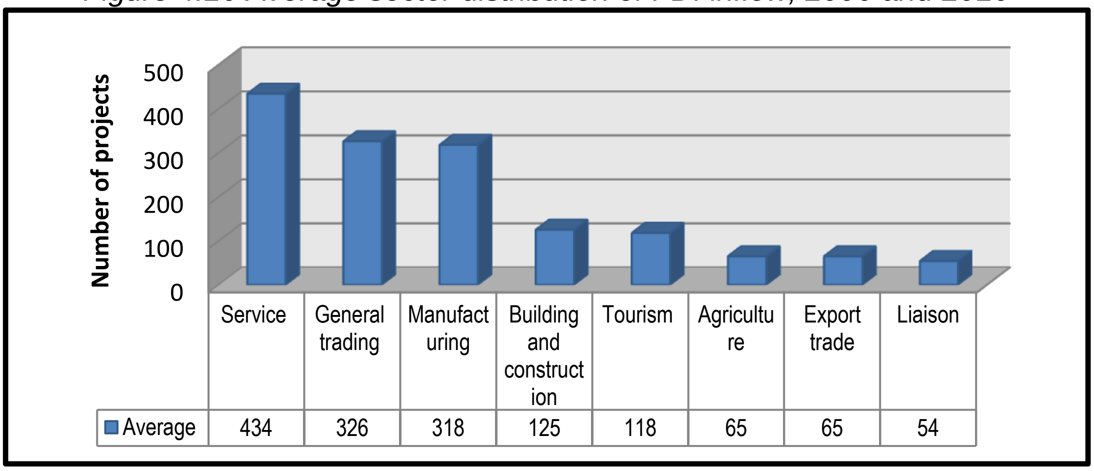
Figure 4.15 Trend of Ghana FDI inflow and outflow $Million (1980-2011)



Source: UNCTAD Handbook of Statistics Manual, 2012

It is meaningless to attract FDI if it is not going to benefit Ghana in terms of income generation and poverty reduction which the EPA claims as one of its development oriented goals. The efficacy of FDI can be assessed by the extent to which it has been able to create the necessary linkages to employment/job creation and revenue within the economy. This linkage however, depends on the various sectors of the economy that the inflows are channeled[94]. Of particular importance are the agricultural and manufacturing sectors, which have the potential of creating large sustainable employment with relatively higher poverty reduction effect. As seen from figure 4.16, the highest number of FDI projects recorded between 2006 and 2010 were recorded in the services sector followed by general trading. Manufacturing and agriculture placed third and sixth respectively. The data suggest that the necessary linkages expected from the inflows that could help propel the Ghanaian economy from a raw material producing country to an agro-based industrial nation and subsequently create the necessary jobs is minimal FDI inflows to Ghana are dominated by services and trading - averaging half (50 percent) of all inflows between 2006 and 2010.

Figure 4.16 Average sector distribution of FDI inflow, 2006 and 2010



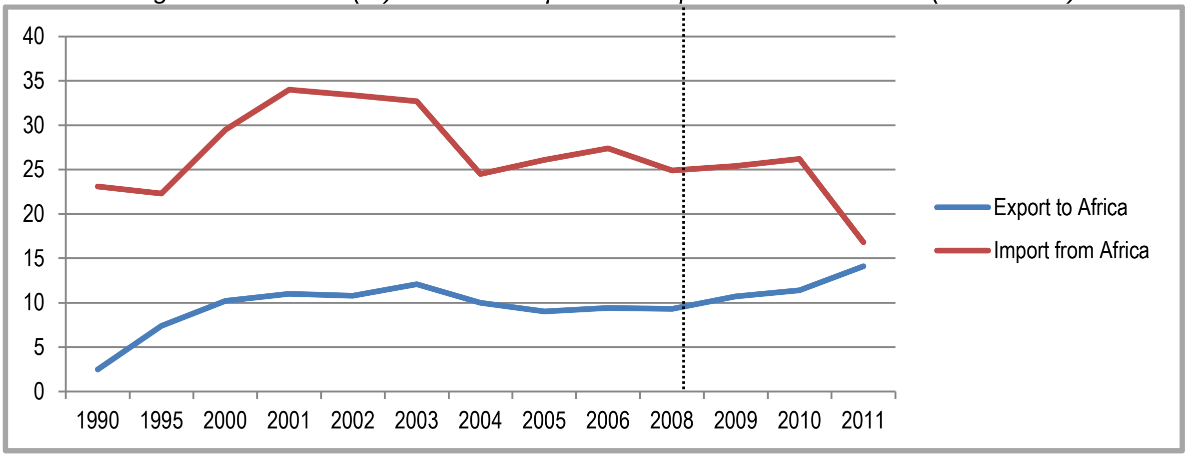
Source: Compiled from GIPC

4.7 ECOWAS integration and development of regional markets

EPAs, as a follow–up to the Cotonou agreement, were initially conceived as a development tool, designed to increase regional integration among countries in the ACP countries and to diversify their economies. By encouraging regional integration, ACP free-trade areas are intended to create the larger regional markets deemed necessary for strengthening economic development, south-south trade, for competition purposes and for the attraction of substantial foreign investment.

Analysis of trends of export and import trade with Africa shows that, Ghana's export trade with Africa has not been significant (See Figure 4.17). Accounting for about 34 percent of Ghana's total export trade in 1995, export trade with Africa declined to 25 percent in 2008 and further reduced to 16 percent in 2011. The import trend, however, shows some positive signs as the country imports from Africa have been increasing (although at the decreasing rate) accounting for 9 percent of total imports in 2008 and 14 percent in 2011. However, since the EPA agreement is still inconclusive in many ACP countries, one cannot therefore attribute the increasing trend to the EPA.

Figure 4.17 Share (%) of Ghana import and export trade with Africa (1990-2011)



Source: UNCTAD Handbook of Statistics, 2012

Analysis of the position of the EC in relation to EPA negotiations suggests that the EPA has other 'hidden' goals, opposed to promoting regional integration. The EU have been accused of using 'divide and rule' tactics by negotiating agreements with individual countries instead of with 'blocks' as was originally conceived in the Cotonou agreements. Thus, the EU signed an IEPA with Ghana, Cameroun and Ivory Coast when their negotiations with ECOWAS failed. In the IEPA signed by Ghana, the country committed itself to liberalise up to 80 percent of its trade with the EU, which contradicts ECOWAS stated position of 60 percent. This means that concluding an EPA for the regional group (ECOWAS) will become even harder after some countries of the group have signed IEPAs. Consequently, an IEPA can counter the signing countries interests within the sub-region. This raises questions about the interests served by the EPA not being in ACP countries' interest, and then whose interest does it serve? An Article by Prosper Kwesi Acquah titled "Economic Partnership Agreements in the interest of only EU" succinctly explains the EU hidden motive:

> *It is not surprising to know that in November 2008, the European Commission (EC) adopted 'Communication 699' titled "The Raw Material Initiative (RMI) – meeting our critical needs for growth and jobs in Europe" which sought to outline the EUs strategy to respond to the raw materials challenge it faces. One of main pillars of the RMI according to the EU is "to ensure a level playing field in access to resources in third countries". Also as part of its 'Europe 2020 Strategy', the EU has a flagship strategy "An industrial policy for the globalization era" and that strategy foresees the setting up of a framework for a modern industrial policy that will "address all elements of the*

increasingly international value chain from access to raw materials to after-sales service". Exactly what the EPAs seek to achieve, is to guarantee access to raw materials and market for manufactured European goods.

