››› EU partnership agreements alone cannot solve structural problems in trade with Africa

No. 205, 2 May 2018

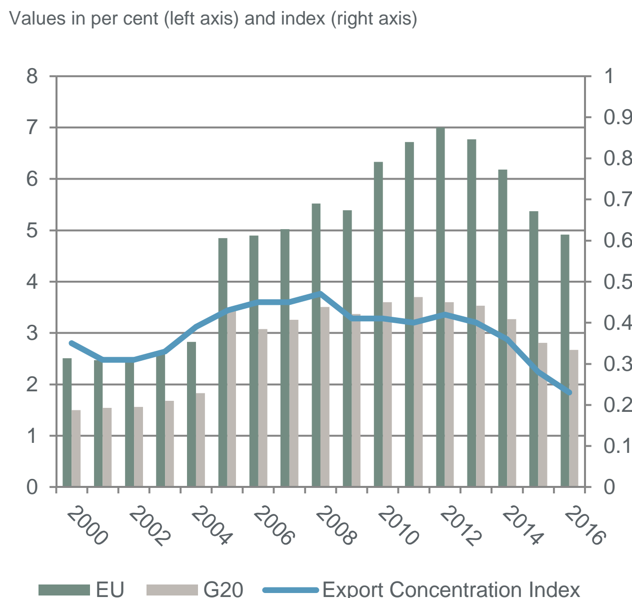
Author: Dr Tim Heinemann, phone +49 69 7431-4784, tim.heinemann@kfw.de;

Tariff barriers to trade are falling across the globe. The European Union (EU) in particular is working to improve market access for products from Africa under its partnership agreements. Still, the structural problems of trade between the EU and Sub-Saharan Africa remain. Exports from Sub-Saharan Africa are not very diversified and the proportion of African imports to the EU has hardly grown. The reasons: While tariff barriers have fallen gradually, new, non-tariff barriers to trade have been created. They pose enormous challenges for the economies of Sub-Saharan Africa. Given their lower level of development, they are unable to make the products to the required quality. Without broad investments in the infrastructure and production lines, it will be hard to overcome the problems of Africa's trade structure.

Since the Treaty of Lomé of 1975, the European Union (EU) has made deliberate efforts to improve import conditions for products from Sub-Saharan Africa. Tariff barriers have continuously fallen for more than 45 years as a result. Besides reducing import tariffs, the EU has also enabled duty-free and quota-free market access for products from the poorest countries of Sub-Saharan Africa. The structural problems of trade remain despite this privileged treatment.

Figure 1: Share of imports from Africa to the EU and G20 and export concentration

Values in per cent (left axis) and index (right axis)



Source: UNCTAD

The share of exports from Sub-Saharan Africa to the EU is currently just under 5 % of total imports and thus on the level of 2006 (Figure 1). The recent growth in exports can be explained primarily by the increase in commodity prices. Accordingly, the export share dropped again when the commodity boom ended. The structure of exports to Europe is not particularly diversified. Sub-Saharan Africa exports few unrefined resources and hardly any industrial goods. Although the situation has improved slightly in the past ten years, the export concentration index remains high compared with other economic regions. Overall, Sub-Saharan Africa achieves a score of 0.23 points (Figure 1). Individual economies have an even lower export diversification index. They also include the G-20 Compact countries Ghana (0.42), Côte d'Ivoire (0.38), Ethiopia (0.30) and Rwanda (0.33). The index for Nigeria, the largest and most populous economy of the continent, is 0.73 (current as at 2016).

Economic partnership agreements (EPAs) currently form the main pillar of EU trade policy in Africa. Their aim is to promote the development of the national economies, particularly with a view to improving export opportunities, investment and industrialisation. These trade agreements build on previous agreements. They enable not only free access to the European market without quota restrictions but, under the Rules of Origin legislation, allow the import of intermediate products from African states that are not covered by the partnership agreement.

