Economic and Welfare Impacts of an EPA in Cote d'Ivoire

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BACKGROUND

- Cote d’Ivoire, a West African country with a GDP per capita of 1,106 USD in 2009 is dominated by Agriculture (value added = 24.4% of GDP) and services (value added = 50.4% of GDP).
- The GDP growth rate was about 3.6% in 2009, with a national poverty rate estimated at 48%.
- Cote d’Ivoire is part of regional integration organizations, in particular WAEMU and ECOWAS, and intends to benefit from CET and free movement of goods and services within the region.
- Merchandise Trade and exports of goods and services represent respectively 64.2% and 41.7 of GDP in 2009; while the Export rate was 47.06%.
- EU represents the major importation and exporting market for Cote d’Ivoire (about 45 to 50% of total M and X).

BACKGROUND (cont.)

- Cote d'Ivoire is engaged in regional negotiations for an EU-ECOWAS EPA, but the country has signed an interim EPA with EU.
- The EPA will turn the unilateral preferential market access to EU market into reciprocal trade preferences.
- Preliminary discussions suggested the establishment of a FTA and eliminating tariff and non-tariff barriers, and a development package to be negotiating including Aid for Trade.
- Potential effects include a decline of fiscal revenues,, potential increase of imports from EU and loss of export revenues
- The paper intends to assess the economic and welfare implications of an EPA for Cote d'Ivoire.

Methodology and data

- We use the standard GTAP Model (version 6) and data base.
- GTAP a Multi Country and multi commodity CGE Model
- We modify the model to allow for unemployment of unskilled labor, by fixing the nominal wage rate, and letting the volume of employment of unskilled labor adjust (Mc Donald and Walmsley)
- We use Contributing I/O data for Cote d'Ivoire with 57 sectors and 5 production factors (natural ressources, land, skilled and unskilled labor and capital)
- The 57 commodities have been agregated into 13 broad sectors, and the 96 regions aggregated into 5 regions (CIV, EU, Rest of ECOWAS, Rest of SSA, ROW)

POLICY SCENARIOS AND RESULTS

Three possible scenarios have been simulated:

- EU- CIV: 50% tariff elimination on import from EU, while EU continues to grant duty-free access to all Ivorian products;
- EU-CIV 80%: CIV reciprocates tariff elimination on 80% of imorts from EU;
- EU-CIV: Full liberalization; i.e a FTA between CIV and EU.
- Reference experiment of reciprocal trade preference is repeat under different closures to allow for tariff revenues lost to fiscal compensations, either from VAT and income tax on skilled and unskiled labor;
- Main results suggest that reciprocal trade preferences will be costly for CIV in term of revenue losses, adjustment costs associated with de-industrialisation.
- Unrestricted market access for CIV into EU, associated with agreed fiscal compensations promise positive gains and will result in welfare gains