Another communication document [COM (2007)183] *from the EC also states "The trade strategy for raw materials takes full advantage of the Market Access Partnership (such as the EPA). Furthermore, efforts are being made to introduce disciplines on export duties in the context of negotiations of some Free Trade Agreements"*[95].

EC thus admits in its communication Number 669 that "*securing reliable and undistorted access to raw materials is increasingly becoming an important factor for the [its] EU's competitiveness and, hence, crucial to the success of the Lisbon Partnership for growth and jobs".*

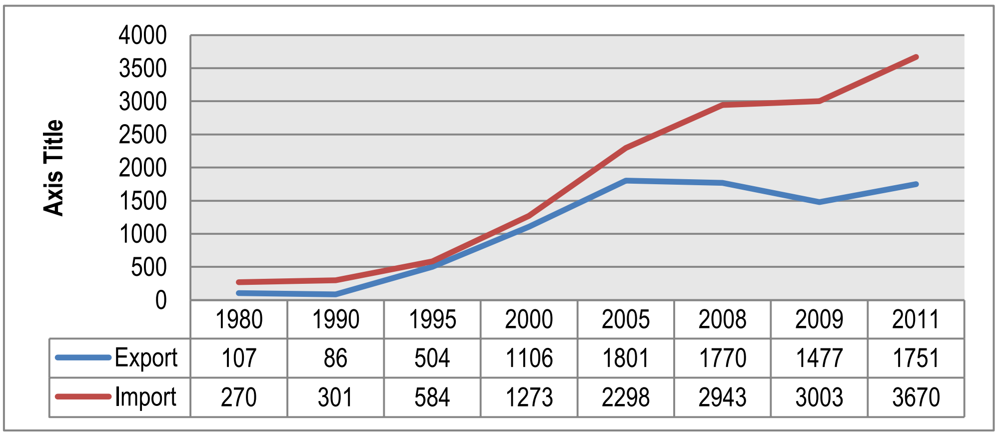
Further, another issue which unmasks the EU true agenda under the EPA is the inclusion, in Article 44, of a requirement for Ghana to take all the necessary measures to help the EU include services and investment in the regional EPA. This requirement includes trade in services and electronic commerce; investments; competition; and intellectual property. It suffices to note that this issue was put aside by ECOWAS during its EPA negotiations contending it wants to develop a regional policy before discussing it in the context of the EPA. Ghana is reported to have supported this position during the EPA regional negotiations; however, this clause is included in Ghana's EPA thus supporting the coercion accusations leveled against the EU by critics of the EPA[96]. It also implies that the EU is more concerned about the free movement of EU capital into West-Africa than regional integration.

4.8 Liberalisation of Services

What is the development implication of service liberalisation on the Ghanaian economy under an EPA regime? To address the question of the development implications of service liberalisation on the Ghanaian economy under an EPA regime, we first present the size of Ghana's services sector and the trend of its services imports and exports. We then evaluate the potential implication of service liberalisation on the Ghanaian economy.

As presented in section 2.5 in this report, Ghana's services sector has been the largest contributor to GDP in recent years having overtaken the agriculture sector in 2008. The services sector now contributes about 49.4 per cent of the total national income during 2008 to 2011. As a developing country, Ghana is a net importer of services a practice which has grown steadily from US$ 270 million in 1980 accelerating to US$1273 million in 2000 and to US$ 3670 million in 2011 (See Figure 4.18). In addition to the tariff liberalisation for trade in goods, EPAs are also envisaged to include the mutual liberalisation of trade in services. The EU claims that this is a regulatory agenda to promote investment and competition, and institutional provisions to facilitate trade as well as related technical and financial assistance for trade and development. Liberalizing trade in services means that Ghanaian service providers would have to compete with the EU in the service sector. Government would lose the policy space of using national budgets to support essential sectors of the economy as government would have to subject public procurements to open tender even when it goes against the national interest. For example, if government instructs heads of secondary institutions to procure only local rice as part of measures to boost domestic production; this would be contrary to any agreement in trade in services.

Figure 4.18Trend of value of Ghana's exports and imports of services ($ million)



	1980	1990	1995	2000	2005	2008	2009	2011
Export	107	86	504	1106	1801	1770	1477	1751
Import	270	301	584	1273	2298	2943	3003	3670

SECTION 5

Policy alternatives/options for Ghana's socio-economic development

5.1 Policy alternatives/options for Ghana's socio-economic development

This section explores the options available to Ghana to facilitate its socioeconomic development in the milieu of changing international trading relationships from non-reciprocity and discrimination to impending reciprocity under the full EPA regime.

At the heart of the EPA debate is the issue of its consequences on overall socioeconomic development. The central plank of EPA proponents as already discussed in this report is that the EPA is not just to make trading relationship between the EU and ACP 'WTO compatible' but also to facilitate development, arguing thus:

"EPAs will foster development mainly through trade liberalisation and the creation of the right policy framework … and to attract investment. By creating free trade areas (FTAs) with the EU, the ACP regions will benefit from the standard gains from trade: increased market access to the EU for ACP exports, reduced prices of EU imports for ACP consumers and associated competitive effects should foster economic growth and hence development. In addition, by building on the ACP regional integration processes, EPAs should contribute to the establishment of effective regional markets in the ACP, thus attracting and stimulating (both domestic and foreign) investment, a necessary condition for sustainable development".[97]

The EPA has been extensively projected from this viewpoint as an initiative which stands to primarily support ACP countries to better achieve their development aspirations. So far, the EPA discourse has disproportionately centred on the potential gains for ACP countries without highlighting the gains to the EU. This notwithstanding, responses to the EPA by various groups in the ACP region including Ghana have been lethargic and characterised by vehement protests. The existence of multiple 'realities' is obvious as the EU reality differs from that of the ACP countries.

Unquestionably, previous EU-ACP trade relationships based on non-reciprocity and discrimination in favour of ACP countries failed to unleash the expected productivity response; it is difficult to envisage how reciprocity will result in the much needed growth and development.

From the perspective of some concerned groups in the ACP, the EPA, in its current form, is anti-developmental.[98] The supposed gains of increased market access to the EU, reduced prices of EU imports for ACP consumers etc though acknowledged as constituting important development opportunities, are not the real and pressing developmental issues for consideration.[99] For instance, there is no mention of the outcome when there is (indeed) expanded market access but local productive capacity is too weak to respond to the opportunities created. There is also no response to the implications on development if weak and uncompetitive local industries (mainly due to supply side constraints) are left unaided to contend with relatively high-tech, subsidised and globally competitive foreign industries in the same market These concerns are indicative of the ACP reality of what reciprocity holds for some countries.