Figure 2 provides an overview of the scope of the partnership agreements, that is, the participating countries and their share in Sub-Saharan Africa's GDP. The trade agreements currently encompass 17 states in Sub-Saharan Africa, which together account for 55 % of the region's economic output. Within the sub-regions, the trade partnership has made varying degrees of progress. For example, all states of the Southern African Development Community have ratified the trade agreement. Only some states of the ECOWAS and EAC-EU Partnership Agreement have done this. The communities of states still have reservations about the agreement and fear possible negative impacts on the regional economy. The main concerns relate to competition from agricultural products from the EU. Nigeria, the biggest economy of the West African region, has not yet signed a trade agreement with the EU. Because of its heavy reliance on oil exports, diversifying the Nigerian economy is particularly important. A broad economic basis contributes to more stable and broader growth, thereby creating employment opportunities for its fast-growing population. It

Note: This paper contains the opinion of the authors and does not necessarily represent the position of KfW.

remains doubtful whether this trade agreement has the potential to bring about a trend reversal in trade with Africa.

Figure 2: EU Partnership Agreements

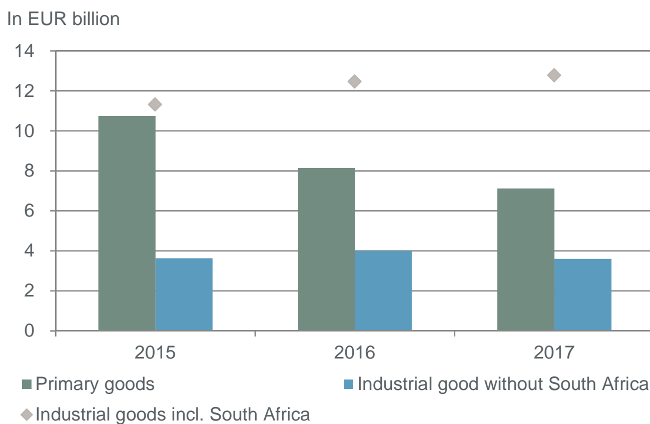
Region	Participating countries and (year of ratification)	Share of regional GDP (2016)
East African Community (EAC)	Kenya and Rwanda (2016)	5%
Eastern and Southern Africa (ESA)	Mauritius, Madagascar, Seychelles and Zimbabwe (2009)	3%
Economic Community of West African States (ECOWAS)	Côte d'Ivoire, Ghana (2016) and Mauritania (2017)	6%
Southern African Development Community (SADC)	Angola, Botswana, Lesotho, Namibia, South Africa, Swaziland (2016) and Mozambique (2017)	39%
Central Africa	Cameroon (2014)	2%

Source: European Union

The trade structure between the EU and the Southern African Development Community has not changed significantly since the implementation of the partnership agreement in 2016 (Figure 3). As of today, trade is still dominated by primary goods: fruit, vegetables and other raw materials. The growth of industrial-exports over that period is contributed to South Africa alone. Without this economy, the community's share of industrial exports remains stagnant and on a low level. Given the size and sophistication of South Africa's industrial sector, the country finds it easy to capitalise on the benefits of the Partnership Agreements. The country is a special case in that regards. The average African economy has a smaller and less advanced industrial sector and will therefore find it harder to raise its share of industrial exports, despite the improved market access.

Figure 3: Export Structure SADC and European Union

In EUR billion



Source: EUROSTAT

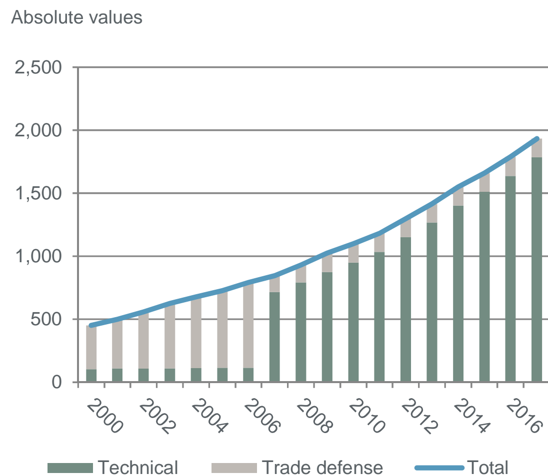
One major reason for the persistence of structural problems in trade with Africa lies in a contrasting development: While import tariffs and quotas have been continuously reduced or abolished, the number of non-tariff trade barriers has increased (Figure 4). These are defined as, among other things, environmental and health standards, general quality standards such as industrial standards, and packaging and labelling requirements. The steady rise of these barriers is rooted in the increasing complexity of the international division of labour. With the implementation of such standards, countries want to make sure that imported goods are safe and are of no risk to the public health.