While the justification that the EPA (unlike its antecedents - Cotonou agreements and the Lome accords)_ is to ensure compatibility with WTO rules on reciprocity may be sound, it is unclear whether the WTO itself is supportive of the growth and development of developing countries The world trading system has been characterised by unfairness and only works in the interests of the most powerful economies - including the EU.[100-101] In fact, the limits put into the WTO make it extremely difficult for developing countries to adopt the same policies that helped the most advanced economies to develop.[102-103] If the EU really wants to genuinely assist the ACP region develop, then their focus should not be on enforcing WTO compliance on reciprocity as in the EPA but rather championing WTO reforms to make the terms of trade fairer i.e. in the interest of all nations especially developing nations. A fairer and freer trade for all requires that *all WTO members (both developed and developing) completely open their markets to all developing countries poorer and smaller than themselves* among others- rather than the other way round.[104]

To this end, it is strongly recommended that the 100: 80 per cent EU: ACP liberalisation ratio is not the way to make the terms of trade development-oriented. Even the World Bank has acknowledges that "*opening of more than 65% of West African markets on equal terms to EU companies and goods will destroy the domestic industry".*[105] The EPA in its current form will end up promoting the interests of the EU to the detriment of developing countries.[106]

In Ghana's case, as per the key findings discussed in the previous section of this report, it is clearly shown that the productive sector of the economy has failed to positively respond to the opportunities created by the IEPA; initialled in 2007. The gains from the IEPA have not significantly exceeded the maintenance of trade preferences for selected non-traditional exports which otherwise would have faced high tariffs.

The implication is that without the needed support to grow the productive capacity of the economy, as more and more EU products and services flood into the Ghanaian market under a full EPA scheme, the situation of Ghana's exports to the EU may remain unchanged or even deteriorate due to weak productive capacity. This will certainly lead to substantial non-oil trade deficits. This, together with the imminent reduction in government revenue occasioned by the decline in import tariffs under the full EPA will have serious consequences on the economy and achievement of socioeconomic development outcomes. Ghana undoubtedly needs increased market access for its products and services for economic growth and sustained socioeconomic development; however, this should not be done at the expense of sacrificing budding local industries. **Reciprocity among unequal partners is not the way to ensuring development for relatively uncompetitive or weak economies**.

5.3 What does Ghana need for economic growth and socioeconomic development?

The failures of the erroneous policy prescriptions which encouraged specialisation in primary commodity exports based on theories of comparative advantage have become blatantly obvious. [107] It is estimated that for Ghana to develop, there is the need for a strong and vibrant export sector that is efficient, diversified and not solely dependent on primary commodity exports.[108] The quintessential strategy to promote economic growth for sustained socioeconomic development therefore is for Ghana to go into value added product export, underpinned by industrialisation policies. Ghana needs to industrialise by growing the productive capacity of the economy to be domestically and internationally competitive in the production and export of value added commodities. To this end, the following strategies are suggested.

a. Development of a long term productive strategy targeting particular value chains.

The government through broad-based consultations with such key stakeholders as private sector firms, trade unions, civil society organisations, educational institutions, research institutes, political parties etc. should identify the key industries and the appropriate technologies that will drive the future economy. The development of the long term productive strategy should be nationally owned (with inputs from all spheres of national life) and should not be truncated with every change of government. Given the contributions of the agriculture sector to employment and poverty reduction, considerable attention should be given to developing agro-based industries.

b. Identify and address the supply side constraints facing local industries.

Notable among the constraints facing local industries are access to credit, poor quality of infrastructure, low levels of human and physical capital and an unfavourable macroeconomic climate among many others. Government in consultation with key stakeholders should validate the supply side constraints limiting the productive capacities of local industries and then offer the needed support. Government support to local industries could take the form of:

1. Concessionary loans for Small and Medium Scale Enterprises
2. Preferences in government procurement
3. Enforcement of local content policies
4. Subsidies for research and development
5. Macroeconomic stability
6. Strong governance institutions etc.

c. Coordinated government investment

The provision of basic infrastructure should be done in a coordinated way to facilitate the increased productivity of local industries. The provision of infrastructure such as roads, electricity, water, schools etc. should be in sync with the broader industrial strategy. In the same vein, skills development and the educational system should be relevant to the specific needs of local industries.

d. Prioritisation of ECOWAS and African regional markets

For Ghana to develop, it needs to find markets for its value added exports. However, this should not be done at the expense of subjecting its productive capacity to unhealthy competition. Ghana needs markets access that will offer its relatively infant industries the needed competitive environment to unleash their growth potential. To this end, it is suggested that Ghana plays a leading role in the integration of ECOWAS and African economies to create the much needed large regional market(s) for trade and investment. It is estimated that about 90 per cent of Ghana's most dynamic manufacturing exports go the ECOWAS market.[109] It is important for Ghana to proactively limit the opening of not just its market but also the West African market to low-priced EU imports.

As shown in Table 2.5-6 at section 2 of this report, the rate of improvement of Ghana's share of the African markets has risen sharply unlike the case with the EU even under regime of non-reciprocity. Under the full EPA regime, Ghana stands to lose its domestic market as well as its share of the ECOWAS market to the EU due to its relatively weak productive capacity. **It is therefore crucial for the Ghanaian authorities to make the right decisions with respect to the EPA**. The next section examines the choices available to Ghana regarding the EPAs and their implications on the strategies needed for economic growth and socioeconomic development.

5.4 Implications of the available options regarding the EPAs on strategies needed for socioeconomic development

With the interim EPA initialled, Ghana is now confronted with several possible choices with respect to the full EPA:

a. Ghana unilaterally signing the full EPA in its current form
b. Ghana continuing under the Interim EPA
c. Ghana unilaterally rejecting the full EPA
d. Ghana unilaterally renegotiating the terms of the full EPA
e. Ghana as part of ECOWAS signing the full EPA in its current form
f. Ghana as part of ECOWAS rejecting the full EPA
g. Ghana as part of ECOWAS renegotiating the terms of the full EPA

Each of these options, however, has a different set of potential benefits and costs which altogether affect the strategies needed for socioeconomic development. Policy makers thus have the delicate task of critically weighing the several options and going for the option that best promotes Ghana's overall development aspirations. To influence this decision, this report attempts to highlight some of the potential implications associated with these options for stakeholder consideration

a. <u>Ghana unilaterally signing the full EPA in its current form</u>

<u>Benefits</u>

1. Ghana will have an unhindered (duty-free and quota-free) EU market access for goods, services and investments.
2. Reduced prices for Ghanaian consumers resulting from cheap EU imports flooding Ghana's markets
3. If La Cote d'Ivoire and Nigeria fail to sign the EPA, firms in these countries which export to the EU are likely to relocate to Ghana.
4. Ghana likely to receive development aid from the EU because this option fits very well with the EU interests of securing sustained access to raw materials for its industries and expanding international markets[110].

<u>Costs</u>

1. With the exception of few non-traditional exports (horticultural, processed cocoa, tuna etc.) local industries producing import-competing products will be forced out of the domestic market due to competition from subsidised foreign products. This is likely to result in massive unemployment and roll back the gains made in poverty reduction.

2. The majority of Ghana's local industries will not have the productive capacity and needed competence to benefit from the increased EU market access. This will result in huge non-oil trade deficit.
3. Government capacity to use tariff mechanisms and other deliberate incentives like subsidies and procurement to grow the productive capacity of the Ghanaian economy will be in violation of terms of the EPA. Hence, any effort to deliberately support the development of long term productive strategy will not be possible.
4. Government revenues will decrease thus affecting capacity of government to fund the provision of needed infrastructure.
5. A decision by Ghana to go alone without ECOWAS will be disintegrative and undermine the achievement of sub regional market.

b. Ghana continuing under the Interim EPA

Benefits

1. Ghana will have a duty-free and quota-free EU market access for goods with the exception of sugar. Hence, the preferences enjoyed by selected non-traditional exports (horticultural, processed cocoa, tuna etc.) under Cotonou agreement will be maintained. Thus, preventing the non-viability or potential collapse of this sector of the economy.
2. Sensitive locally produced items (including agricultural produce and manufactures from Ghana) are excluded from tariff liberalisation or trade agreement. Thus, sensitive Ghanaian industries will be protected from collapse.
3. Flexible terms of tariff liberalisation. The dismantling of tariffs on 80% of EU imports is spread over a period of 15 years with a 5 year starting grace period where no tariff reduction is expected. This will afford local enterprises unable to stand the competition from the EU the space to enhance competitiveness to prevent collapse of such firms, employment and rising poverty.

Costs

1. Though sensitive locally produced items are excluded from the trade agreement, any subsequent attempts by government to use tariffs as economic tool to further stimulate local productive capacity will be a violation of IEPA, hence not feasible.
2. The generality of Ghana's local industries will not have the productive capacity and needed competency to benefit from the increased EU market access. This will result in huge non-oil trade deficit.
3. Government is constrained from enhancing economic growth by providing funds on concessionary terms for the development and promotion of local industries.
4. The dismantling of tariffs which begins in 2013 albeit gradual, will deny government of the needed revenue to provide the requisite infrastructure and address other supply side constraint making local industries uncompetitive.
5. Ghana's decision to continue with the IEPA will not only undermine the ECOWAS position on the EPA but also derail efforts at regional integration

as this is likely to introduce multiple trade systems within the ECOWAS region.

c. Ghana unilaterally rejecting the full EPA

Benefits

1. Local industries producing import-competitive substitutes will be protected from collapse as a result of fierce EU competition on the domestic market.
2. Government support to develop the productive capacity of the economy using such economic tools as tariffs, subsidies, loans and procurement will not be constrained in any way.
3. Government will generate additional revenue from tariffs for the needed investments.
4. ***Subject to*** *ECOWAS equally rejecting the full EPA*, Ghana's market share for value added exports in ECOWAS will be protected and further boosted if government addresses the supply side constraints by making the needed investment.
5. ***Subject to*** *ECOWAS equally rejecting the EPA*, firms in Ghana which exclusively export to the EU will not have the incentive to relocate to other ECOWAS countries.
6. A relatively large segment of Ghana's exports (about 67%) to the EU will be protected from higher tariffs as Ghana will revert to the standard Generalised System of Preferences (GSP).

Costs

1. Ghana's non-traditional exports (especially horticultural, processed cocoa and tuna etc.) will be rendered non-viable as these products will attract higher tariffs. The collapse of this sector of the economy will render some people jobless and increase the level of poverty.
2. **Subject to** ECOWAS not rejecting the full EPA, Ghana will lose its market share in ECOWAS to cheap EU imports to the sub region.
3. **Subject to** ECOWAS not rejecting the full EPA, firms in Ghana which exclusively export to the EU will have the incentive to relocate to other ECOWAS country.

d. Ghana unilaterally renegotiating the terms of the full EPA

Though a possible option, Ghana unilaterally renegotiating the full EPA for favourable terms beyond what is currently provided in the interim EPA is not preferable. Historical accounts on EU-ACP trade relationships indicate that major concessions are secured if countries negotiate as a bloc rather than in isolation. With the threats from China and other emerging economies such as Brazil and India, the EU is in dire need of an *efficient and secure access to raw materials.*[111] This it intends achieving through enforcement of WTO rules. Unfortunately, Ghana in isolation cannot change this situation to its advantage.

e. Ghana as part of ECOWAS signing the full EPA in its current form

Benefits

1. Ghana will have an unhindered (duty-free and quota-free) EU market access for goods, services and investments.
2. Reduced prices for Ghanaian consumers resulting from cheap EU imports flooding Ghana's markets

3. Ghana likely to receive development aid from the EU because this option fits very well with the EU interests of securing sustained access to raw materials for its industries and expanding international markets .

Cost

1. Ghana's economy in general will revert to specialising in the production and export of raw materials to the EU at the expense of developing the productive capacity of the economy in value-added exports.
2. With the exception of few non-traditional exports (horticultural, processed cocoa, tuna etc.) local industries producing import-competing products will be forced out of the domestic market due to competition from subsidised foreign products. This is likely to result in massive unemployment and roll back the gains made in poverty reduction.
3. The generality of Ghana's local industries will not have the productive capacity and needed competency to benefit from the increased EU market access. This will result in huge non-oil trade deficit.
4. Government capacity to use tariff mechanisms and other deliberate incentives like subsidies, procurement to grow the productive capacity of the economy will be in violation of the terms of agreements. Hence, any effort to deliberately support the development of long term productive strategy will not be possible.
5. Government revenues will decrease thus affecting capacity of government to fund the provision of needed infrastructure.
6. Ghana's share in the ECOWAS market will be completely taken up by EU imports.

f. <u>Ghana as part of ECOWAS rejecting the full EPA</u>

Benefits

1. Local industries producing import-competitive substitutes will be protected from collapse as a result of fierce EU competition on the domestic market.
2. Government support to develop the productive capacity of the economy in the production of value added products using such economic tools as tariffs, subsidies, loans, procurement will not be constrained in any way. This will create several jobs.
3. Government will generate additional revenue from tariffs for the needed investments.
4. Ghana's market share for value added exports in ECOWAS will be protected and further boosted if government addresses the supply side constraints by making the needed investments.
5. Firms in Ghana which exclusively export to the EU will not have the incentive to relocate to other ECOWAS countries.
6. Relatively large segment of Ghana's exports (about 67%) to the EU will be protected from higher tariffs as Ghana will revert to the standard Generalised System of Preferences (GSP).
7. In place of the EPA, ECOWAS could opt for the EU GSP+.

Costs

Ghana's non-traditional exports (especially horticultural, processed cocoa and tuna etc.) will be rendered non-viable as these products will attract higher tariffs. The collapse of this sector of the economy will render some people jobless and increase the level of poverty. However, this is expected to be counterbalanced by the jobs created as a result of the boom in the production of value added products for export to the ECOWAS and other markets. This notwithstanding, it is expected that the proposal by the West African Ministerial Monitoring Committee for a solidarity fund to compensate Ghana, Cote d'Ivoire and Cape Verde for losses incurred if ECOWAS reject the terms of the EPA will be given the needed attention.

g. Ghana as part of ECOWAS renegotiating the terms of the full EPA
The benefits and costs of this option depend on the form of concession achieved. The EU is in competition with other emerging economies for raw materials and commodity market. If ECOWAS works together as a bloc, it can maximise its benefits and minimise the cost from this scramble for Africa.

SECTION 6

Mechanisms for broadening taxation base within smallholder agriculture subsector

As discussed earlier in this report, agriculture is the mainstay of Ghana's economy, contributing about a third of GDP and source of employment for about 55 percent of the economically active population. Within this sector, smallholder agriculture constitutes 90-95 percent of farmers in Ghana and about 80% of total agriculture production. Considering the sector contribution to Ghana's economy, this section explores the mechanisms the sector could significantly contribute to the taxation base of Ghana.