The rise of these government initiated standards is accompanied by the roll out of firm specific standards on a similar scale. With the role of firm specific standards companies want to make sure that intermediate inputs have the right technical qualities and allow for a seamless transformation into the final product. Another reason for the rise in private standards lies in the ever more demanding customer.

An overview of the number of industry and firms specific standards does not exist. Data only exists on a country level. In the year 2017, some 1,940 measures were in effect in the EU alone. That was a twofold increase on the year 2007. Roughly 44,000 such measures are in force globally and the trend is rising – particularly between developing and emerging economies. The WTO[1] calculated in 2017 that non-tariff trade barriers cause opportunity costs of USD 75 billion worldwide in the export of agricultural products and USD 250 billion in the export of industrial products.

Figure 4: Number of non-tariff trade barriers between Africa and Europe

Absolute values



Source: WTO

By imposing regulations that lead to non-tariff trade barriers, the EU typically seeks to protect its citizens. This is a legitimate and important goal that can also have a positive impact on Africa's development. Promoting more environmentally friendly production of agricultural and industrial goods, as well as their health safety, is also in the interest of African suppliers and consumers. Uniform product standards and norms can also give positive impetus to the regional integration of African economies.

There are no plans for lowering these standards, for example under the partnership agreements, and that would not be a sound measure for the reasons mentioned above, i.e. with a view to modernising the continent as a business location. Nevertheless, barriers could be dismantled through the

[1]World Trade Organization (2017) I-TIP Goods: Integrated analysis and retrieval of notified non-tariff measures. Available at: http://i-tip.wto.org/goods/Forms/GraphView.aspx. Last accessed on 30 April 2018

international harmonisation of standards. While the US has largely adopted the international ISO standards, the EU has standards of its own. Uniform standards would make investment in two different product lines superfluous while at the same time making African countries less dependent on individual export partners. But the ISO standards also represent a major obstacle in view of the development gap between African states and industrialised countries.

Investments are indispensable in order to meet product standards. Investing solely along the value chains would be insufficient, however, because the features of a product are determined to a large extent by the quality of public goods and positive external effects. These include public infrastructure, general level of education, access to skilled workers and their qualifications and, above all, the quality of public institutions. This applies in particular to the quality of transport infrastructure and energy generation and distribution, school education and specialist knowledge as a prerequisite for solving problems. Besides having skilled workers, remunerating them is also important in order to meet product standards because complying with standards is currently not being sufficiently remunerated and socially valued. The government does not always set a good example of playing by the rules either, as the institutions that are responsible for overseeing regulations and laws are often the least trusted among the population. Measures aimed at building trust in the institutions are more important for solving this problem than monetary investments. Local politicians and public servants have a particular obligation here.

Without investments and stronger institutions it will be very difficult to overcome the trade barriers created by product standards. Trade agreements can provide additional help in developing institutions. However, they would then have to comprise mechanisms that support the building of institutions. The mere reference to social and ecological standards in the newer Partnership Agreements will not put the countries on a path to the desired development. Rather, these standards would have to be monitored and their compliance demanded by the institutions of the European Union.

Conclusion: make the region more attractive for business

The EU guarantees duty-free and quota-free market access under its Partnership Agreements. Trade barriers are therefore no longer regarded as the main reason for the structural problems in trade with Africa. The massive rise in non-tariff trade barriers, on the other hand, is thwarting the positive development in import tariffs and quotas. More than 1,900 import regulations are in force in the EU alone. Technical standards massively increase demands on the quality of export products, posing great challenges for less developed countries in Africa, especially since standards differ from one trading partner to another.

Despite this barrier effect, lowering the standards cannot be an option for economic cooperation from the point of view of consumer protection and sustainable trade policy. Instead, the countries must be put in a position – by applying their own resources and with external support – to produce export products in the required quality. Specifically, this means the structural problems of African trade can be overcome only by investing in the location and its institutional framework to attract business. The EU can additionally support institution building under the partnership agreements. But the effective-ness of monitoring and complying with social and ecological standards beyond internationally funded projects would have to be increased. At present, not enough importance is being given to complying with these standards. ■