To meaningfully formulate any progressive taxation mechanism for the smallholder agriculture sector requires an appreciation of the characteristics of Ghana's smallholder farmers: who they are, what crops are they produce, which agricultural sub-sectors or geographical areas are they predominantly located in, and the constraints/challenges they face. Clarifying conceptually what constitutes smallholder agriculture is important for analysis given that, any taxation mechanism would have to consider the feasibility of collection, income dynamics and poverty situation as well as future survival or growth of the sector.

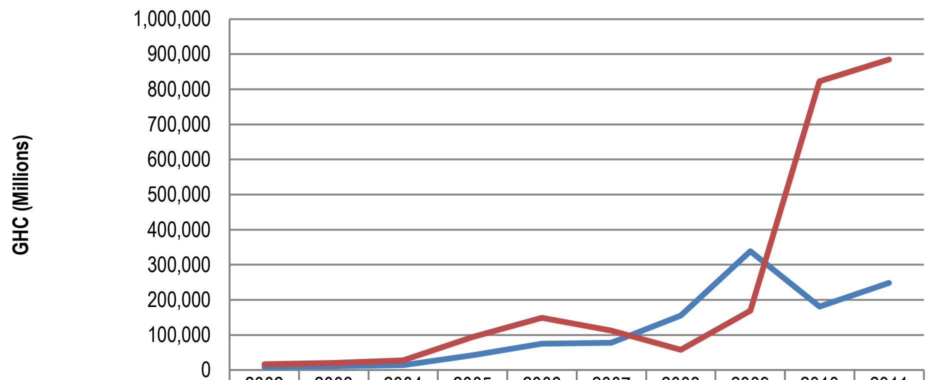
Attempts to describe smallholder farmers have been challenging for policymakers and academicians leading to, in some cases, 'mis-targeting' of development interventions.[112] Land holding size has been one of the basic criteria in the definition of smallholder farmers. The Ministry of Food and Agriculture (MoFA) defines smallholder farms as farms less than 2 hectares in size.[113] By this standard, Ghana's agriculture can be said to be largely dominated by smallholder farmers constituting 90-95 percent[114] of the total number, producing many commodities including cocoa, rice, maize, yam and cassava on small farms.[115]

With this criterion, progressive taxation policy is difficult because a substantial proportion of almost all categories of production: subsistence-oriented, semi-subsistence, commercial, export-oriented and among others in Ghana are effectively covered. However, further analysis of the poverty trends in Ghana over the years provides some clue as to the probable taxable segment of the smallholder agriculture in Ghana.

While Ghana's record attainment of the first Millennium Development Goal (MDG1) of halving poverty and hunger earlier than the target year of 2015 is most significant and unparalleled, inequality has risen with little or no significant change in terms of poverty distribution. Poverty is still endemic in the three regions of northern Ghana; among small scale food crop farmers and is predominantly higher among rural folk as well as women.[116] In fact, this segment of smallholders constitutes 68.5 percent of national poverty[117]. An in-depth scrutiny of Ghana's poverty data indicates major reductions in poverty among households producing cocoa as compared to the general and rural population.[118] Relative to other crops, cocoa has enjoyed considerable national attention and support (See Figure 7.1). However, the crop is male dominated and is rarely cultivated in the three regions of north due to unfavourable agro-climatic conditions.

Thus a significant proportion of government expenditure is spent on cocoa relative to crops and livestock, where the majority of the agricultural labour force and poor smallholder farmers can be found.[119] In particular, with a total budgetary allocation of GHC 57 million in 2008, expenditure on cocoa increased to GHC 884 million in 2011, representing more than 1000 percentage increase compared to less than 40 percentage increases for crops and livestock during the same period (Figure 7.2). Considering that food crops and livestock contributes 66.8 percent to agricultural GDP relative to 11.5 percent for cocoa (2009 estimates)[120], and the fact that majority of poor smallholder farmers and women farmers are in that sub-sector compared to cocoa, one can arguably conclude that any taxation proposal, should target the high end, better supported smallholder cocoa sub-sector.

Figure 7.1 Share of cocoa expenditure relative to food crop and livestock (2002-2012)



	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Crop & Livestock	8,211	10,971	14,145	42,434	74,964	77,636	155,320	338,598	181,347	248,830
Cocoa	16,399	20,027	27,476	93,871	148,716	112,915	57,613	169,224	822,498	884,516

Further examination of the cocoa sector in relation to government revenue indicates that, the sector is already a major source of public revenue in the form of export taxes and revenue from external marketing of the commodity.[121] Dating back to the colonial period, the state realized 60 percent of external proceeds of the commodity in 1954/55[122] to rising to 95 percent between 1975 and 1981, dropping to 80 percent in the 1980s[123]. In 2010/2011 main crop season government earned 23.96 percent revenue of total cocoa sales having given a net FOB price of 76.04 percent to producers.

The foregoing discussion shows that the relatively less poor smallholder cocoa farmers are already making significant contribution to government revenue by way of direct taxes and the sector has been the mainstay of the economy for decades. It is critical that the Government of Ghana assess whether the smallholders sub-sector sector taxable in its present form if so whether it should be poor food-crop and livestock sector (that accounts for the nearly 70 percent of Ghana's poverty) can bear any tax impose on them.

Available evidence from Korea, Taiwan and China in the 1970s suggests that taxing smallholder agriculture is inimical to pro-poor economic growth and poverty reduction. On the contrary, these countries were able to move the majority of their citizens out of poverty by reducing agricultural taxes and supporting the sector through more favorable macroeconomic policies, social services, research and extension, and viable smallholder credit systems.[124] Thus, the implementation of policies that support the economic development of small farmers is particularly a successful strategy to reducing rural poverty and to use agriculture as an engine of growth and catalyst for industrialization.[125]

The success of this development strategy as evidenced in both Western industrialized countries and the fast-growing Asian economies give credence to the proposition that there has virtually been no example of mass poverty reduction in modern history that did not start with sharp increase in productivity, employment and self-employment income from small family farms[126].

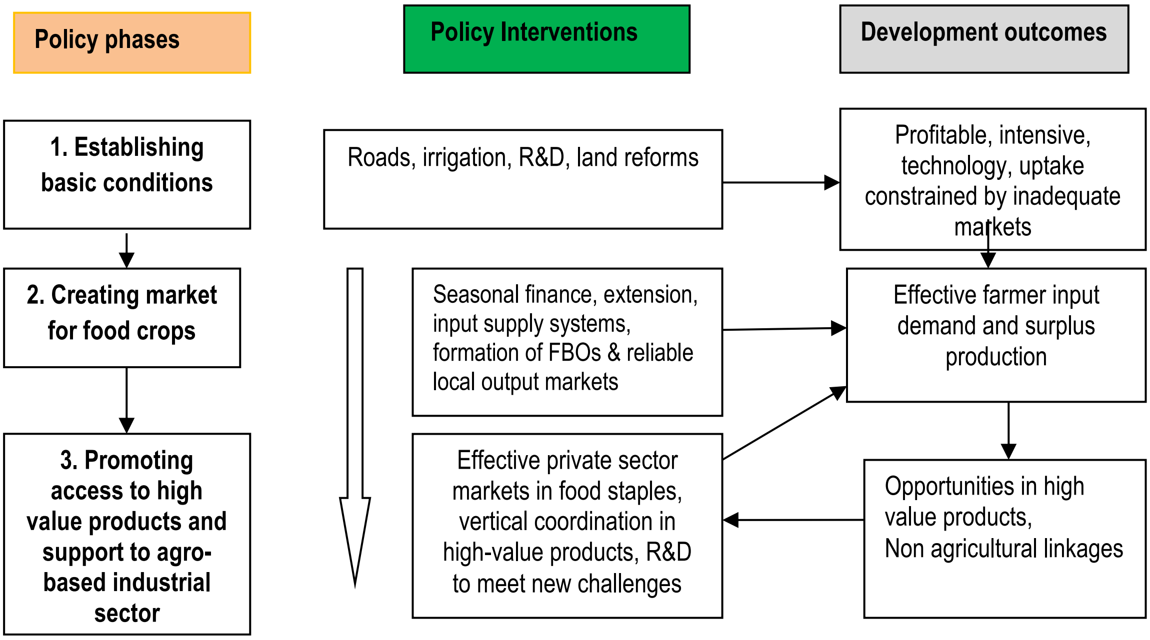
In this regard, **the argument within the context of EPA should not be how Ghana could tax smallholder agriculture per se, but rather, how to make them productive and supportive of the agro-based industrial sector and export-led growth.** This is particularly relevant considering the huge agricultural subsidy that the EU and other advanced economies provide to their farmers. The agro-based industrial sector could easily contribute to government tax revenue and create the needed growth and employment. For instance, in China, India and Vietnam, it was the agriculture sector that triggered the rise of its industrial and service sectors[127]. Growth in agriculture also induces strong growth in other sectors of the economy, such as transport, processing, etc. through multiplier effects. Agriculture has thus helped generate growth in the rural non-farm sectors of China, India and Vietnam and could do same for Ghana if the 'basic conditions' are provided.[128] Besides, the cost of administering any taxation system would be cheaper compared to taxing vulnerable smallholder farmers in remote villages in northern Ghana. If the unit cost in administering tax to the informal sector in the cities and towns has been higher, then administering tax to the smallholder farmers in remote villages in Ghana where road network are non-existent would be more expensive[129].

To get the basic conditions right' and kick-start agricultural markets and stimulate growth in the agriculture sector, government should first focus on the interventions that are necessary to create the basic conditions for improving the productivity in food crop production. It is also important to invest in agricultural research, roads, and more appropriately irrigation infrastructure[130] (See Figure 6.2).

Once the basic conditions are in place, government should increase investment in institutions that provide agricultural services (especially extension and rural finance), development of input supply systems and reliable local output markets. Without access to seasonal finance and input and output markets, farmers would be constrained in adopting productivity increasing technologies and access market for their produce. There should also be increased attention to the formation of farmer groups and producer associations to stimulate collective action among farmer households particularly in the adoption of technology and marketing.

Once agricultural production takes off, policy focus should then shift to the development of high value products and non-agricultural linkages to spur agro-based industrial growth and export. At this stage, transaction volumes for inputs, outputs, and services might have increased. Farmers might also have learnt how to use and adapt to new technologies (Figure 6.2). Furthermore, considering that the structure of demand for agricultural products has changed from basic food stables to high value products (such as fruits, vegetables and flowers) due to economic growth in the non-agricultural sector, rising per capita income, and the integration of global markets, it is important that pro-poor agricultural policies (at the third phase) focuses on enabling small farmers to make use of these opportunities. However, these high value products are subject to market failures due to the perishable nature of the products and subsequent "hold-up" problems[131]. Experts suggest that different forms of vertical integration policies, ranging from co-operatives to contract farming, should be pursued to address these problems[132]. Also, smallholder farmers may face challenges emanating from changes in the global food system, such as the rise of supermarkets and rising private standards. Agricultural research, extension, and education may need to focus on these new challenges, and this typically requires collaboration with various actors along the value chain and a greater role for the private sector.

Figure 7.2 Policy phases in supporting agricultural transformation



Source: Adaptation from Dorward et al. (2004)

Notwithstanding the difficulties in imposing any taxation system on vulnerable food crop smallholder farmers, there is the need for government to broaden the taxation base. This can be achieved if the informal sector of the economy can be roped into the tax net.

SECTION 7

Conclusions and recommendations

7.1 Conclusion

The EPAs with ACP countries once celebrated as a new form of partnership between the EU and ACP countries have been fraught with disagreement since the lunch of negotiations over ten years ago. At the heart of the disagreement is the fear among ACP countries including Ghana that an EPA would significantly impact on socio-economic development of developing countries. This study have explored the implication of the (I) EPA on Ghana socio-economic development especially on such broad indicators as smallholder agricultural development, government revenue, unemployment, poverty, food security among others.

The discussion so far in this report has shown that while government policies on smallholder agriculture development, nurturing of local industries and employment promotion, poverty reduction and food security have remained unchanged during the period before and under the IEPA, the policy space/option under the regime of EPA has been restrictive. In particular, Ghana under an IEPA is unable to adjust its tariffs to protect vulnerable local industries such as poultry, rice and tomatoes sub-sectors. While many agriculture products considered 'sensitive' have been excluded from liberalisation under the IEPA, the existence of a standstill clause is depriving Ghana the policy space to use tariffs as a trade management tool. With the exception of few non-traditional exports (horticultural, processed cocoa, tuna etc.) local industries producing import-competing products will be forced out of the domestic market due to competition from subsidised foreign products. This is likely to result in massive unemployment and roll back the gains made in poverty reduction.

Also since Ghana exports most of its processed goods to the West African sub-regional markets, EPA would crowd out local and regional markets and results in further collapse of the few surviving industries. Similarly, growth of smallholder agriculture sector has been sluggish under the regime of IEPA. While supply side constraints contributes significantly to this trend, trade liberalisation policies embarked upon by Ghana during the structural adjustment era of the 1980s and which have continued unabated under IEPA have contributed to the decline of the cereal and poultry sectors. Government tariff revenues would also decline under the regime of the EPA at an average of US$ 88,575 million per annum between 2008 and 2022. The impact of EPA would be greater from 2017 when Ghana liberalises two-thirds of its import trade with the EU.

It is also evident from this study that EPA has not in any way contributed to FDI inflows to Ghana than would have pertained had Ghana not initialed it. The increase in FDI inflows witnessed during the period of the IEPA is largely due to oil related investments. Further, the FDI inflows have not been channeled to the growth inducing manufacturing and agricultural sectors that have the capacity to generate mass employment and subsequently reduce poverty. Also, the EPA in its current form would stifle regional integration. However the IEPA have sustain Ghana's non-traditional export sector which would have suffered disruption had Ghana not initialed it.

The study identifies a number of policy options open to Ghana for sustained socioeconomic development. One strategy is to go into value added product export underpinned by industrialisation policies. This entails growing the productive capacity of the economy to be domestically and internationally competitive in the production and export of value added commodities. This can be achieved by the development of long term productive strategy targeting particular value chains; identifying and addressing the numerous supply side constraints facing local industries; coordinated government investment and; prioritisation of ECOWAS and African regional markets.
Another policy option for the government is to stimulate growth in the agriculture sector by focusing on interventions that are necessary to create the basic conditions for improving the productivity in food crop production complimented by increased investment in agricultural research, roads, and more appropriately irrigation infrastructure. Once the basic conditions are in place, there should be increased investment in institutions that provide agricultural services (especially extension and rural finance), development of input supply systems and reliable local output markets. Once agricultural production takes off, policy focus should then shift to the development of high value products and non-agricultural linkages to spur agro-based industrial growth and export

The study has shown that while broadening taxation base within the smallholder agriculture sector is a laudable proposal, the category of non-taxed smallholders segment (i.e. food crop sector) which constitutes nearly 70 percent of Ghana poverty is too poor to meaningfully contribute to government tax revenue. Thus taxing this segment of the population would be counter-productive to the poverty alleviation goals of Ghana and MDG goals of halving poverty by 2015. However, supporting the food crop sector by building their productive capacity and increasing their productivity to spur agro-based industrial development is most progressive.

7.2 Recommendations

To the Government of Ghana:

1. Renegotiate the terms of the full EPA with ECOWAS as a block, to maximise the benefit of market access while minimising the cost of EPA. This would boost inter-regional trade and African plan for regional custom unions.During such negotiations:

    a. Support ECOWAS to secure maximum flexibility over ECOWAS market opening. Also negotiate for 20 years or more for market opening and link liberalisation scheme to development benchmarks instead of a fixed timeframe as with Ghana IEPA. This would force the EU to commit to the proposed aid for trade arrangements under the European Development Fund facility.
    b. Ensure that the exclusion list offers enough space to include the value chain of sensitive products such as poultry feeds. Also negotiate for

flexibility to adopt the exclusion list to ensure the continued protection of emerging and future products considered as important to the economy.

c. Support the renegotiation of standstill clause to give government the flexibility to adjust tariffs on excluded products. This would give government the policy space to use import tariffs as a trade management tool. In so doing vulnerable sectors such as the poultry and rice sub-sectors may be safeguarded from subsidized imports from the EU and other economies.

d. Do not include liberalisation of services, investment, competition and government procurement as part of ECOWAS negotiated EPA.

e. Reinforce ECOWAS position of liberalizing not more than 60 percent of its market with the EU.

f. Support the introduction of a review mechanism in the EPA with the full participation and ownership of ECOWAS to ensure that the agreement consistently delivers the intended developmental benefits.

g. Introduce adequate provision/safeguards for infant industries to ensure the continuous growth of local industries to create the needed employment and economic growth.

2. Vigorously implement the national industrial, agricultural and trade policies to make local private sector competitive both in the sub-region and beyond. The ‘honeymoon’ for non-reciprocal, preferential trade is over and Ghana must come to this realisation now or remain a perpetual supplier of primary commodities to the world. Ghana has long recognised the development pathways needed for its socioeconomic development but implementation of these policies have not been expeditiously carried out to attain the desired outcome.

3. Broaden taxation base within the larger informal sector but not to smallholder food crop farmers in their current form as they are too poor to contribute meaningfully to government tax revenue. Further burdening them with tax would not make the sector competitive with imports under the regime of trade liberalisation where advanced economies are subsidising their agricultural sector. Conversely, build the productive capacity and productivity of smallholder food crop farmers to support the agro-based industrial sector that should be made to contribute to government tax revenue.

To the European Commission:

1. Allow for greater flexibility in EPA negotiations to ensure that any final deal is development friendly and promotes regional integration;

2. Respond favourably to ACP requests for re-negotiation of contentious issues, and refrain from pushing countries that have initialed EPAs to sign and ratify these agreements in haste and without amendments;

3. Refrain from further overloading and complicating the negotiations by demanding that ACP countries include issues and rules in the agreements that are not required for WTO compatibility, such as the Most Favoured Nation (MFN) Clause

and rules on export restrictions, as well as services and the intellectual property rights;

4. Respond positively to proposals for flexible market access arrangements;

5. Respond positively to requests for reliable and additional aid for regional economic development

Civil Society:

1. Continuously sustain the EPA debate in the media and policymaking circles. This can be achieved by launching a broad based advocacy campaign to sensitize policymakers about the implications and options available to Ghana and ECOWAS socio-economic development. Broaden voice on the issue by including more trade associations and non-state actors.

2. Engage the Parliamentary Select Committee on Trade and Industry and Agriculture and sensitize them with information and communication materials to appreciate the implication of the IEPA on Ghana's socio-economic development and options going forward. Also indentify and engage Parliamentarians with a strong interest in the EPA issue (across the major political divides) and support them to lead the crusade among colleague legislatures.

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Annexes

Annex 1
Estimation of Tariff Revenue from Ghana's imports from EU With (I) EPA (2008-2030)

Year	Value of Ghana Imports from World ($Million)[133]	% of EU share of Ghana imports[134]	Value of EU Share of Ghana imports ($Mill)	Liberalisation schedule/% of good entering at duty free rates[135]	Value of imports at zero rated	Tariff deductible imports (Millions of US$)	Average Tariff rates[136]	Average Tariff Revenue with EPA($Mil)
	A	B	C=A*B	D	E=C*D	F=C-E	G	H=D*G
2008	11461	0.271	3105.931	0.139	431.7244	2674.207	0.124	331.602
2009	10457	0.256	2676.992	0.139	372.1019	2304.89	0.124	285.806
2010	12859	0.235	3021.865	0.139	420.0392	2601.826	0.124	322.626
2011	15300	0.276	4222.8	0.139	586.9692	3635.831	0.124	450.843
2012	14528.1	0.220	3202.315	0.139	445.1218	2757.193	0.124	341.892
2013	15631.6	0.207	3239.674	0.226	732.1664	2507.508	0.124	310.931
2014	16735.0	0.194	3247.97	0.226	734.0412	2513.929	0.124	311.727
2015	17838.5	0.181	3227.199	0.305	984.2956	2242.903	0.124	278.120
2016	18942.0	0.168	3177.364	0.305	969.096	2208.268	0.124	273.825
2017	20045.4	0.155	3098.462	0.667	2066.674	1031.788	0.124	127.942
2018	21148.9	0.141	2990.497	0.667	1994.661	995.8354	0.124	123.484
2019	22252.4	0.128	2853.465	0.6975	1990.292	863.173	0.124	107.033
2020	23355.8	0.115	2687.369	0.6975	1874.44	812.929	0.124	100.803
2021	24459.3	0.102	2492.206	0.6975	1738.314	753.8923	0.124	93.483
2022	25562.8	0.089	2267.979	0.75	1700.984	566.9948	0.124	70.307
2023	26666.2	0.076	2014.686	0.75	1511.015	503.6716	0.124	62.455
2024	27769.7	0.062	1732.329	0.75	1299.247	433.0822	0.124	53.702
2025	28873.2	0.049	1420.905	0.75	1065.679	355.2264	0.124	44.048
2026	29976.6	0.036	1080.417	0.75	810.313	270.1043	0.124	33.493
2027	31080.1	0.023	710.8636	0.75	533.1477	177.7159	0.124	22.037
2028	32183.6	0.010	312.2448	0.75	234.1836	78.0612	0.124	9.680
2029	33287.0	-0.003	-115.506	0.75	-86.6294	-28.8765	0.124	-3.581
2030	34390.5	-0.017	-572.258	0.75	-429.193	-143.064	0.124	-17.740

Estimation of revenue loss/Gain without (I) EPA							
Year	Value of Ghana Imports from World ($Million)[137]	% of EU share of Ghana imports[138]	Value of EU Share of Ghana imports ($Mill)	Value of imports at zero rated as at 2008[139]	Tariff deductible imports (Millions of US$)	Average Tariffs rates[140]	Average Tariffs Revenue without EPA
	A	B	C=A*B	D	E=C-D	F	G=E*F
2008	11461	0.271	3105.93	431.724409	2674.20659	0.124	331.602
2009	10457	0.256	2676.99	372.101888	2304.89011	0.124	285.806
2010	12859	0.235	3021.87	420.039235	2601.82577	0.124	322.626
2011	15300	0.276	4222.80	586.9692	3635.8308	0.124	450.843
2012	14528.11	0.220	3202.32	445.121794	2757.19327	0.124	341.892
2013	15631.57	0.207	3239.67	450.314706	2789.35944	0.124	345.881
2014	16735.04	0.194	3247.97	451.467835	2796.5022	0.124	346.766
2015	17838.5	0.181	3227.20	448.580621	2778.61809	0.124	344.549
2016	18941.97	0.168	3177.36	441.653587	2735.71035	0.124	339.228
2017	20045.43	0.155	3098.46	430.686247	2667.77596	0.124	330.804
2018	21148.9	0.141	2990.50	415.679049	2574.81771	0.124	319.277
2019	22252.36	0.128	2853.46	396.631583	2456.83304	0.124	304.647
2020	23355.83	0.115	2687.37	373.544223	2313.82429	0.124	286.914
2021	24459.29	0.102	2492.21	346.416631	2145.78935	0.124	266.078
2022	25562.76	0.089	2267.98	315.249108	1952.73008	0.124	242.139
2023	26666.22	0.076	2014.69	280.041389	1734.64486	0.124	215.096
2024	27769.69	0.062	1732.33	240.793703	1491.5351	0.124	184.950
2025	28873.15	0.049	1420.91	197.505859	1223.3996	0.124	151.702
2026	29976.62	0.036	1080.42	150.17801	930.239328	0.124	115.350
2027	31080.08	0.023	710.86	98.810039	612.053551	0.124	75.895
2028	32183.55	0.010	312.24	43.4020275	268.842775	0.124	33.337
2029	32183.55	-0.003	-111.68	-15.523092	-96.153827	0.124	-11.923
2030	32183.55	-0.017	-535.53	-74.439264	-461.09501	0.124	-57.176

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[19] Hannah Tetteh, Ghana Minister of Trade in an interview titled: *EPA Debate* carried in the Business & Financial Times (2012), Monday, 27th February 2012
[20] Haruna Iddrisu, Ghana Minister of Trade on Citifmonline, Feb 08, 2013 at 1:37pm http://www.citifmonline.com/index.php?id=1.1262727 (date accessed: 17.03.13)
[21]The Treaty of Rome, which established the European Economic Community (EEC) in 1957.
[22] The 1st Lomé Convention was signed in 1975 for a period of five years between the EU Member States and former colonies in the ACP zone (Africa, Caribbean and Pacific.
[23] When the European Economic Community (EEC) was established in 1957, provision was made for technical and financial aid to African countries with which Europe had historical links. These provisions were made through the creation of European Development Funds (EDFs). The first EDF covered the period 1958 to 1963. Following this, the Yaoundé I Convention was signed in 1963 between the Associated African and Malgache (Madagascar) Countries (EAMA) and the EEC to give commercial advantages and financial aid to African ex-colonies. Ghana a British colony was not part of this agreement as Britain was then not a member of the EEC.
[24] See Review of the Interim Economic Partnership Agreement between Ghana and the European Union by CEPA, Ghana. cited in *cepa.org.gh/research papers/Ghana74.pdf.It is argued that WTO rules frown on non-reciprocal trade relationships as it give unfair advantage to ACP countries against other developing countries.*
[25] GATT is a United Nations agency to promote trade by the reduction of tariffs and import quotas. Article XXVI of GATT (regarding trade in goods) stipulates that trade agreements between two parties must be essentially reciprocal, have extended coverage and not create new obstacles for trade with third parties. The Lome Accords were based on discriminatory treatments against non-ACP developing countries on the basis of historical colonial ties of ACP countries with Europe.
[26] ACP/EC: The Cotonou Agreement, 2001, Internet Posting: http:// europa.eu.int/comm/development/body/cotonou/agreement_en.htm.
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[29] Dan Lui and Sanoussi Bilal (2009). Contentious issues in the interim EPAs: Potential flexibility in the negotiations, ECDPM Disucssion Paper No. 89.
[30] See *Onguglo, B. and T. Ito In Defence of the ACP Submission on Special and Differential Treatment in GATT Article XXIV. (ECDPM Discussion Paper 67). Maastricht: ECDPM, 2005,* www.ecdpm.org/dp67 For a comprehensive analysis of GATT article XXIV
[31] Under the structural Adjustment programs, promoted especially by the International Monetary Fund (IMF) and World Bank, and by policy makers in developed countries, liberalization was considered necessarily good for development, and the faster the liberalisation the better it is for development. This was the intellectual basis for developed countries to pressurize developing countries to quickly and deeply cut their tariffs and remove non-tariff barriers, as well as open up their services sector, financial sector and investment regime.
[32] The changes are noticeable when one compares the initialed version with the final version published on the EU Council's website.
[33] The adjustment notes "The Export Development and Investment Fund (EDIF) Levy is backed by The Export Development and Investment Fund Act 582 of 2000. It is imposed on all imports at the rate of 0.5% CIF with the objective of generating funds to stimulate the export sector and support trade in general. This levy is not included in the base duties listed in the liberalisation schedule hereafter. The Ghanaian Party may maintain this levy until the 31st December 2017 and shall therefore eliminate it on the 1st January 2018 at the latest Cooperation in respect to financial adjustment in Article 8 of this Agreement shall also apply to the

elimination of this levy. Ghana has also added an 'inspection fee' of 1% of the c.i.f. value to the list of import fees and charges. This inspection fee has been charged *since 2001 and has been notified to the WTO (WTO, 2008c: 22)".*

[34] The Interim Economic Partnership Agreements between the EU and African States: Contents, challenges and prospects. (ECDPM Policy Management Report 17). Maastricht: ECDPM. www.ecdpm.org/pmr17 ECDPM Policy Management Report 17, 2009

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[38] Number of excluded lines within Hamonised System chapter as a proportion of total number of excluded lines.

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[54] Ibid

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[65] Vegetable products on the harmonized system code (HS code)include products 06-15: Live trees & other plants; Edible vegetables; Edible Fruits & nuts peel of citrus/melons; Coffee, tea, mate & spices; Cereals; Milling industry products; Oil seeds/misc. Grains/med; Plants/straw; Lac, gums, resins, etc; Vegetable plaiting materials; and animal or vegetable fats, oils & waxes. See http://www.foreign-trade.com/reference/hscode.cfm?cat=2

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[75] ODI, 2011; Ghana's Sustained Agricultural Growth: Putting underused resources to work

[76] A study by Asuming –Brempong *et al*, (2004) and SRID (2006a) put smallholders as constituting 90-95 percent of farms in Ghana and about 80% of total agriculture production. Similarly, in Africa, small holder farms constitute about 95% of small farms and there are some 80 million small farms that provide 80% of the agricultural production in Sub-Saharan Africa

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